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**PART 2A OF FORM ADV: FIRM BROCHURE**

**CENTERBRIDGE PARTNERS, L.P.**

**March 31, 2023**

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*This brochure (this “Brochure”) provides information about the qualifications and business practices of Centerbridge Partners, L.P. If you have any questions about the contents of this Brochure, please contact Elizabeth Uhl, Chief Compliance Officer, at (212) 672-5000. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.*

*Centerbridge Partners, L.P. is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

*Additional information about Centerbridge Partners, L.P. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*



## **ITEM 2**

### **MATERIAL CHANGES**

Centerbridge Partners, L.P. is required to identify and discuss any material changes made to its Brochure since its last annual update, dated March 31, 2022. There are no such material changes. We note that, as part of Centerbridge's philosophy of continuous self-scrutiny in an effort to maintain processes that are consistently at what we consider to be best practice levels, we regularly review our compliance program and disclosures and make updates as deemed necessary or advisable. Investors and prospective investors should review this entire Brochure carefully. In this regard, investors and prospective investors may request a marked copy of this Brochure that identifies changes from the prior version on file with the SEC. If Centerbridge Partners, L.P. makes any material changes to this Brochure, this section will be revised to include a summary of such changes.



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## **ITEM 4**

### **ADVISORY BUSINESS**

#### **A. General Description of Advisory Firm.**

Centerbridge Partners, L.P., a Delaware limited partnership, commenced operations in 2006 with an office in New York, New York. Jeffrey H. Aronson, through his control of Centerbridge Partners Holdings, LLC, the general partner of Centerbridge Partners, L.P., ultimately controls Centerbridge. Previously, Mr. Aronson controlled Centerbridge together with Mark T. Gallogly. Mr. Aronson became the sole Managing Principal of Centerbridge upon Mr. Gallogly's retirement in December 2020 following CCP III (defined below) becoming fully invested (subject to certain reserves) and as CCP IV (defined below) commenced its investment period.

#### **B. Description of Advisory Services.**

##### **1. Advisory Services**

Centerbridge, through affiliated investment advisory entities, serves as (i) the management company with discretionary trading authority to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a "Fund" and collectively, the "Funds"), (ii) investment advisor with non-discretionary trading authority to private pooled investment vehicles and (iii) investment advisor to a separately managed account. In addition, Centerbridge, through its affiliate, Centerbridge Partners Europe, LLP, a U.K. limited liability partnership that is authorized and regulated by the Financial Conduct Authority of the United Kingdom (the "Sub-Advisor"), serves as sub-advisor with respect to the Funds. The Funds include the Credit Partners Funds, the Special Credit Funds, the Flex Funds, the Capital Partners Funds, the Real Estate Funds, co-invest vehicles, and certain Other Vehicles, each as described in more detail below.

##### **(a) Credit Partners Funds**

The "Credit Partners Funds" comprise Centerbridge Credit Partners, L.P., a Delaware limited partnership (the "Domestic Fund"), Centerbridge Credit Partners TE, L.P., a Delaware limited partnership for investment by U.S. tax-exempt investors (the "TE Fund"), and Centerbridge Credit Partners Offshore, Ltd., a Cayman Islands exempted company (the "Offshore Fund"), each of which invests primarily through Centerbridge Credit Partners Master, L.P., a Cayman Islands exempted limited partnership (the "Master Fund"). Centerbridge Credit Partners General Partner, L.P., a Delaware limited partnership, serves as the general partner of the Domestic Fund and the TE Fund. Centerbridge Credit Partners Offshore General Partner, L.P., a Delaware limited partnership, serves as the general partner of the Master Fund. An affiliate of Centerbridge, Centerbridge Credit Advisors, L.L.C., a Delaware limited liability company (the "Credit Advisor"), provides investment advisory services to the Credit Partners Funds.



## **(b) Special Credit Funds**

The “Special Credit Funds” comprise Centerbridge Special Credit Partners, L.P., a Delaware limited partnership (“Special Credit I”), Centerbridge Special Credit Partners II, L.P., a Delaware limited partnership (“Special Credit II”), Centerbridge Special Credit Partners III, L.P., a Delaware limited partnership (“SC III”), Centerbridge Special Credit Partners III-Flex, L.P.<sup>1</sup>, a Delaware limited partnership (“SC III-Flex,” and together with SC III, “Special Credit III”) and Centerbridge Special Credit Partners IV, L.P., a Delaware limited partnership, and Centerbridge Special Credit Partners IV Cayman, L.P., a Cayman Islands exempted limited partnership, each of which invests primarily through Centerbridge Special Credit Partners Master IV, L.P.,<sup>2</sup> a Delaware limited partnership (“Special Credit IV”). Centerbridge Special Credit Partners General Partner, L.P., a Delaware limited partnership, serves as the general partner of Special Credit I. Centerbridge Special Credit Partners General Partner II, L.P., a Delaware limited partnership, serves as the general partner of Special Credit II. Centerbridge Special Credit Partners General Partner III, L.P., a Delaware limited partnership, serves as the general partner of Special Credit III. Centerbridge Special Credit Partners General Partner IV, L.P., a Delaware limited partnership, serves as the general partner of Special Credit IV. Centerbridge Special Credit Advisors, L.L.C., a Delaware limited liability company, Centerbridge Special Credit Advisors II, L.L.C., a Delaware limited liability company, Centerbridge Special Credit Advisors III, L.L.C., a Delaware limited liability company, and Centerbridge Special Credit Advisors IV, L.L.C., a Delaware limited liability company (together, the “Special Credit Advisors”), each an affiliate of Centerbridge, provide investment advisory services to Special Credit I, Special Credit II, Special Credit III and Special Credit IV, respectively.

## **(c) Flex Funds**

The “Flex Funds” comprise Centerbridge Flex Partners, L.P., a Delaware limited partnership, and Centerbridge Flex Partners Cayman, L.P., a Cayman Islands exempted limited partnership, each of which invests primarily through Centerbridge Flex

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<sup>1</sup> As noted below, Centerbridge formed Centerbridge Credit Funding Advisors, LLC, which provides advisory services to Centerbridge Credit Funding 1, Ltd. and Centerbridge Credit Funding II, Ltd. (the “CBOs”) and Park Blue CLO 2022-I, Ltd. and Park Blue CLO 2022-II, Ltd. (the “CLOs”) and may in the future provide advisory services to other vehicles that are similar in nature. SC III-Flex currently holds the equity in the CBOs and the CLOs. For so long as SC III-Flex holds the equity in the CBOs and CLOs, any fees payable to the CDO Advisor (as defined below) by the CBOs and CLOs will fully offset fees paid to Centerbridge by SC III-Flex.

<sup>2</sup> As noted below, in Q4 2021, Centerbridge formed Centerbridge Martello Advisors, L.L.C. (as disclosed in the ADV Part 2A filing made on March 31, 2022), which provides advisory services to Martello Re (as defined below) and related entities. Special Credit IV currently holds an indirect interest in Martello Re. Any fees payable to the Martello Advisor attributable to Special Credit IV’s interest in Martello Re will fully offset fees paid to Centerbridge by Special Credit IV.



Partners Master, L.P., a Delaware limited partnership.<sup>3</sup> Centerbridge Flex Partners General Partner, L.P., a Delaware limited partnership, serves as the general partner of the Flex Funds. Centerbridge Flex Advisors, L.L.C., a Delaware limited liability company, an affiliate of Centerbridge, provides investment advisory services to the Flex Funds.

**(d) Capital Partners Funds**

The “Capital Partners Funds” comprise Centerbridge Capital Partners, L.P., a Delaware limited partnership (“CCP I”), Centerbridge Capital Partners II, L.P., a Delaware limited partnership (“CCP II”), Centerbridge Capital Partners III, L.P., a Delaware limited partnership (“CCP III”), Centerbridge Capital Partners IV, L.P., a Delaware limited partnership (“CCP IV”), and Centerbridge Capital Partners V, L.P., a Delaware limited partnership (“CCP V”),<sup>4</sup> and their related funds, including the following side-by-side (or “SBS”) co-investment vehicles through which Centerbridge professionals co-invest ratably alongside CCP I, CCP II, CCP III and CCP IV: Centerbridge Capital Partners SBS, L.P., Centerbridge Capital Partners SBS II, L.P., Centerbridge Capital Partners SBS III, L.P. and Centerbridge Capital Partners SBS IV, L.P. (collectively, the “Capital Partners SBS Co-Invest Vehicles”), respectively. Centerbridge Associates, L.P., a Delaware limited partnership, serves as the general partner of CCP I. Centerbridge Associates II, L.P., a Delaware limited partnership, serves as the general partner of CCP II. Centerbridge Associates III, L.P., a Delaware limited partnership, serves as the general partner of CCP III. Centerbridge Associates IV, L.P., a Delaware limited partnership, serves as the general partner of CCP IV. Centerbridge Associates V, L.P., a Delaware limited partnership, serves as the general partner of CCP V. Centerbridge Advisors, LLC, a Delaware limited liability company, Centerbridge Advisors II, LLC, a Delaware limited liability company, Centerbridge Advisors III, LLC, a Delaware limited liability company, Centerbridge Advisors IV, LLC, a Delaware limited liability company, and Centerbridge Advisors V, LLC, a Delaware limited liability company (together, the “Capital Partners Advisors”), each an affiliate of Centerbridge, provide investment advisory services to CCP I, CCP II, CCP III, CCP IV and CCP V, respectively.

**(e) Real Estate Fund**

The “Real Estate Funds” comprise Centerbridge Partners Real Estate Fund, L.P., a Delaware limited partnership (“CPREF”) and Centerbridge Partners Real Estate Fund II, L.P., a Delaware limited partnership (“CPREF II”), and their related funds, including the following SBS co-investment vehicles through which Centerbridge professionals co-invest ratably alongside CPREF and CPREF II: Centerbridge Partners

<sup>3</sup> The Flex Funds have not been activated at this time and commitments to it have not been drawn, and accordingly the investment period has not yet commenced.

<sup>4</sup> CCP V has not been activated at this time and commitments to it have not been drawn, and accordingly the investment period has not yet commenced.



Real Estate Fund SBS, L.P. and Centerbridge Partners Real Estate Fund SBS II, L.P. (the “Real Estate SBS Co-Invest Vehicles”), respectively. Centerbridge Partners Real Estate Associates, L.P., a Delaware limited partnership, serves as the general partner of CPREF. Centerbridge Partners Real Estate Associates II, L.P., a Delaware limited partnership, serves as the general partner of CPREF II. Centerbridge Partners Real Estate Advisors, LLC, a Delaware limited liability company, and Centerbridge Partners Real Estate Advisors II, LLC, as Delaware limited liability company (together, the “Real Estate Advisors”), each an affiliate of Centerbridge, provide investment advisory services to CPREF and CPREF II, respectively.

**(f) Co-Invest Vehicles**

From time to time, Centerbridge offers co-investment opportunities, more typically alongside the Capital Partners Funds, and also at times alongside the Real Estate Funds, the Credit Funds (as defined below) and other clients. In certain circumstances and as further described below, service providers to the Funds or their affiliates will be offered the opportunity to co-invest. Centerbridge applies its discretion when allocating such opportunities to Centerbridge’s investors (including the extent to which any co-investment is allocated to any investors in the Fund), company management, service providers, third-party investors and / or others, and seeks to do so in a fair and equitable manner, taking into account facts and circumstances that can include, without limitation, the character and nature of the transaction (including structure, geographic location, tax characteristics, applicable regulation and relevant industry), speed of execution required, tax, legal, regulatory and confidentiality considerations (including for example if an investor is subject to The Freedom of Information Act or similar regulations and / or whether participation by a particular investor could increase the risk of antitrust or CFIUS approval), familiarity with, capability and history of investing in the relevant discipline (*e.g.*, private equity or credit) and industry (for example, if the potential co-investor is involved in the same industry as a target company in which the Funds wish to invest, or if the identity of the potential co-investor, or the jurisdiction in which the potential co-investor is based, may affect the likelihood of the Funds being able to capitalize on a potential investment opportunity), prior expressions of interest in making similar investments, such person’s ability to consummate co-invest opportunities in a meaningful size, ability to provide strategic insights, the likelihood that such co-investor would require governance rights that would complicate or jeopardize the transaction (or, alternatively, whether the co-investor would be willing to defer to Centerbridge and assume a more passive role in governing the portfolio company), Centerbridge’s evaluation of its past experiences and relationships with the potential co-investor (including willingness or ability of such party to respond promptly and / or affirmatively to opportunities previously offered by Centerbridge, the expected amount of negotiations required in connection with a potential co-investor and the transparency and predictability of the potential co-investor’s investment process), the level of demand for participation in such co-investment opportunity and other factors believed relevant. Centerbridge endeavors to keep itself informed regarding investor interest in co-investment by maintaining records of those investors who have expressed interest in co-investments. Centerbridge does not currently advise what we consider to be a committed





limited partner fund co-investment vehicle (*i.e.*, a standing vehicle in which one or more third-party investors participate as to which Centerbridge has made a commitment to allocate a specific portion of investments alongside a Centerbridge Fund).

Centerbridge can be expected to offer the opportunity to co-invest alongside a client with terms that differ in certain respects (including as to fees and expenses) than those applicable to such client, as offering co-investment affords important benefits to such Fund, including facilitating such Fund's ability to pursue opportunities of significant overall size, to pursue investments where diversification of ownership is necessary or beneficial (in regulated industries, for example), or to access strategic insights, for example. Centerbridge also may determine that a Fund stands to benefit in its overall size where offering co-investment arrangements with pre-negotiated terms (which may include, for example, reductions to compensation (including profits interest) payable to Centerbridge, or borne by, such co-investing investors) would facilitate sufficiently large commitments to the Fund from such investors. Such co-invest vehicles could include dedicated or "standing" vehicles, such as "opt-out" vehicles where the general rule is that the co-investor has the ability to "opt-out" of co-investment opportunities through negative consent (unless they fit within certain automatic opt-in parameters), as well as committed vehicles where Centerbridge (in some or all circumstances), and not the co-investor, has discretion in determining whether the co-investment vehicle will participate in co-investment opportunities. The amount and frequency of co-investment by any such co-investment vehicles would be at the discretion of Centerbridge, and the existence of dedicated vehicles could limit potential capacity for others to co-invest. Such arrangements can create an economic incentive for Centerbridge to allocate a greater or lesser percentage of an investment opportunity to a Fund or to or among such co-investment vehicles or co-investors, as the case may be. Such arrangements have the potential to affect the size of investments in which a Fund and such co-investment vehicles participate (and their respective allocations), taking into account the expected capacity of such Fund and such co-investment vehicles.

However, Centerbridge is not obligated to offer co-investments to any investor or other potential investor (regardless of whether any such person has expressed an interest in pursuing co-investment opportunities). Each co-investment opportunity, to the extent one exists, is likely to be different from an allocation perspective and will be dependent upon the facts and circumstances specific to that unique opportunity (*e.g.*, timing, industry, size, geography, asset class, projected holding period, exit strategy and counterparty). Centerbridge has sole discretion as to the amount (if any) of a co-investment opportunity that will be allocated to a particular co-investor and may allocate co-investment opportunities instead to investors in Funds that do not participate in the relevant investment or third parties. In addition, Centerbridge may determine to present co-investment opportunities to such co-investors at any time and with respect to any particular co-investment opportunity, at different times. Thus, one or more investors, clients and / or other third-party potential co-investors may have a longer period of time to evaluate a co-investment opportunity relative to other potential co-investors being offered the same opportunity. Centerbridge may receive fees and / or allocations from co-





investors, which may differ as among co-investors and also may differ from the fees and / or allocations borne by the client participating in the relevant investment.

**(g) Other Vehicles**

Centerbridge will devote as much of its time to the activities of the Funds as it deems necessary and appropriate in their discretion. By the terms of the Funds' governing documents, Centerbridge is not restricted from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities, even if such activities are in competition with the existing Funds and / or may involve substantial time and resources of Centerbridge. Indeed, Centerbridge does operate multiple strategies and associated entities and is expected to continue doing so in the future, including in performing credit strategies and including for reinsurance clients and potentially for other clients. Centerbridge personnel are permitted to have outside business activities that Centerbridge has determined do not involve a meaningful time commitment, including board service. These activities, while considered by Centerbridge to be accretive to the opportunities available to the clients, could be viewed as creating a conflict of interest in that the time and effort of the members of Centerbridge and their officers and employees will not be devoted exclusively to the business of a single client but will be allocated among the businesses of each of the clients, including new clients, and other activities.

As such, subject to the terms of the governing documents of the clients, Centerbridge has the ability to form, sponsor and / or manage other commingled investment funds, vehicles or accounts (such investment funds, vehicles or accounts, the "Other Vehicles"). Such investment funds may be ancillary or accretive to, or otherwise supplement, the clients' investment programs, including, without limitation, the establishment of securitized vehicles or trading vehicles and could include, without limitation: (i) investment funds or accounts focusing on geographic regions outside of North America and Europe; (ii) venture capital funds; (iii) mezzanine funds; (iv) vehicles for a single investment and follow-ons thereto (whether that is a continuation fund or a single-investment vehicle); (v) investment funds or other vehicles or accounts focusing on non-controlling investments, including in liquid securities or instruments; (vi) any successor funds to the Funds; (vii) any dedicated fund or account or other vehicle managed or advised by Centerbridge formed to pursue only one or a limited number of elements of the investment strategy of the Funds; (viii) any separately managed account, fund-of-one or other dedicated vehicle managed or advised by Centerbridge formed for a specific investor and / or its affiliates; (ix) funds or accounts focusing on open market purchases of investments or minority interests; and (x) funds or accounts focusing on investments that are precluded or limited pursuant to the terms of the governing documents of the relevant clients or applicable legal, tax, regulatory, accounting or other similar considerations. In the event two or more Funds hold different Instruments (including with respect to their relative seniority, and whether such Instruments are purchased contemporaneously or otherwise), Centerbridge may be presented with decisions when the interests of such Funds are in conflict as more fully described herein and in each Fund's confidential private placement memorandum.



In this regard, Centerbridge Credit Funding Advisors, LLC, a Delaware limited liability company and an affiliate of Centerbridge (the “CDO Advisor”), has entered into Collateral Management Agreements to provide advice to Centerbridge Credit Funding 1, Ltd. and Centerbridge Credit Funding II, Ltd. and Investment Management Agreements to provide advice to Park Blue 2022-I CLO, Ltd. and Park Blue 2022-II CLO, Ltd., each issuers of CDO Instruments, and intends to enter into similar arrangements with successor issuers of CDO Instruments.

In addition, Centerbridge formed Centerbridge Martello Advisors, L.L.C., a Delaware limited liability company and an affiliate of Centerbridge (together with the Credit Advisor, the Special Credit Advisors, the Capital Partners Advisors, the Real Estate Advisors, the CBO Advisor and such other affiliate of Centerbridge acting in a similar capacity, “Advisors”), to provide investment advisory services related to Martello Re Limited, a Bermuda Class E Reinsurer formed to reinsure life and annuity contracts through closed block acquisition and ongoing reinsurance flow agreements (together with its affiliated entities, “Martello Re”). The Martello Advisor also advises, on their indirect investment in Martello Re, (i) on a discretionary basis, CB Martello Feeder, L.P., a Delaware limited partnership, and its related funds including CB Martello SBS, L.P., a side-by-side co-invest vehicle through which Centerbridge professionals co-invest ratably alongside CB Martello Feeder, L.P. (collectively with the Capital Partners SBS Co-Invest Vehicles and the Real Estate SBS Co-Invest Vehicles, the “SBS Co-Invest Vehicles”) and (ii) on a non-discretionary basis, pooled investment vehicles, not sponsored by Centerbridge.

Centerbridge Advisors III, LLC also provides investment advisory services to Centerbridge Seaport Acquisition Fund, L.P., a Delaware limited partnership that serves as a continuation fund to invest in a single asset previously invested in by CCP III (“Seaport”).

#### (h) **General**

References herein to “Centerbridge” include Centerbridge Partners, L.P. and its relying advisers (the Advisors and the Sub-Advisor), and the respective general partners of the Funds where applicable. As used herein, the term “client” generally refers to each of the Funds, the Other Vehicles and their related investment vehicles (collectively, the “Centerbridge Accounts”).

*This Brochure generally includes information about Centerbridge and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only. In particular, we note that inception dates, ramp-up periods, harvest dates (if applicable) and other attributes of the clients will vary by client and, therefore, certain elements of the discussion, including Item 8, may be more germane to certain clients and not others. Accordingly, the discussion applies the term “may” (and similar terms) with respect to circumstances that may apply, which should be read as a reference to circumstances that have applied, apply at the present time or may apply in the future from time to time in relation to one or more of the clients.*



*This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Investors in the Funds generally must be both “accredited investors,” as defined in Regulation D promulgated under the Securities Act, and “qualified purchasers,” as defined in the Investment Company Act of 1940, as amended, or, with respect to the Offshore Fund, must otherwise be non-U.S. persons. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of the applicable Fund’s confidential private placement memorandum.*

## **2. Investment Strategies and Types of Investments**

Centerbridge’s investment strategy with respect to the Credit Partners Funds and the Special Credit Funds (together, the “Credit Funds”) focuses on non-control private credit and special situation investments. Centerbridge employs a related investment strategy with respect to Martello Re and the CBOs and CLOs, subject to specific limitations specified in their governing documents.

Centerbridge’s investment strategy with respect to the Capital Partners Funds focuses on buyouts (including thematic buyouts and special situations buyouts, such as distressed-for-control transactions) and structured equity transactions, in each case with the primary purpose of acquiring control or influence-oriented positions in companies.

Centerbridge’s investment strategy with respect to the Real Estate Funds focuses on real estate-related investments.

Please see Item 8 for a more detailed description of the investment strategies pursued and types of investments made by the Funds.

*The descriptions set forth in this Brochure of specific advisory services that Centerbridge offers to clients, and investment strategies pursued and investments made by Centerbridge on behalf of its clients, should not be understood to limit in any way Centerbridge’s investment activities, including offering any advisory services, engaging in any investment strategy and making any investment, including any not described in this Brochure, that Centerbridge considers appropriate, subject to each client’s investment objectives and guidelines. The investment strategies Centerbridge pursues are speculative and entail substantial risks. Investors should be prepared to bear an entire loss of capital. There can be no assurance that the investment objectives of any client will be achieved.*

### **C. Availability of Customized Services for Individual Clients.**

Centerbridge’s investment decisions and advice with respect to each client are subject to each client’s investment objectives and guidelines, as described in its



offering documents and / or its governing documents. The investment decisions and advisory services are specific to each client, and are not customized to any investor.

D. Assets Under Management.

As of December 31, 2022, Centerbridge manages approximately \$35,139.1 million of capital on a discretionary basis and \$450.0 million of capital on a non-discretionary basis.<sup>5</sup>

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<sup>5</sup> Amount reflects capital commitments of closed-ended funds and net asset value of open-ended funds, inclusive of subsequent month contributions. Excludes certain commitments that are not fee-bearing unless and until drawn and any co-investments that are not fee-bearing.

As of December 31, 2022, Centerbridge manages approximately \$24,363.8 million of invested or currently investable capital on a discretionary basis, and \$450.0 million of capital on a non-discretionary basis. Such amount reflects (a) capital commitments of closed-ended funds in their investment period or commitment period, as applicable, which includes commitments that are subject to automatic incremental acceptance and will be activated in conjunction with a subsequent closing, or net asset value plus either (i) unfunded commitments (in the case of the Special Credit Funds) or (ii) available capital reserved for Follow-On Investments (in the case of Capital Partners Funds) if the closed-ended fund is in its harvest period, and (b) net asset value for the Credit Partners Funds as of December 31, 2022, inclusive of subsequent month contributions. Such amount excludes certain commitments that are not fee-bearing unless and until drawn and any co-investments that are not fee-bearing.

In addition, the Martello Advisor (together with Barings LLC, as described in Item 16) is engaged to provide investment advisory services to Martello Re, which had total GAAP assets of \$16,500 million as of December 31, 2022 (unaudited).

The calculation of Regulatory Assets Under Management of \$49,566.3 million, as expressed in the ADV Part 1 filed on March 31, 2023, applies a different, gross asset value-based methodology that results in a different figure. In the case of the Martello Re structure, assets from SC IV, CB Martello Feeder, L.P., CB Martello SBS, L.P., BBH Wealth Strategies, LLC – Martello Re Series and BBH Wealth Strategies Unit Trust – Martello Re Sub-Trust also are reflected in the Regulatory Assets Under Management attributed to insurance company clients in light of the different nature of the advisory mandates and distinct associated advisory fees payable to the applicable advisers. The year-on-year increase in RAUM attributable to insurance company clients reflects the contribution of assets made during 2022 by Mass Mutual to the Martello Re structure. Other documents may require a different formulation or calculation.



## ITEM 5 FEES AND COMPENSATION

### A. Advisory Fees and Compensation.

The fees applicable to each Fund and Other Vehicle are set forth in detail in each Fund's and Other Vehicle's offering documents and / or advisory agreements, as applicable.<sup>6</sup> A brief summary of such fees is provided below.

#### 1. **Credit Partners Funds**

##### Management Fee

Generally, the Credit Partners Funds pay Centerbridge a Management Fee quarterly in advance for investment management services for each fiscal quarter equal to 0.375% (1.50% per annum)<sup>7</sup> of the beginning net asset value of each capital account or each series of shares for such fiscal quarter. The Management Fees are paid by the Credit Partners Funds with respect to the capital under management of investors in such Funds (other than certain friends and family investors and other investors affiliated with Centerbridge as noted in the footnote below).

##### Incentive Allocation

Generally, at the end of each fiscal year, Centerbridge is entitled to an incentive allocation (the "Incentive Allocation") in an amount equal to 20% of the net capital appreciation (which includes both realized gains and losses and unrealized appreciation and depreciation of securities held in the Credit Partners Funds' portfolios and takes into account gains and losses with respect to realized or deemed realized

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<sup>6</sup> Generally, Centerbridge has the authority to waive, reduce or calculate differently any of the fees described herein, and, to date, Centerbridge has waived or reduced, as set forth in the applicable Fund's governing documents, the Management Fee payable and Incentive Allocation / Carried Interest allocable with respect to certain friends and family investors invested in the Credit Partners Funds, the Capital Partners Funds, the Real Estate Funds and Special Credit IV. In addition, Centerbridge has waived the Management Fee payable and Incentive Allocation / Carried Interest allocable with respect to investments made by persons that are partners, members, officers and employees of Centerbridge at the time of such investment (and such waiver generally continues with respect to such investment after a person ceases to be associated with Centerbridge). The fee structure applicable to co-investment customarily is lower than that applicable to funds (and can involve no fees). In certain pre-determined circumstances, third-party limited partners of the Credit Partners Funds, CPREF, CPREF II, CCP IV, CCP V, SC IV and the Flex Funds have received a reduced Management Fee rate, as described further in the footnotes below.

<sup>7</sup> The Management Fee rate for Class A, B, C and D interests, which are no longer being offered to new investors, is 0.4375% (1.75% per annum), and the Management Fee rate for certain investors holding Class E interests has been reduced below 0.375% (1.50% annualized) for so long as they have not redeemed from the relevant Credit Partners Fund.



Special Investments (*i.e.*, side pockets) and other income from Special Investments) allocated to an investor's capital account for such fiscal year (other than the net capital appreciation and net capital depreciation with respect to that portion of a capital account attributable to certain segregated assets, with respect to which Centerbridge is entitled to receive 20% of the profits pursuant to a distribution waterfall described in the offering documents of the Credit Partners Funds) after deducting the Management Fee attributable to such investor's capital account for such fiscal year, subject to a loss carryforward mechanism.

In the event that a Credit Partners Fund is terminated or an investor withdraws other than at the end of a fiscal year, then, for purposes of determining the Incentive Allocation allocable in relation to such Fund or any Special Investment thereof at such time to Centerbridge, the net capital appreciation or net capital depreciation, as the case may be, will be determined as if such dates were the end of the fiscal year, subject to certain adjustments.

## **2. Special Credit Funds**

### Management Fee

The Special Credit Funds<sup>8</sup> pay Centerbridge a Management Fee with respect to the capital under management of the investors in such Funds. With respect to a particular Special Credit Fund, such fees may be paid in advance for a particular period and in arrears for another period, as described below. In the case of the final management-fee period, Centerbridge will refund to the Special Credit Funds the amount paid in advance allocable to the portion of the quarterly period which is subsequent to the end of such last management-fee period.

The Management Fee will equal (i) during the investment period and for so long as management fees do not begin to accrue with respect to a successor fund, 1.50% per annum of, with respect to SC III, the aggregate capital commitments of the investors and, with respect to SC III-Flex and Special Credit IV,<sup>9</sup> the lesser of (x) capital commitments called and (y) the cost basis of the investments then held by SC III-Flex or

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<sup>8</sup> As of January 1, 2019, Centerbridge discontinued charging Management Fees to Special Credit I, and, as of April 1, 2020, Centerbridge discontinued charging Management Fees to Special Credit II.

<sup>9</sup> The Special Credit IV Management Fee rate is reduced for Limited Partners that meet certain specified criteria, including Limited Partners making a commitment in excess of specified size thresholds (in certain circumstances, taking into account a Limited Partner's commitment to another Centerbridge-advised client) and for Limited Partners that also invest in CPREF II or CCP IV. In addition, Limited Partners making a commitment to Special Credit IV at an early closing are entitled to a management fee holiday.

Please also refer to Footnote 6 above for a further discussion of fee waivers or reductions for certain investors.





Special Credit IV, as applicable, and (ii) thereafter, 1.25% per annum of the cost basis of the investments (or, with respect to Special Credit IV, 1.25% of the lesser of (x) capital commitments called and (y) the cost basis of the investments) then held by the relevant Special Credit Fund.

#### Carried Interest

In addition, Centerbridge is entitled to receive 20% of the profits from the Special Credit Funds (other than, for Special Credit IV, with respect to certain friends and family investors (who have a reduced rate) and other investors affiliated with Centerbridge as noted above) pursuant and subject to the operation of a distribution waterfall described in the offering documents of the Special Credit Funds.

### **3. Flex Funds**

#### Management Fee

The Flex Funds pay Centerbridge a Management Fee quarterly in advance (other than the first quarter, which is in arrears). In the case of the final management-fee period, Centerbridge will refund to the Flex Funds the amount paid in advance allocable to the portion of the quarterly period which is subsequent to the end of such last management-fee period.

The Management Fee paid by the Flex Funds will equal 1.50% per annum of the cost basis of the investments then held by the relevant Flex Fund.<sup>10</sup>

#### Carried Interest

In addition, Centerbridge is entitled to receive 20% of the profits from the Flex Funds pursuant and subject to the operation of a distribution waterfall described in the offering documents of the Flex Funds.

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<sup>10</sup> The Flex Fund Management Fee rate is reduced for Limited Partners that meet certain specified criteria, including Limited Partners making a commitment in excess of specified size thresholds (in certain circumstances, taking into account a Limited Partner's commitment to another Centerbridge-advised client).

Please also refer to Footnote 6 above for a further discussion of fee waivers or reductions for certain investors.





#### **4. Capital Partners Funds**

##### Management Fee

The Capital Partners Funds<sup>11</sup> pay Centerbridge a Management Fee quarterly in advance. The Management Fees are paid by the Capital Partners Funds with respect to the capital under management of fee-bearing investors in such Funds. In the case of the final management-fee period, Centerbridge will refund to the Capital Partners Funds the amount allocable to the portion of the quarterly period which is subsequent to the end of such last management-fee period.

The Management Fee paid by each of CCP III, CCP IV and CCP V<sup>12</sup> to Centerbridge will equal (i) during the investment period and so long as management fees do not begin to accrue with respect to a successor fund, 1.50% of the aggregate capital commitments of the investors in such Fund, and (ii) thereafter, 1.25% per annum of such Fund's capital under management.

As more fully set forth in each of the Capital Partners Funds' governing documents, a formulaic portion of the Management Fee payable is instead invested on behalf of Centerbridge in investments made by such Capital Partners Fund, although distributions to Centerbridge with respect to such amounts are limited to the amount of available profits with respect thereto.

##### Carried Interest

In addition, Centerbridge is entitled to receive 20% of the profits from the Capital Partners Funds (other than with respect to certain friends and family investors (who have a reduced rate) and other investors affiliated with Centerbridge as noted above) pursuant and subject to the operation of a distribution waterfall described in the offering documents of the Capital Partners Funds.

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<sup>11</sup> As of May 10, 2019, Centerbridge discontinued charging Management Fees to CCP I, and, as of December 31, 2020, Centerbridge discontinued charging Management Fees to CCP II.

<sup>12</sup> The CCP IV Management Fee rate is reduced for Limited Partners making a commitment in excess of specified size thresholds (in certain circumstances, taking into account a Limited Partner's commitment to another Centerbridge-advised client) and for Limited Partners that also invest in CPREF II or Special Credit IV. In addition, Limited Partners making a commitment to CCP IV at an early closing are entitled to a management fee holiday. The CCP V Management Fee rate is expected to be reduced for Limited Partners making a commitment in excess of specified size thresholds. In addition, Limited Partners making a commitment to CCP V at an early closing are entitled to a management fee holiday.

Please also refer to Footnote 6 above for a further discussion of fee waivers or reductions for certain investors.



## **5. Real Estate Funds**

### Management Fee

The Real Estate Funds pay Centerbridge a Management Fee quarterly in advance. The Management Fees are paid by the Real Estate Funds with respect to the capital under management of fee-bearing investors in the Real Estate Funds. In the case of the final management-fee period, Centerbridge will refund to the Real Estate Funds the amount allocable to the portion of the quarterly period which is subsequent to the end of such last management-fee period.

The Management Fee paid by each of CPREF I and CPREF II will equal<sup>13</sup> (i) during the investment period and so long as management fees do not begin to accrue with respect to a successor fund, 1.50% of the aggregate capital commitments of the investors, and (ii) thereafter, 1.25% per annum of such Fund's capital under management.

### Carried Interest

In addition, Centerbridge is entitled to receive 20% of the profits from the Real Estate Funds (other than with respect to certain friends and family investors (who have a reduced rate) and other investors affiliated with Centerbridge as noted above) pursuant and subject to the operation of a distribution waterfall described in the offering documents of the Real Estate Funds.

## **6. Other Vehicles**

Centerbridge may also charge fees with respect to Other Vehicles, as set forth in the documentation governing such Other Vehicles, which fees may vary as between different Other Vehicles and may be subject to offset or deduction under the terms of the governing documents of the above-named Funds.

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<sup>13</sup> The CPREF I Management Fee rate is reduced for (i) Limited Partners making a commitment in excess of specified size thresholds, (ii) Limited Partners making a commitment at an early closing and (iii) Limited Partners who are also limited partners in a then-investing other Centerbridge fund as determined by Centerbridge at the time of such commitment.

The CPREF II Management Fee rate is reduced for Limited Partners that made a commitment in excess of specified size thresholds (in certain circumstances, taking into account a Limited Partner's commitment to another Centerbridge-advised client) and for Limited Partners that also invest in CCP IV or Special Credit IV. In addition, Limited Partners making a commitment to CPREF II at an early closing are entitled to a management fee holiday.

Please also refer to Footnote 6 above for a further discussion of fee waivers or reductions for certain investors.



For example, in connection with certain Other Vehicles that are intended to issue CDO Instruments, Centerbridge contemplates charging management fees generally based on the value of the assets backing such CDO Instruments, and may include incentive fees entitling Centerbridge to receive a percentage of available residual distributions subject to the terms of the documentation governing such Other Vehicles.

In connection with Martello Re, Centerbridge will be paid an advisory fee based upon the total investable assets of Martello Re, regardless of the amount of assets actually managed by Centerbridge and regardless of the results of Martello Re's operations or investment performance. To the extent a Fund owns interests in an Other Vehicle, it is likely that any fees paid by the Other Vehicle to Centerbridge that are borne by such Fund would offset fees payable by such Fund to Centerbridge. For example, and as noted in Footnote 1 above, any fees payable to the CBO Advisor by the CBOs and CLOs in which SC III-Flex invests offset fees paid to Centerbridge by SC III-Flex. In addition, as noted in Footnote 2 above, any fees payable to the Martello Advisor by Martello Re relating to Special Credit IV's investment in Martello Re offset fees paid to Centerbridge by Special Credit IV.

In connection with Seaport, Centerbridge will be paid a management fee and receive a carried interest (i) with respect to investors that "rolled over" from CCP III and the fund of another sponsor that also previously had an interest in the relevant investment, that is based on the CCP III fee rates, and (ii) with respect to new investors and electing rollover investors, a management fee equal to 1% of invested capital and a sliding scale carried interest rate based on the returns of the Fund. A portion of the management fee and carried interest received by Centerbridge will be paid to such other sponsor. See also Item 16.

#### B. Additional Fees and Expenses.

The following sets forth various examples of the types of expenses that generally will be borne by a client or clients, subject to the terms of such client's governing documents: Each client will bear its own expenses, including, without limitation, investment-related expenses whether relating to investments that are consummated or unconsummated (*e.g.*, brokerage commissions, due diligence costs, investment banking fees, sourcing or finder's fees (which includes at times a management fee component and / or a performance-based component)), interest and / or fees on margin accounts, credit facilities and other indebtedness, borrowing charges on securities sold short, custodial fees, clearing and settlement charges, hedging costs, underwriting commissions, interest expense and other investment-related expenses (*e.g.*, meetings, entertainment, food, travel (including commercial and, in certain limited instances, privately arranged air travel) and lodging expenses); out-of-pocket research-related expenses, including, without limitation, news and quotation equipment and services and corporate access charges (*i.e.*, for research) that may be applied by third parties (*e.g.*, in response to new regulations); legal fees and expenses (including expenses associated with the preparation of amendments to a client's governing documents and the solicitation of consent to such amendments) and other professional fees (including,



without limitation, expenses of consultants (including, but not limited to, consulting fees for, and other amounts payable to, senior or special advisors, certain other advisors, operating partners and other similar professionals incurred by a client for the benefit of such client or such client's investments or portfolio companies), valuation firms and other experts); the costs of organizing and maintaining any non-recourse financing alternative investment subsidiaries, financing subsidiaries, trading subsidiaries, investment vehicles, intermediate vehicles or any other entity used to acquire, hold or dispose of any investment or otherwise facilitate a client's investment activities, including their administrative, accounting and operating expenses (whether provided by a third party or in-house), such as rent, allocable personnel costs and the costs, fees and expenses for developing, structuring, operating and winding up, of entities formed for investment-related purposes (including, without limitation, in non-U.S. jurisdictions), whether at cost or cost-plus rates; the costs and expenses incurred in connection with borrowing arrangements and any other indebtedness of such client and its subsidiaries, including, without limitation, the costs of establishing the borrowing arrangements and such other indebtedness; costs relating to swaps (and similar arrangements); any costs and expenses arising from any foreign exchange or other currency transactions; auditing and tax compliance expenses; accounting expenses; costs and expenses in connection with monitoring (including with respect to ESG, cyber security, anti-corruption and similar functions), complying with and performing any provisions in agreements with investors (including, without limitation, other similar costs and expenses of administering such agreements, including the process of distributing and implementing applicable elections pursuant to any "most favored nation" provisions; an example of such costs includes those attributable to the licensing, implementation, installation, servicing and maintenance of computer software relating thereto, including any portion charged to or paid by Centerbridge and thereafter allocated (pursuant to one or more methodologies utilized by Centerbridge) thereby to the client); market data costs; costs of any third-party administrators and, in the case of the Special Credit Funds (other than Special Credit I), in-house administration costs (as to which Centerbridge notes that the combination of third-party administration and in-house administration is reflective of the parallel control environment adopted by Centerbridge) including personnel (*e.g.*, the allocable cash compensation cost of those involved in accounting, trading operations, tax compliance and reporting, investor services and fund-related IT development) and related overhead; fees and expenses of a client's advisory committee or other governing body (including any legal expenses incurred therewith); expenses relating to the organization and conduct of investors' meetings (including travel, lodging and meal expenses), whether individually or as a group; fees, costs and expenses of representatives of a client in local jurisdictions necessary or advisable for regulatory, tax or other purposes; organizational expenses (including, without limitation, any related legal and accounting fees and expenses, travel expenses and filing fees, any placement agent fees, capital raising and other organizations expenses (including market consulting services)); out-of-pocket expenses incurred in connection with the relevant client's legal and regulatory compliance with U.S. federal, state, local, non-U.S. or other law and regulation (*e.g.*, filings with the SEC or similar regulatory agencies pertaining to a client's holdings and / or trading and investment activities, but excluding the preparation of Form ADV), the



Alternative Investment Fund Managers Directive (the “AIFMD”) and related regulatory developments such as the European Union (“E.U.”) Directive 2019/1160 on the cross-border distribution of collective investment funds (known as the CBDF) and AIFMD II and the European Union Sustainable Finance Disclosure Regulation (the “SFDR”) and any other applicable legislation or regulations related to the European Commission’s Action Plan on Financing Sustainable Growth (the “E.U. Action Plan”), including, without limitation, Form PF or other reports to be filed with the U.S. Commodity Futures Trading Commission (the “CFTC”); fees, costs and expenses of representatives of the clients in local jurisdictions necessary or advisable for regulatory, tax, accounting or other purposes; anti-money laundering and sanctions monitoring expenses; any fees and expenses relating to the development, licensing, implementation, installation, servicing and maintenance of, and consulting with respect to, computer software, technology and information technology systems that primarily serve Centerbridge’s investment and accounting professionals in connection with the management of a client’s investments, including, without limitation, costs and expenses of technology service providers and related software, hardware and subscription-based services utilized in connection with the client’s investment and operational activities, including but not limited to, the sourcing, origination and monitoring of investments; costs relating to communications with investors (including, without limitation, technology licensing and maintenance of the website for the benefit of investors and any investor portal (including any database or other forum hosted on a website designated by Centerbridge) or due diligence platform), including for meetings with investors, whether individually or as a group; expenses related to the maintenance of the clients’ registered offices and corporate licensing; reporting, printing, publishing and mailing costs; accounting, audit and tax advice and preparation expenses (including preparation costs of financial statements, tax returns and reports to investors); in the case of certain clients (to the extent permitted by their governing documents), expenses, fees, and other amounts charged or specifically attributed or allocated by Centerbridge to provide transaction-related tax and legal services to a client, and expenses, charges and / or related costs incurred by a client or Centerbridge in connection with such services to such client, *provided*, that any such expenses, charges or related costs shall be based on terms that Centerbridge determines to be within customary market norms for third parties providing substantially similar services; any expenses incurred in connection with any transfer of interests (but only to the extent not paid or otherwise borne by the relevant transferring parties); all fees, costs and expenses in connection with the formation, operation and negotiation of joint ventures and platform investments; breakup fees and broken deal expenses (including, if applicable, the portions allocable to the share of capital intended to be provided by a prospective co-investor); insurance expenses, including, without limitation, a portion of the premiums for liability and other forms of insurance covering Centerbridge and its members, partners, directors, officers, affiliates, stockholders, employees and agents and the representatives of any of them; Management Fees; board of directors’ fees; indemnification and / or litigation (whether actual, pending or threatened) expenses, or any costs arising therefrom, and any judgments, fines, remediations or settlements paid in connection therewith, including indemnification obligations to any placement agents, finders and legally required local agents and intermediaries in connection with the offer



and sale of interests; corporate licensing fees and other professional fees; bank service fees; withholding and transfer fees; costs incurred in connection with trademarks or other intellectual property; entity-level taxes and governmental fees and / or other charges payable by or with respect to or levied against a client, a client's investments or to U.S. federal, state or other governmental agencies, domestic or foreign, including real estate, stamp or other transfer taxes and expenses related to complying with AEOI,<sup>14</sup> windup and liquidation expenses; costs and expenses related to the preparation, printing and delivery of Schedules K-1; any and all costs and expenses relating to the representation by the "partnership representative" and the "designated individual" of the clients and the investors; fees, costs and expenses related to any governmental inquiry, investigation or proceeding directly or indirectly involving or otherwise applicable to the relevant clients, Centerbridge or any of their respective affiliates in connection with the activities of the clients or any investment; filing and registration fees (*e.g.*, corporate filing fees and expenses), including, without limitation, registrations in the Cayman Islands; other expenses related to the purchase, monitoring, syndication of co-investments, sale, settlement, custody or transmittal of such client's assets (directly or through financing alternative investment subsidiaries and / or trading subsidiaries); loan administration costs; reasonable out-of-pocket expenses incurred by Centerbridge in attending meetings with investors; and extraordinary expenses and other similar expenses related to such client or any investment. Certain expenses incurred by Centerbridge or its representatives are permitted to be charged directly to portfolio companies in which the clients have invested and accordingly in such instances are indirectly borne by the clients. While Centerbridge will, except as indicated in a client's governing documents, be responsible for its own rent, utilities and salaries of its personnel, the costs and expenses of its activities in connection with, on behalf of, or otherwise related to, a client will be borne by such client (and indirectly by its investors).

The service providers, counterparties or their affiliates (including, without limitation, any administrators, lenders, brokers, attorneys, consultants and investment or commercial banking firms) and certain other advisors and agents of the clients, Centerbridge or any of their affiliates are from time to time investors in the clients and / or sources of investment opportunities and co-investors or counterparties therein and also in certain instances provide goods or services to or have business, personal, political,

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<sup>14</sup> "AEOI" means (i) Sections 1471 through 1474 of the Code, applicable Treasury Regulations, revenue rulings, notices or other official guidance; (ii) other tax reporting and / or withholding tax regimes enacted in any jurisdiction or any intergovernmental organization that is similar to that described in clause (i); (iii) any treaty, convention, understanding or other agreement between or among governmental authorities to comply with, facilitate, supplement, implement or otherwise related to the provisions described in clauses (i) and / or (ii); (iv) legislation, regulations or guidance enacted in any jurisdiction that seek to implement the provisions described in clauses (i), (ii) and / or (iii); (v) in each case, similar or successor provisions, regulations or guidance and (vi) an agreement entered into by or with respect to a Fund or Centerbridge (or any affiliate of the foregoing) with a governmental authority pursuant to any of clauses (i) through (v).





financial or other relationships with Centerbridge, its portfolio companies and their affiliates and certain other advisors or agents.

Certain employees of Centerbridge from time to time have family members or relatives employed by certain advisors and other service providers. These and other relationships could influence, or have the appearance of influencing, Centerbridge in deciding whether to select such a service provider or have other relationships with Centerbridge. Among the ways Centerbridge seeks to mitigate such potential conflicts is to require periodic disclosure of such relationships and conduct ongoing monitoring, where possible in each case.

When engaging service providers on behalf of itself and the clients and as relationships with such service providers continue, Centerbridge applies business selection standards that are similar in nature to the “best execution” principles applicable to brokerage relationships, taking into account the nature of services sought and capabilities of such service provider in relation thereto, and also other characteristics of the service provider under consideration, such as the following: reputation, ethics and regulatory record; business standards; corporate governance, compliance and controls; technological capabilities and standards; references and relevant expertise; continuity considerations and historical experience with such service provider; and the actual or expected quality and timeliness of the services provided relative to the difficulty of the requested services and fees charged or proposed to be charged, with consideration to their competitiveness relative to other service providers, if any, that Centerbridge considers to be comparable. It should be noted that relevant comparisons are not always available for a number of reasons, including, without limitation, as a result of a lack of substantial market of providers or users of such services or confidential and / or bespoke nature of such services.

From time to time, multiple service providers with overlapping capabilities are engaged in order to provide what Centerbridge considers to be the appropriate level of attention to a particular need. Various approaches apply to the services performed for a given entity or entities (depending on applicable facts or circumstances) and to the pricing methodologies for such services, affecting the actual cost of such services, including, but not limited to, hourly rates, fixed fees, performance-based fees, contingency fees and other arrangements. The same service provider may act for the Firm and its affiliates, and also for the clients, on various matters, with various approaches to fees that are a function of the specific mandate. From time to time, discounts apply (including those that are task- or transaction-based, or that reflect a “broken deal” or otherwise unfinished mandate).

In addition, Centerbridge engages one or more fund administrators to perform certain functions for the clients, including but not limited to, execution and recordkeeping associated with applicable tax elections and filings, support for Centerbridge’s valuation process and support of certain investor correspondence, investor data management and reporting requests as well as data collection required for various regulatory reporting with which a client is obligated to comply. Certain employees of





such fund administrators dedicate substantially all of their time to Centerbridge funds. In certain circumstances, service providers charge different rates or have different arrangements for services provided to Centerbridge or its affiliates as compared to services provided to the clients and / or their portfolio companies, which can result in more favorable rates or arrangements with respect to services provided to Centerbridge, the clients and / or their portfolio companies by a common service provider than otherwise would apply, the impetus of which may have been the volume of work given to the service provider by such persons. In such circumstances, one or more of such persons (including Centerbridge) may be receiving a benefit that was derived, at least in part, by work paid for by other such persons. Centerbridge does not condone seeking discounts from service providers for services for Centerbridge in exchange for mandates for the clients or portfolio companies, nor does Centerbridge condone seeking discounts in a manner that would involve less favorable treatment for the clients relative to Centerbridge. While rare, in circumstances that involve the provision of goods or services by a service provider affiliated with Centerbridge or a particular client or portfolio company to another person affiliated with Centerbridge, a particular client or another portfolio company, or services performed for multiple clients or portfolio companies by a single, unaffiliated service provider, various additional considerations often apply, resulting in conflicts analysis and other measures intended to reduce, monitor and mitigate conflicts, and disclosures and other measures as are required by the governing documents of the clients and the requirements of the U.S. Investment Advisers Act of 1940, as amended ("Advisers Act"). Please also refer to Item 11.

As noted in Item 6 and above, in the case of certain clients, certain in-house costs also are allocable to such clients.

From time to time, Centerbridge, the clients or portfolio companies may receive products or services from third parties, the costs and expenses of which are allocable (in whole or in part) between or among Centerbridge, the clients and / or the portfolio companies. Centerbridge allocates such expenses among those parties in the manner prescribed by the applicable governing documents for such clients, and in cases where costs and expenses are properly allocable between or among multiple parties, the allocation would be done in a manner that Centerbridge considers to be fair and equitable, taking into account factors such as the actual or estimated relative benefits to each applicable party of the expense-generating item (which typically would include consideration of the funds' relative position sizes in an expense-generating investment). Oftentimes the approach to allocation requires reasonable approximations in Centerbridge's good faith judgment and is not reasonably susceptible to precise allocations, which may result in the clients bearing more than their share on some occasions and less than their share on others, which Centerbridge believes will yield a fair result over time. Such allocation of expenses will, in certain circumstances, be calculated based on capital commitments, invested capital, available capital or other metrics as determined by Centerbridge in its good faith judgment. Any such methodology (including the choice thereof) involves inherent judgment and potential for conflicts and necessarily results in allocations that involve approximation and that are not perfectly precise for one or more reasons.



A conflict of interest arises with respect to Centerbridge's determination whether certain costs or expenses that are incurred in connection with the operation of a client meet the definition of partnership expenses for which such client is responsible, or whether such expenses should be borne by Centerbridge. The clients will be reliant on the determinations of Centerbridge in respect of this analytical process, part of which is likely to involve making subjective determinations, and Centerbridge may be conflicted in making such determinations. From time to time, subsequent review of allocations could result in an identification of expenses that should have been allocated in a different manner, in which case measures would, as a general matter, be undertaken to correct such occurrence, which might include a reversal of the original expense allocations, if possible, or such other equitable adjustment determined by Centerbridge, in its discretion, to be the most appropriate corrective measure. There can be no assurance that allocation errors will not arise or that corrective measures will be possible in all circumstances.

From time to time, Centerbridge, the clients and / or any co-investment vehicles (or portfolio companies) managed by Centerbridge use subsidiaries or investment vehicles, the costs and expenses of which are allocable (in whole or in part) between or among Centerbridge and / or such clients and vehicles (or portfolio companies). A conflict of interest could arise in Centerbridge's determination of whether certain costs or expenses that are incurred in connection with the operation of a client are expenses for which that client is responsible or whether such expenses should be borne, in whole or in part, by other clients or vehicles (or portfolio companies) or by Centerbridge. The potential liquidation of a particular subsidiary or a withdrawal / redemption from a client investing in such subsidiary could lead to a situation whereby it is considered by Centerbridge to be necessary or advisable for investments held by such trading subsidiary to be sold when another client otherwise might not sell if the asset were held directly by that other client, which could affect that other client's return on such investment.

In the event break-up or topping fees are paid to Centerbridge in connection with a transaction that is not ultimately consummated, co-investment vehicles that invest alongside the Capital Partners Funds, the Real Estate Funds or other clients generally will not be allocated any share of such break-up or topping fees; similarly, non-committed co-investors or co-investment vehicles (including, for the avoidance of doubt, dedicated or standing co-investment vehicles described above) generally do not bear their share of broken-deal expenses for unconsummated transactions (including any costs associated with raising co-invest capital) in which they would have participated if the relevant transaction had been consummated, even when such co-investors or co-investment vehicles commonly invest alongside a client (the SBS Co-Invest Vehicles are committed co-investment vehicles for Centerbridge personnel and participate in all investments made by the applicable Capital Partners Fund and / or Real Estate Fund, as applicable, and as such would bear their *pro rata* portion of any such expenses). The participating clients bear their proportionate share of the amount that otherwise would have been allocated to any such co-investor or co-investment vehicle.



Within a Fund or with respect to the investors in a client, while Centerbridge has the authority to make special allocations, expenses relating to a particular investment made by the Fund would generally be borne by investors participating therein, while other expenses, unrelated to a specific investment actually made by the Fund, would generally be borne by all investors on a *pro rata* basis. Accordingly, broken-deal expenses borne by a Fund, unrelated to an actual investment already held by such Fund, would, as a general matter, be allocated to all investors in such Fund at the time such expense was incurred. For example, in the case of the Credit Partners Funds, expenses associated with transactions that are not consummated (including with respect to any transaction that potentially might have been determined to be a Special Investment had it been consummated) are allocated to the general portfolios of such Funds.

Centerbridge endeavors to accrue for all estimated fees and / or expenses in accordance with U.S. GAAP; however, receipt of actual invoices from vendors or service providers for fees and / or expenses often lags behind the period in which services were performed for the clients and actual amounts may differ from estimates such that an investor bears a different portion of such fee and / or expense than would have been the case if the fee and / or expense were accrued contemporaneously with the invoice.

#### C. Other Fees; Impact on Management Fee.

Centerbridge or its affiliates have on occasion received and expect in the future on occasion to receive compensation in connection with financial transactions structured by Centerbridge or its affiliates (which does not include fees received by portfolio companies) in which the Funds invest, which compensation reduces all or a portion of the Management Fees paid by the Funds. In the event Centerbridge does not charge a Management Fee to a Fund or other person, Centerbridge will be entitled to retain the portion of such compensation allocable to such Fund or other person, except as otherwise provided in the applicable Fund's governing documents. In the case of the Funds, compensation that results in a reduction in the Management Fee includes, for example, break-up and topping fees, monitoring and directors' fees, organization fees, set-up fees, consulting fees, management fees, closing and transaction fees and other similar fees. The Funds' governing documents do not require an offset in the case of consultants who provide services to portfolio companies or, as a general matter, where an employee of Centerbridge serves in a bona fide management capacity at a portfolio company or, in the case of certain Funds (as provided in the applicable Fund's governing documents), fees for property management services. In addition, for example, from time to time employees of Centerbridge serve as directors or advisory board members of certain portfolio companies or other entities. In connection with such services, Centerbridge or its representatives at times receive directors' fees or other similar compensation attributable to such employees' services. In some instances, corporate policies or other legal, regulatory or similar considerations may result in Centerbridge or its board designees purchasing shares of such company and / or receiving compensation for board service in the form of shares. Such amounts have not been, and are not expected to be, material. The extent of the offset (whether full or partial), the timing of offsets and



the types of compensation resulting in such an offset, is specified in the governing documents of the applicable Fund. Offsets for fees received in connection with transactions with or by Other Vehicles potentially differ from the offset arrangements entered into with Funds, and are specified on a case-by-case basis in the advisory agreement or other governing documents for such Other Vehicle. Centerbridge endeavors to apply offsets in the same accounting period in which such offset amount was received; however, it is not uncommon that such offset occurs in an accounting period subsequent to the period in which such fee was paid or earned.

Centerbridge and its personnel can be expected to receive certain intangible and / or other benefits and / or perquisites arising or resulting from its or their activities on behalf of the clients which will not be subject to Management Fee offset or otherwise shared with the clients. For example, credit cards used to incur client expenses, hotel chains or other merchants may provide for “points,” or other “rewards” and airline travel may result in “miles” or credit in loyalty / status programs, and in each case such benefits and / or amounts will, whether or not *de minimis* or difficult to value, inure exclusively to Centerbridge and / or such personnel (and not the clients, investors in the clients or portfolio companies) even though the cost of the underlying service is borne by the clients and / or portfolio companies. Centerbridge endeavors to deploy points, miles or similar rewards accrued by it, where possible, in a manner that facilitates its ability to execute Centerbridge’s business overall, including its responsibilities to the clients, which includes defraying expenses that are not in and of themselves client expenses.

Centerbridge engages and retains senior advisors and other similar consulting professionals who are not employees or affiliates of Centerbridge and who may, from time to time, receive payments from, or allocations with respect to, portfolio companies (as well as from Centerbridge or one or more clients). In such circumstances, such payments from, or allocations with respect to, portfolio companies and / or a client will not be deemed paid to or received by Centerbridge and such amounts will not be subject to the offset provisions described above, even if they have the effect of reducing any retainers or minimum amounts otherwise payable by Centerbridge. Centerbridge from time to time determines that alignment of interests in relation to an investment is enhanced when a consultant, such as senior advisor, or other professional involved in such investment, has the opportunity to co-invest alongside the clients, including in those investments in which they are involved, or otherwise participate in equity plans for management of any such portfolio company. Such arrangements can be a form of payment for services rendered to a client or portfolio company, and can give rise to expenses to a portfolio company and / or the clients, including audit and other expenses. Additionally, and without limiting the foregoing, certain of these senior advisors and / or other similar consulting professionals are investors in one or more of the clients and / or their subsidiaries. The nature of the relationship with each of the senior advisors and / or other similar consulting professionals and the amount of time devoted or required to be devoted by them varies considerably. In certain cases, they provide Centerbridge with industry-specific insights, assist in transaction due diligence, or make introductions to and provide reference checks on management teams. In other cases, they take on more extensive roles and serve as executives or directors on the boards of portfolio companies



or contribute to the origination of new investment opportunities, or make introductions to and provide reference checks on management teams. They also may contribute insights in relation to other topics of importance to portfolio companies, such as environmental, social and governance (or ESG) and diversity, equity and inclusion (or DEI) topics. In certain instances, Centerbridge has formal arrangements with these senior advisors and other consultants and / or other professionals, and in other cases the relationships are more informal. It is not uncommon for these arrangements to include some form of exclusivity. Senior advisors and other consultants and / or other professionals may either be compensated (including pursuant to retainers and expense reimbursement) from Centerbridge, a client and / or portfolio companies or otherwise uncompensated unless and until an engagement with a portfolio company develops. Any such compensation can take the form of a management fee and / or profits allocation (whether paid directly to such individuals and / or to an affiliated entity controlled by such individuals), which may be calculated as a percentage of assets under management and / or a waterfall similar to a carried interest, respectively. There can be no assurance that any of the senior advisors and / or other similar consulting professionals will continue to serve in such roles and / or continue their arrangements with Centerbridge, the clients and / or any portfolio companies throughout the duration of a particular investment or the clients. In certain cases, the nature of the services performed by such persons may warrant their presence from time to time or on a periodic basis at Centerbridge's offices and involvement in meetings at or with Centerbridge, and may benefit from the ability to utilize certain aspects of Centerbridge's technology or other infrastructure or the ability to present themselves as service providers to Centerbridge and / or its portfolio companies. Such persons may assist Centerbridge in a range of activities consistent with their skills and experience and at times serve as directors for Centerbridge's portfolio companies, activities that could comprise a significant portion of such persons' overall business activity. Certain similar features can apply to other service provider arrangements. Centerbridge makes determinations to apply certain of its policies to certain of such persons for legal and regulatory purposes. The foregoing relationships are third-party service arrangements with persons who are not considered employees of Centerbridge or its portfolio companies, although elements of such arrangements may have some overlap with characteristics applicable to employees. The terms of these consulting arrangements do not require the services of such consultants, and such services will not necessarily be available, for the duration of a specific client or investment.

Similarly, certain strategic co-investors who in certain instances are also investors of one or more Funds, in their capacity as a strategic co-investor, would be entitled to certain information or have other rights, including the right to receive fees (e.g., if such strategic co-investor serves as a member of the board of directors of the relevant portfolio company), not generally provided to investors in the clients or other co-investors (who may or may not be investors of the Funds). It is expected that any such fees paid to a strategic co-investor would not be allocated to the client or Centerbridge and would not offset any management fees.

The provisions relating to whether or not management fees are offset by any amounts paid by portfolio companies for certain services of members of



Centerbridge's portfolio operations team are a function of the terms of the governing documents of the clients. Differences in offset obligations create a potential incentive for Centerbridge to allocate such services to those clients as to which an offset does not apply. On the other hand, there can be no assurance that members of the portfolio operations team will be able to provide their services to portfolio companies and / or that any individuals within the portfolio operations team will remain employed by Centerbridge through the duration of any client. The actual amount of time spent on a particular portfolio company differs depending on, among other factors, Centerbridge's assessment of the portfolio company's needs and whether Centerbridge sees the opportunity to drive value creation in the business through such team members, in each case, on a comparative basis to the needs of, and opportunities with respect to, other portfolio companies.





## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Centerbridge currently accepts performance-based compensation from every client (other than (a) co-investments made in parallel with one or more clients, including (i) employee co-investment vehicles and (ii) certain investment-specific co-investments and (b) certain Other Vehicles), and as described in Item 5, the percentage amounts upon which such compensation is calculated, the timing of the calculation of such compensation and the use of unrealized gains in such calculation differ among clients. In addition, the allocable expenses borne by each of the clients are as provided by the governing documents of such clients, which vary by client (including, for example, in relation to in-house costs, which are allocable only to certain clients, as described earlier). As a result of such factors, Centerbridge has a potential incentive to allocate limited investment opportunities to, or make other determinations that take into account, the clients from whom the greatest performance-based compensation could be earned or to make riskier or more speculative investments. In addition, certain Centerbridge personnel participate in Centerbridge's performance-based compensation with respect to one or more clients (and / or the percentage interest held by a particular personnel member may be greater as a function of a particular client or strategy) and accordingly have a potential incentive to make valuation and allocation decisions based on such participation. Such conflicts also could affect the manner in which Centerbridge determines the responsibilities of its personnel performing administrative functions. Centerbridge's Conflicts of Interest Policy and its Valuation Policy, which are available to investors and prospective investors as described in Item 8, address these and other conflicts of interest, including topics discussed in this Item 6, and in Items 10 and 11.





**ITEM 7**  
**TYPES OF CLIENTS**

Centerbridge provides investment advice to pooled investment vehicles, such as the Funds, and to separately managed accounts, such as Martello Re, as described above.



## ITEM 8

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

*Centerbridge has summarized information regarding the Funds and, in doing so, has incorporated excerpts from the confidential private placement memoranda for the most recent vintage of the Funds and investors and prospective investors are strongly encouraged to read the entire confidential private placement memorandum of the applicable Fund or Funds, a copy of which, in the case of a specific Fund or Funds being offered, has been provided with this Brochure.*

#### A. Methods of Analysis and Investment Strategies.

*The descriptions set forth in this Brochure of specific advisory services that Centerbridge offers to clients, and investment strategies pursued and investments made by Centerbridge on behalf of its clients, should not be understood to limit in any way Centerbridge's investment activities, including offering any advisory services, engaging in any investment strategy and making any investment, including any not described in this Brochure, that Centerbridge considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies Centerbridge pursues are speculative and entail substantial risks. Investors should be prepared to bear an entire loss of capital. There can be no assurance that the investment objectives of any client will be achieved.*

#### 1. Credit Funds

The Credit Funds employ a multi-pronged analytical approach to private credit investing that combines elements of traditional value investing (assessing the long-term intrinsic value of an investment in relation to its market price and focusing on those situations where value and price meaningfully diverge) together with event and legal analysis. Through such analysis, Centerbridge seeks to consistently assess the risks of each investment and the Credit Funds' portfolios as a whole – in particular, the risk of a permanent loss of capital as opposed to mark-to-market price fluctuations – with a view toward generating superior risk-adjusted returns. The investment strategy revolves around a disciplined research process and is based on the belief that a thorough understanding of a company and its industry is essential to generating positive absolute returns. Centerbridge expects to apply its substantial experience in analyzing and assessing a company's valuation, capital structure, financial performance and underlying industry dynamics in order to capitalize on market imbalances, event-driven situations and other mispriced opportunities. Such investments might include issuers who are the subject of corporate reorganizations, restructurings, liquidity crises, mergers, spin-offs, leveraged buyouts or credit rating changes or other situations when the market may be mispricing an asset's intrinsic value.

The Credit Funds seek to minimize downside risk and protect principal by performing intensive research and actively monitoring the risk of each investment (including leveraging Centerbridge's private equity diligence and portfolio operations



experience). In general, with respect to investments in restructuring transactions, Centerbridge tends to focus on senior or secured debt issued by North American and European domiciled companies in light of the downside protection inherent in such instruments and their superior legal rights in Chapter 11 or similar statutory reorganization contexts. The Credit Funds expect to also invest in areas outside North America, in Europe in particular. In pursuit of their investment objectives, the Credit Funds are permitted to use leverage and at times may do so. Among the ways the Credit Funds seek to manage potential downside risk is the use of hedging techniques, which may include interest rate, currency or other forms of hedging through options, forwards, derivative contracts (including credit default swaps with one or more reference assets) or other instruments.

The Martello Advisor employs a related investment strategy for Martello Re, subject to specific limitations specified in its management agreement.

## **2. Capital Partners Funds**

The control-focused Capital Partners Funds pursue an investment strategy capable of deploying capital in varying of economic environments. Accordingly, the sourcing, execution and value creation processes of the Capital Partners strategy were designed to invest in businesses using a dynamic but repeatable approach, while carefully managing risk. Centerbridge is focused on making investments that are priced attractively relative to their intrinsic value, including the potential for post-acquisition value creation.

The Capital Partners Funds can deploy capital flexibly across transaction types (including thematic and opportunistic buyouts and structured equity investments) and throughout the economic cycle, without the need to depend on any one discipline at a time when there is a dearth of available opportunities. Centerbridge's unified team consists of a mix of career private equity, credit and real estate-focused investment professionals and draws deeply on other in-house specialist resources. Centerbridge's focus on intrinsic value involves assessing the appropriate valuation to pay for a business's tangible and intangible assets and its future cash flows relative to risk. Centerbridge's value creation efforts involve actively partnering with the management of our portfolio companies to improve their businesses during our period of ownership.

*Buyouts.* Buyouts in the context of the Capital Partners Funds tend to be control investments in the equity of a business, but with an attention to acquiring attractive, growing companies at reasonable prices. The Capital Partners Funds' strategy is designed to invest in a variety of growth stages. Higher growth businesses warrant a higher multiple, and Centerbridge maintains a disciplined internal view of the appropriate threshold of price vs. growth.

In thematic buyouts, Centerbridge applies deep sector knowledge in situations where Centerbridge can underwrite future performance confidently due to a particular insight into the business, industry, strategy or management, often as a result of a sector team's deep research. Centerbridge's thematic sourcing model was developed



with intrinsic value in mind as Centerbridge typically focuses on developing differentiated themes, which often reflect second- or third-order derivatives of larger structural trends in a given industry. These are themes that allow Centerbridge to avoid “crowded trades” where price discipline is likely to impede one’s ability to win an auction. Centerbridge’s deep work on thematic areas of interest allows Centerbridge to gain significant conviction, move quickly and differentiate itself in competitive situations. This can create favorable process dynamics and lead to exclusivity, allowing Centerbridge to maintain its focus on intrinsic value throughout execution.

*Structured Equity.* The nature and requirements of structured equity investing align well with Centerbridge’s flexible mandate and cross-platform collaboration. These investments combine private equity industry experience, sourcing and portfolio company management capabilities with the creativity and structuring solutions inherent in Centerbridge’s credit business. These investments tend to meet Centerbridge’s control investment return targets with a more conservative risk profile – equity-like returns with debt-like risk. This typically involves investing in an equity position of significant influence or control (with all of the attendant portfolio company management tools and approaches), while limiting downside with tools from Centerbridge’s credit toolkit, including liquidation preferences, put rights / repurchase features or maturities that would be typical for certain classes of preferred stock and subordinated debt instruments. By design, structured equity investments generate returns within a narrower band, providing “ballast” to the overall Capital Partners Funds’ portfolio.

Structured equity investments tend to be heterogeneous, reflecting the often bespoke nature of these investments. In some cases, these are bilateral situations in which a counterparty cannot or does not want to access traditional capital markets for subordinated debt or preferred equity for a variety of reasons. In other situations, a structured equity investment is presented as an alternative to a typical sale; Centerbridge has found that many sellers, particularly those who remain bullish on the environment or the performance of the business, are willing to offer investors attractively priced downside protection. In other instances, Centerbridge acts as a solutions provider to a business owner, for instance, providing capital to a family that wants to retain control of its business or carving out a business from a larger conglomerate that is required to make divestitures for regulatory or strategic reasons.

*Opportunistic Buyouts.* Centerbridge remains agile so that it can capitalize on opportunities that are attractive for more opportunistic reasons. In some of these situations, Centerbridge is able to navigate a particularly complex transaction dynamic (e.g., corporate carve-outs). In others, Centerbridge uses its structuring and process acumen to design customized solutions for sellers, navigate more complex legal processes or invest in highly regulated industries.

Notably, these opportunistic buyouts often involve control opportunities in stressed or distressed companies which can take a number of different forms. Most traditionally, in distressed-for-control investments, Centerbridge invests in a company’s



loans or debt instruments with the goal of guiding the company through a restructuring and emerging with control or significant influence. This part of Centerbridge's strategy draws heavily on Centerbridge's deep experience in credit markets and restructuring. As part of its cycle readiness efforts, each sector team maintains a "watch list" of companies that are fundamentally sound businesses with potentially unsustainable capital structures that could provide attractive future opportunities. Sector teams monitor the trading levels of the public debt of these businesses, and when an opportunity becomes actionable, Centerbridge's active trading and capital markets capabilities provide a competitive advantage in executing purchases of debt in secondary market transactions. Centerbridge then leverages its deep bankruptcy and restructuring experience in navigating process complexity to achieve the outcome of having control or influence in the governance of the reorganized company. Once the target company emerges from the restructuring with a new leverage profile, Centerbridge treats it as it would any other private equity investment and applies a methodical approach to implementing a value creation plan that was established as part of the underwriting and emergence planning.

### **3. Real Estate Funds**

The Real Estate Funds continue Centerbridge's historical approach to real estate investing by seeking investments throughout the capital structure where Centerbridge identifies and believes it has the opportunity to create or capture value across three types of real estate transactions: properties, companies and loans & securities. The Real Estate Funds employ Centerbridge's value-oriented approach with an emphasis on downside protection and invest when it believes the market price of the company, instrument or asset is meaningfully below the intrinsic value of its underlying real estate.

*Companies.* Centerbridge invests in companies where it can own or control a high-quality real estate company at what it believes to be a meaningful discount to the intrinsic value of such company's assets or where Centerbridge believes its basis compares favorably to its expectations for the company's future earnings prospects. Centerbridge often seeks companies where it sees the opportunity to improve operations and / or management (bringing to bear the skills of Centerbridge's portfolio operations team), benefit from the existing management team's deep experience, accretively invest additional capital into accretive capex or add-on acquisitions, improve the company's capital structure (*e.g.*, amount, cost, duration and / or covenants of financing) and / or expand the company's market position in a fragmented asset class. From the outset of each investment, the team is focused on optimizing its exit value and all strategic, capital and operational changes are made with the goal of creating a business that will be more highly valued by potential buyers at the time of a sale.

Centerbridge is flexible in its approach to taking ownership or control of companies, as there are multiple paths to making an investment in a company. While an investment in the equity of a solvent company is a common way to do this, an investment in the debt of a financially distressed company could also result in a control / ownership position if that debt ultimately converts to equity. Further, there are times when



Centerbridge may have high conviction in a theme, but it may be an expensive asset class and therefore difficult to find ways to invest at attractive prices. In such instances, Centerbridge may seek to partner with a team it believes is best-in-class to create its own platform.

*Loans & Securities.* Centerbridge invests in loans & securities when it can acquire a position at what it believes to be a meaningful discount to the intrinsic value of the real estate collateral and / or where it believes it can create or capture value in a special situation by influencing or controlling a workout or reorganization. Securities investments encompass both debt and equity opportunities. Investing in loans & securities also gives Centerbridge the ability to invest in dislocations in equity markets, particularly in areas where the Real Estate Team has developed conviction through its thematic work.

*Properties.* Centerbridge invests in properties when it believes that it can invest in an asset or portfolio of properties in a market with highly favorable supply / demand dynamics at a price that reflects a meaningful discount to Centerbridge's view of intrinsic value or replacement cost. and may collaborate with local operating partners to seek to drive value creation.

The Real Estate Team uses its versatile playbook to create a detailed value creation plan for each property with a goal of unlocking multiple ways to improve value. When assessing potential investments, the asset management-focused members of the Real Estate Team closely evaluate the quality of the investment and the feasibility of the value creation plan in terms of time, resources and talent necessary for a successful outcome. Once Centerbridge owns a property, the Real Estate Team seeks to improve the asset, often in partnership with highly experienced local operating partners, through targeted capital expenditures or by implementing operational improvements. Centerbridge often invests in properties where it believes that the complexity of the asset's operations, capital structure or ownership structure masks the real estate's true value.

**B. Material, Significant or Unusual Risks Relating to Investment Strategies.**

*The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in one or more of the clients. These risk factors include only those risks Centerbridge believes to be material, significant or unusual and that relate to particular significant investment strategies or methods of analysis employed by Centerbridge. In addition to those risks relating to the clients' strategies and investments that are specifically discussed in this Item 8, Centerbridge has included a non-exhaustive discussion of other risks that Centerbridge believes may affect such strategies and investments. Centerbridge also makes additional risk- and conflict-related disclosures in the Confidential Private Placement Memoranda of the Funds, and makes various other documents available to investors and prospective investors that bear on various risks and conflicts associated with an investment in the Funds, including its Code of Ethics, Proxy Voting Policy, Conflicts of Interest Policy (which includes a discussion of allocations) and Valuation Policy, as noted elsewhere in this Brochure. The*





*risks described below are risks that Centerbridge considers to be of potentially greater significance relating to the clients as of the date of this Brochure. Additional risks and uncertainties not currently known to Centerbridge, or that have not been noted in this Brochure (or other documentation available to investors), also may have a negative or adverse effect, which could be material, on the performance of the clients. The order in which the risks are presented below is not intended to provide an indication of the likelihood of their occurrence or of their magnitude or significance.*

**Broad Investment Mandate.** An investor in a client must rely upon Centerbridge's ability to identify, structure and implement investments that Centerbridge believes are consistent with such client's overall investment objectives and policies at such times as it determines. There are few material limitations on the Instruments,<sup>15</sup> markets or countries in which the clients may invest or the specific investment strategies that may be employed on behalf of the clients. While a client's primary investment objective may focus on (i) control and control-oriented investments, (ii) non-control and non-control-oriented, or (iii) real estate-related investments, each client is permitted to make control, control-oriented, non-control and non-control-oriented investments, including real estate-related investments. Additionally, the clients will be permitted to invest (and may actually invest) in any number of companies operating in a wide range of

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<sup>15</sup> For purposes of this section, "Instruments" means interests, assets or claims of any kind commonly referred to as securities and other financial instruments of U.S. and foreign entities, including, but not limited to, capital stock; participation rights in or shares of beneficial interests; ADRs, PIPEs, partnership interests and similar financial instruments; bonds, notes, bills, debentures (whether subordinated, convertible or otherwise); loans (either originated by a Fund or by any third party, whether directly or through participations or sub-participations) including bridge loans (funded or unfunded); currencies; commodities; interest rate, currency, commodity, credit, equity and other derivative products, including (i) forwards and futures contracts (and options thereon) relating to stock indices, currencies, U.S. Government securities and securities of foreign governments, other financial instruments and all other commodities; (ii) swaps, options, warrants, caps, collars, floors and forward rate agreements; (iii) spot and forward currency transactions; (iv) collateralized loan obligations, collateralized bond obligations and collateralized debt obligations; (v) repurchase and reverse repurchase agreements; and (vi) agreements relating to or securing such transactions; structured finance instruments; accounts and notes receivable and payable held by trade or other creditors; trade acceptances; contract and other claims; executory contracts; participations therein; mutual funds, exchange traded funds and similar financial instruments; money market funds; obligations of the United States, any state thereof, foreign governments and instrumentalities of any of them; real estate, including, but not limited to, fee interests, leaseholds, mortgage loans, mortgage-backed securities, mortgage-backed obligations issued or collateralized by U.S. federal agencies (including fixed-rate pass-throughs, adjustable rate mortgages, collateralized mortgage obligations, stripped mortgage-backed securities and real estate mortgage investment conduits), other real estate or real estate-related assets; equipment lease certificates; equipment trust certificates; physical and intangible assets (which could include physical assets such as aircraft, ships, timber, oil and gas, real property, and other hard assets, and intangible assets such as litigation claims and intellectual property claims or rights and other intangible assets); commercial paper; certificates of deposit; bankers' acceptances; choses in action; trust receipts; any type of financial claim; and other obligations and instruments or evidences of indebtedness of whatever kind or nature that exist now or are hereafter created, in each case, of any person, corporation, government or entity whatsoever, whether or not publicly traded or readily marketable.



industries, sectors or activities. Subject to the terms of the applicable client's governing documents, investors have no assurance as to the degree of diversification of the investments, either by issuer, strategy, asset type, security, geographic region, sector or location in the capital structures of the issuers in which the clients invest; this applies even within the context of the broad real estate-related investment program of the Real Estate Funds. There is no requirement that a client maintain a specific balance between private equity and distressed and structured transaction investments at any point in time and there are limited formal diversification and other portfolio construction requirements to which the clients are subject, as set forth in each client's governing documents. Subject to the foregoing, clients may make investments throughout the capital structure such as, without limitation, mezzanine securities, senior secured debt, bank debt, unsecured debt, convertible bonds and preferred and common stock and across asset classes such as public equity, structured equity, minority private equity and credit, in each case so long as such investments meet the investment objectives of the clients.

**Limited Number of Portfolio Investments; Concentration.** The number of investments in which a client is invested is, at times, limited and may be concentrated, including, for example during ramp-up or harvest periods. Investors in a client generally have no assurance as to the degree of diversification of such client's investments, either by issuer, strategy, asset type, Instrument, geographic region, sector or location in the capital structures of the issuers in which a client invests, or other measures. Should multiple clients be invested concurrently in the same investments or sectors, then additional concentration can arise, taking such clients into account. In this regard, it should be noted that Centerbridge generally disfavors dispersing the portfolio of certain clients (as described in such client's governing documents) among a profusion of smaller positions, particularly where such positions are less liquid, and this is among the factors that may be relevant to Centerbridge's determination that an investment is not suitable for one client but could be suitable for another. Such determinations are made by Centerbridge in its discretion, taking into account Centerbridge's perspective of the return profile and position duration for such investment in the context of each client's overall investment program.

To the extent a client concentrates investments in a particular issuer, strategy, asset type, Instrument, geographic region, sector or location in the capital structure, its investments will become more susceptible to fluctuations in value resulting from adverse economic, political, geopolitical, regulatory, technological, industry or business conditions with respect thereto. As a consequence, the aggregate return of such client would be adversely affected by the unfavorable performance of one or a small number of investments. At points in time, each client's portfolio, including those clients that are subject to geographic and diversification requirements, is likely to be concentrated – whether by issuer, strategy, asset type, geographic region, sector, location in the capital structures of the issuers in which it invests or other measures. For example, during the initial phase of a client's capital commitment period, such client may acquire portfolio positions in quantities based on its anticipated client assets under management in the future. Consequently, the client could hold more concentrated positions than it otherwise would if and when the client reaches its target level of assets under



management, and may hold an investment in excess of the percentage of the then-current capital commitments specified in such client's investment limitations. As a result, investors who participate in earlier closings are expected to be subject to capital calls that will require such investors to initially make capital contributions in excess of what their expected long-term proportionate interest will be. Depending on the number of investors who participate in earlier closings and when the client begins investing, such amounts may be material, resulting in a less diversified portfolio of investments. For the avoidance of doubt, the investment limitations for such clients will be measured at the time each investment is consummated and such client is not obligated to dispose of any investment as a result of the foregoing, except as may be set forth in such client's governing documents. The client's returns could be adversely affected by the unfavorable performance of one or a small number of such client's investments. Concentration also can exist at other times during or after such client's capital commitment period, including as such client ramps up and later as the harvest period progresses. There are no assurances that all of the clients' investments will perform well or even return capital. If certain investments of a client perform unfavorably, for such client to achieve above-average returns, one or a few of its investments must perform very well. There are no assurances that this will be the case.

**Syndication of Investments.** The governing documents for certain of the clients provide that such client's portfolio may exceed certain investment and diversification threshold limits if Centerbridge reasonably expects to reduce such investment to below such limits within a certain period of time. However, if this expectation is not realized, for example, because it cannot sell, assign or successfully close a participation in the investment, or market changes make it imprudent to sell, assign or offer participations, such client may retain such investments at the higher limit for an indeterminate period of time. In this case, the risks discussed herein with respect to exposure to investments in connection with a client will apply to such client as a whole and could significantly reduce such client's overall investment returns.

The clients will make certain investments with the expectation of offering a portion of their interests therein potentially as a co-investment opportunity to investors and / or other third-party investors, or otherwise transferring a portion of their interest to one or more other counterparties. There can be no assurance (i) that the clients will be successful in syndicating such interest, in whole or in part, (ii) that the closing of such syndication will be consummated in a timely manner, (iii) that the syndication will take place on terms and conditions that will be preferable for the clients or (iv) that expenses incurred by the clients with respect to such syndication will not be substantial. If the clients are not successful in syndicating such interest, the clients may consequently hold a greater concentration and have more exposure in the related investment than initially was intended or it otherwise would have, had more of the investment been syndicated to a co-investor (and / or the expenses associated therewith, including if the investment does not close, *e.g.*, the entire portion of any fees, costs and expenses related to such investment including, but not limited to, break-up fees), which could make the clients more susceptible to fluctuations in value resulting from adverse economic, political, geopolitical, regulatory, technological, industry and / or business conditions with respect



thereto. Moreover, an investment by the clients that is not syndicated as originally anticipated could significantly reduce the clients' overall investment returns. Conversely, the inclusion of other investors may result in the clients investing less than they otherwise would have in the related investments.

**Competition for Investments.** The activity of identifying, completing and realizing on attractive private equity, real estate, distressed and other similar investments is highly competitive and involves a high degree of uncertainty. The clients expect to encounter competition from other funds or similar market participants having similar investment objectives and others pursuing the same or similar opportunities. Potential competitors include other investment partnerships and corporations, business development companies, strategic industry acquirers and real estate investment vehicles, as well as individuals, publicly traded real estate investment trusts as defined within the meaning of section 7704 of the Internal Revenue Code of 1986, as amended ("REITs"), financial institutions (such as mortgage banks), sovereign wealth funds, private investment funds and other institutional investors investing directly or through affiliates. New competitors continually enter the market, and in some cases existing competitors combine in a way that increases their strength in the market. Further, over the past several years, an ever-increasing number of private equity, real estate, publicly traded REITs and distressed debt funds have been formed (and many such existing funds have grown in size). Additional funds with similar investment objectives can be expected to be formed in the future by other unrelated parties. Additionally, competition for investment opportunities from other investment vehicles has increased on a global scale. Private equity and other alternative asset management vehicles, whether located in Europe, Asia or other emerging market regions, are making global competition increasingly intense. The clients will compete for investment opportunities in markets where local investors may be able to avail themselves of investment structures that are (or otherwise invest in a manner that is) relatively more tax efficient than structures used by or available to a pooled investment vehicle such as the clients. While Centerbridge has a London office, there can be no assurance that such office will provide for a local footprint that equals the resources available to competitors that are headquartered in the United Kingdom (the "U.K.") or any other non-U.S. jurisdictions. There can be no assurance that changes in the competitive dynamic outside the U.S. will not occur, or if they do occur, that such changes will not adversely affect or otherwise necessitate changes to Centerbridge's operations outside the U.S. Such competitors may have more relevant experience, greater financial or other resources and more personnel than Centerbridge and the clients. It is possible that competition for appropriate investment opportunities could increase further, thus reducing the number of opportunities available to the clients and adversely affecting the terms upon which investments can be made and increasing the costs to Centerbridge and the clients in order to remain competitive. The clients will, from time to time, incur bid, due diligence or other costs (including deposits which may not be refundable) on investments which are not consummated or are otherwise not successful. As a result, a client will not recover from such investments all of its costs, which will detract from returns. There can be no assurance that a client will be able to identify, locate, complete or exit investments satisfying its investment criteria or that such investments will satisfy such client's investment objective. Likewise, there can be no assurance that a client will



be able to realize upon the values of its investments or that a client will be able to invest its capital (including undrawn commitments). To the extent that the clients encounter competition for investments, returns to investors are likely to be negatively impacted.

**Highly Leveraged Companies.** The clients' investments have included and are expected to include companies whose capital structures have significant leverage either before or during a client's investment. Instruments issued by such companies may have limited covenants (*e.g.*, "covenant lite" Instruments), and the lack of robust covenants can increase the risk associated with an investment in such issuers. While investments in leveraged issuers offer the opportunity for capital appreciation and Centerbridge approaches leverage in a manner it believes to be prudent, such investments also involve a higher degree of risk. A client's investments involve varying degrees of leverage, which could magnify the impact of circumstances such as unfavorable market or economic conditions, public health crises, operating problems and other challenges that affect the relevant issuer or its industry, resulting in a more pronounced effect of such circumstances on the profitability or prospects of such issuers. In using leverage, issuers typically are subject to terms and conditions that include restrictive financial and operating covenants, which may impair their ability to finance or otherwise pursue their future operations or otherwise satisfy additional capital needs. Moreover, rising interest rates will, unless such rates are fixed pursuant to the terms of any such indebtedness, significantly increase such issuers' interest expense, causing losses and / or the inability to service debt levels. Lenders or other holders of debt senior to the debt positions held by the clients may be entitled to a preferred cash flow prior to the clients receiving a return on certain investments. If an issuer cannot generate adequate cash flow to meet its debt obligations, the investing clients are likely to suffer a partial or total loss of capital invested in the issuer, which depending on the size of the clients' investments, could adversely affect the return on the capital of the applicable clients. In addition, the COVID-19 Pandemic (as defined below) had a significant impact on certain companies, Instruments of which had been or are owned by some clients, impacting the performance of such companies and certain performance metrics related to compliance with certain applicable debt covenants.

**Credit Risk.** One of the fundamental risks associated with the clients' investments is credit risk, which is the risk that an issuer or borrower will not be able to make principal and interest payments on its outstanding debt obligations when due or otherwise defaults on its obligations to a client and / or that the guarantors or other sources of credit support for such persons do not satisfy their obligations. A client's return to investors would be adversely impacted if an issuer of debt Instruments or a borrower under a loan in which the client invests becomes unable to make such payments when due. Although the clients at times make investments that Centerbridge believes are secured by specific collateral the value of which may initially exceed the principal amount of such investments or a client's fair value of such investments, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, the clients could experience delays or





limitations with respect to their ability to enforce rights against and realize the benefits of the collateral securing an investment. Under certain circumstances, collateral securing an investment could be released without the consent of the clients or the clients' expected rights to such collateral could, under certain circumstances, be voided or disregarded. The clients' investments in secured debt may be unperfected for a variety of reasons, including the failure to make required filings by lenders, which could result in a client not having priority over other creditors as anticipated. Furthermore, in such circumstances, a client's right to payment and its security interest, if any, would be subordinated to the payment rights and security interests of any senior lender. Certain of these investments have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In addition, certain Instruments provide for in-kind payments, which have a similar effect of deferring current cash payments. In both cases, an issuer's ability to repay the principal of an investment may be dependent upon a liquidity event or the long-term success of the issuer, the likelihood of which is uncertain. With respect to a client's investments in any number of credit products, if the borrower or issuer breaches any of the covenants or restrictions under the indenture governing notes or the credit agreement that governs loans of such issuer or borrower, it could result in a default under the applicable indebtedness as well as the indebtedness held by the client. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. This could result in an impairment or loss of a client's investment or result in a pre-payment (in whole or in part) of a client's investment in the issuer. As it relates to all of the foregoing risks and related considerations, it should also be noted that the clients also have authority to invest in leveraged loans, high-yield Instruments, marketable and non-marketable common and preferred equity Instruments and other unsecured Instruments, each of which involves a higher degree of risk than senior secured loans.

**Loans and Participations.** Certain clients' investment programs include investments in significant amounts of loans and / or participations. These obligations are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; (iv) collateral posting obligations that may arise in connection with investments in revolving credit facilities or delayed draw term loans, which give rise to the risk of loss with respect to posted collateral; and (v) the risk that ownership through assignment is not feasible and a client may be required to hold its interest via a participation, which gives rise to counterparty credit risk and limitations on the ability of a client to directly enforce certain rights (*e.g.*, voting rights). In analyzing each loan or participation, Centerbridge typically compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the clients. Bank loans are frequently traded on the basis of standardized documentation which is used in order to facilitate trading and market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue





or that the same documentation will be used in the future. The settlement of trading in bank loans often requires the involvement of third parties, such as administrative or syndication agents, and there presently is no central clearinghouse or authority which monitors or facilitates the trading or settlement of all bank loan trades. Often, settlement will be delayed based on the actions of a third party or counterparty, and adverse price movements may occur in the time between trade and settlement, which could result in adverse consequences for the clients.

A client can acquire interests in loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a contracting party under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest and not with the borrower. In purchasing participations, the relevant client typically will not have the right to vote on matters requiring a vote of holders of the underlying debt and may have no right to enforce compliance by the borrower with the terms of the loan agreement, or any rights of set-off against the borrower, and such client may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, if a client were to hold a participation, it would assume the credit risk of both the borrower and the institution selling the participation to such client. In certain circumstances, investing in the form of participation may be the most advantageous or only route for a client to make or hold any such investment, including in light of limitations relating to local laws or the willingness of administrative agents or borrowers to allow a client to become a direct lender.

Where a client acquires a participation interest in a loan, the form of agreement documenting the acquisition can vary based on the contract law governing the debt. Where the contract is governed by New York law, the agreement is also generally governed by New York law and intended to be structured as a “true participation,” providing the client with a beneficial ownership right in the proceeds payable in relation to the bank debt. This structure can limit a client’s counterparty credit risk exposure against the institution selling the participation, and if the seller files for bankruptcy during the life of the agreement, the court may “ring-fence” proceeds related to the bank debt for the benefit of the client. Where the contract is governed by English law (or the law of another European jurisdiction), the agreement documenting the participation in many instances will be governed by English or such other local law and structured as a derivative agreement between a client and the institution selling the debt. This structure generally carries a higher risk for a client because the derivative agreement grants no beneficial ownership interest in the proceeds paid to the selling institution, providing the client with only an unsecured claim against the selling institution in the event of its bankruptcy during the life of the agreement.

While the CFTC and the SEC have finalized rules excluding many purchases of participation interests from the definition of “swap” or “security-based

swap,” there is a risk that certain derivative agreements documenting such purchases could still satisfy either definition. A transaction could satisfy either definition (or both) if structured as an exchange of payments based on the value of interest or another rate, instrument of indebtedness, or other financial or economic interest, transferring the financial risk without also conveying a current or future direct or indirect ownership interest in an asset. If found to be a security-based swap, this will be considered a “security” for purposes of the Securities Act, and the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). If found to be a swap, it would be considered a “commodity interest” for purposes of the U.S. Commodity Exchange Act of 1936, as amended (the “Commodity Exchange Act”) and, if it satisfies both the definitions of a “swap” and “security-based swap,” it would be considered a “mixed swap.” The implications of a derivative contract being a “security-based swap,” “swap” or “mixed swap” may result in increased regulatory requirements by the SEC, CFTC or both and could mean increased costs, liabilities and compliance risks on behalf of a client.

**Loan Origination.** The clients can acquire and / or originate loans and / or other debt Instruments (or pools thereof) with the intention of syndicating to third parties a portion or potentially all of its investment following the initial signing or consummation thereof. If a client is unable to sell, assign or successfully close transactions for participations in the loans that it acquires or originates, that client will be forced to hold its excess interest in such loans for an indeterminate period of time. This could result in a client’s investments being over-concentrated in certain borrowers.

**Debtor-in-Possession Loans.** From time to time, the clients will invest in or extend loans to debtors that have filed for protection under Chapter 11 of the U.S. Bankruptcy Code or equivalent protections under the laws of other jurisdictions. These debtor-in-possession (“DIP”) loans are most often revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans generally are less risky than many other types of loans as a result of their seniority in the debtor’s capital structure and because their terms have been approved by a federal bankruptcy court order, it is possible that the debtor’s reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender’s collateral might be insufficient to repay in full the DIP loan.

**Second Lien Loans.** The clients invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy, which can negatively affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in



insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products.

For reasons not necessarily attributable to any of the risks set forth herein (for example, supply / demand imbalances or other market forces), the prices of the debt Instruments in which the clients invest may decline substantially. It may not be possible to predict, or to hedge against, such “spread-widening” risk. Additionally, the perceived discount in pricing described herein may still not reflect the true value of the assets underlying debt Instruments in which a client invests, and therefore further deteriorations in value with respect thereto may occur following such client’s investment therein. In fact, after mid-2007, the market for many loan Instruments, including second lien loans, contracted significantly which made virtually all leveraged loan Instruments, particularly second lien loan Instruments, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan Instruments. There can be no assurance that the market for second lien loans will not experience future contractions.

**Mezzanine Debt.** The clients can invest in mezzanine debt. Mezzanine debt typically is junior to the obligations of an issuer to senior creditors, trade creditors and employees. The ability of a client to influence an issuer’s affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt Instruments often are issued in connection with leveraged acquisitions or recapitalizations in which an issuer incurs a substantially higher amount of indebtedness than the level at which it previously had operated. Default rates for mezzanine debt Instruments historically have been higher than for investment-grade Instruments. In the event of the insolvency of an issuer or similar event, the clients’ debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

**Non-Performing Loans.** It is anticipated that certain loans or pools of non-performing loans purchased by the clients, in addition to being non-performing, will be in default. Furthermore, the obligor or relevant guarantor also may be in bankruptcy or liquidation. Although Centerbridge frequently deals with large, individual non-performing loans, Centerbridge has limited experience with acquiring and servicing portfolios of relatively small- to medium-sized non-performing loans. There can be no assurance as to the amount and timing of payments, if any, with respect to such loans. By their nature, these investments will involve a high degree of risk. Commercial and industrial loans in workout and / or restructuring modes or under the U.S. Bankruptcy Code and the bankruptcy or insolvency laws of other jurisdictions are subject to additional potential liabilities, which may exceed the value of a client’s original investment. For example, borrowers often resist foreclosure by asserting numerous claims, counterclaims and defenses against the holder of real estate loans, including lender liability claims and defenses, in an effort to delay or prevent foreclosure, and in certain cases have the ability to file for bankruptcy, potentially staying the foreclosure action and further delaying the foreclosure process. Under certain circumstances, the claims of a lender who has inappropriately exercised control of the management and



policies of a debtor will be subordinated or disallowed or such lender can be found liable for damages resulting from such actions. In addition, under certain circumstances, payments to the clients (and from the clients, in turn, to the participating investors) will be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Even if a restructuring were successfully accomplished, a risk exists that, upon maturity of the applicable loan, replacement “takeout” financing will not be available. It is possible that Centerbridge will find it necessary or desirable to foreclose on collateral securing one or more loans purchased by a client.

In the case of any real estate loans acquired by the clients that are non-performing at the time of their acquisition and / or become non-performing following their acquisition for any number of reasons, such non-performing real estate loans are expected to require a substantial amount of workout negotiations and / or restructuring, which can entail, among other things, a substantial reduction in the interest rate and / or a substantial write-down of the principal of such loan.

**Bridge Financings.** From time to time, one or more clients lend in connection with investments on a short-term, unsecured basis or otherwise invest on an interim basis in issuers in anticipation of a future issuance of equity or long-term debt Instruments or other refinancing or syndication. Such bridge loans typically would be convertible into more permanent, long-term Instruments; however, for reasons not always in a client’s control, such long-term Instruments issuance or other refinancing or syndication may not occur and such bridge loans and interim investments may remain outstanding. In such event, the interest rate or the terms of such interim investments may not adequately reflect the risks associated with the investments made by a client.

**Bankruptcy Claims.** The clients invest in bankruptcy claims, which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest, and there can be no guarantee that the debtor ever will be able to satisfy the obligation on the bankruptcy claim. Within and outside the U.S., the markets in bankruptcy claims differ to some extent from the market conventions and regulatory framework applicable to conventional debt trading. Because bankruptcy claims frequently are unsecured, holders of such claims often have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

**Defaulted Instruments.** The clients invest in Instruments of persons involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of such persons than is generally assumed by an investor. This may subject a client to litigation risks or prevent a client from disposing of Instruments. As more fully discussed herein, in a bankruptcy or other proceeding, a client as a creditor may be unable to enforce or may experience significant delays and expense when enforcing its rights in any collateral or may have its security

interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. The process of seeking to enforce claims or rights, including over any applicable collateral, generally entails incurrence of significant expenses, both monetary and otherwise. For example, it is not uncommon in such situations to engage third-party advisors such as legal counsel and / or forensic accountants. There may be a requirement to indemnify third parties, such as any trustee, or provide rights of contribution or other forms of expense reimbursement. In seeking to enforce its rights, a client may need to make certain public disclosures of its positions or other information relating to its investment and other activity, which may result in adverse consequences to such client or may encourage such client to seek alternative enforcement mechanisms to avoid or minimize any such adverse consequences. These considerations may be particularly pronounced in non-U.S. jurisdictions, where special challenges (such as a broader right to disregard security interests under notions of equitable considerations) often are present.

**Bankruptcy Cases.** Bankruptcy or insolvency proceedings are adversarial, lengthy, complex, involve multiple and diverse constituents seeking to maximize their recovery from a debtor with limited assets (which often results in some classes of stakeholders receiving little or no recovery), and involve the exercise of equitable authority on the part of the bankruptcy court or other competent authority. Many of the events in or affecting bankruptcies or insolvencies are beyond the control of the creditors and other stakeholders such as the clients. While such creditors and other stakeholders generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court or other competent authority would not approve actions that would be contrary to the interests of the clients. Furthermore, there are instances under applicable law where creditors and equity holders (including the clients, as applicable) lose their ranking and priority.

Generally, the duration of a bankruptcy case can only be roughly estimated and such estimates may later prove inaccurate. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and a client and may be subject to unpredictable and lengthy delays. During such process, the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. In the case of a client's debt investments, the debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental value. Such investments can result in a total loss of principal.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that a client's influence with respect to a class of Instruments can be lost by the inflation of the number and the amount of claims in, or other changes with





respect to, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

Furthermore, creditors and equity holders, in exceptional circumstances, may lose their ranking and priority as such when they take over management and functional operating control of a debtor if they are found to have exercised “domination and control” in a manner that adversely affected the debtors.

When a debtor seeks relief under the U.S. Bankruptcy Code (or has a petition filed against it), an automatic stay prevents anyone, including creditors, from foreclosing or taking any actions to enforce claims, perfect liens or reach collateral securing such claims. Creditors who have claims against a debtor prior to the date of the bankruptcy filing must petition the bankruptcy court to permit them to take any action to protect or enforce their claims or their rights in any collateral. Such creditors may be prohibited from doing so if the court concludes that the value of the property in which such creditors have an interest will be “adequately protected” during the proceedings. If the bankruptcy court’s assessment of adequate protection is inaccurate, creditors’ collateral may be wasted without such creditors being afforded the opportunity to preserve it. Thus, even if a client holds a secured claim, such client may be prevented from collecting the liquidation value of the collateral securing its debt, unless relief from the automatic stay is granted by the bankruptcy court. Bankruptcy proceedings are inherently litigious, time consuming, highly complex and driven extensively by facts and circumstances, which can result in challenges in predicting outcomes. The equitable power of bankruptcy judges also can result in uncertainty as to the ultimate resolution of claims.

Security interests held by creditors are closely scrutinized and frequently challenged in bankruptcy proceedings and may be invalidated for a variety of reasons. For example, security interests may be set aside because, as a technical matter, they have not been perfected properly under the Uniform Commercial Code or other applicable law. If a security interest is invalidated, the secured creditor loses the value of the collateral and because loss of the secured status causes the claim to be treated as an unsecured claim, the holder of such claim will almost certainly experience a significant loss of its investment. There can be no assurance that the security interests will not be challenged vigorously and found defective in some respect, or that the relevant client will be able to prevail against the challenge.

Moreover, debt may be disallowed or subordinated to the claims of other creditors if the creditor is found guilty of certain inequitable conduct resulting in harm to other parties with respect to the affairs of a debtor filing for protection from creditors under the U.S. Bankruptcy Code. Creditors’ claims may be treated as equity if they are deemed to be contributions to capital, or if a creditor attempts to control the outcome of the business affairs of a debtor prior to its filing under the U.S. Bankruptcy Code. Serving on an official or unofficial creditors’ committee, for example, increases the possibility that the relevant client will be deemed an “insider” or a “fiduciary” of a company and may increase the possibility that the bankruptcy court would invoke the doctrine of “equitable





subordination” with respect to any claim or equity interest held by such client in such company and subordinate any such claim or equity interest in whole or in part to other claims or equity interests in such company. Claims of equitable subordination also may arise outside of the context of a client’s committee activities. If a creditor is found to have interfered with the company’s affairs to the detriment of other creditors or shareholders, the creditor may be held liable for damages to injured parties. While each client will attempt to avoid taking the types of action that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that the relevant client will be able to successfully defend against them. In addition, if representation on a creditors’ committee of a company causes a client or Centerbridge to be deemed an affiliate of such company, the Instruments of such debtor held by such client may become restricted Instruments, which are not freely tradable.

While the challenges to liens and debt described above normally occur in a bankruptcy proceeding, the conditions or conduct that would lead to an attack in a bankruptcy proceeding could in certain circumstances result in actions brought by other creditors of the debtor, shareholders of the debtor or even the debtor itself in other state or federal proceedings. As is the case in a bankruptcy proceeding, there can be no assurance that such claims will not be asserted or that the clients will be able to defend against them successfully. Additionally, to the extent a client assumes an active role in any legal proceeding involving the debtor, such client could be prevented from disposing of Instruments issued by the debtor if such client possesses material, non-public information concerning the debtor.

**Jurisdictional Risks Affecting the Rights of Creditors and Other Stakeholders.** Centerbridge intends to invest the clients’ assets principally in Instruments of North American (with a focus on the U.S.) and European issuers and Instruments located in these regions, although Centerbridge has from time to time invested and may in the future invest the clients’ assets in Instruments of issuers domiciled, or assets located, elsewhere. Investment in the securities and other financial instruments of financially distressed companies domiciled outside the U.S. involves additional risks. In addition, companies located in non-U.S. jurisdictions may be involved in restructurings, bankruptcy proceedings and / or reorganizations that are not subject to laws and regulations that are similar to the U.S. Bankruptcy Code and the rights of creditors afforded in U.S. jurisdictions. To the extent such non-U.S. laws and regulations do not provide a client or trading vehicle with equivalent rights and privileges necessary to promote and protect its interest in any such proceeding, such client’s investments in any such issuer are more likely to be adversely affected. For example, bankruptcy law and process in certain non-U.S. jurisdictions differs substantially from that in the U.S., resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. While Centerbridge generally favors jurisdictions where it believes the rule of law is clear, well-developed and respected, there can be no assurance that the outcome of bankruptcy or insolvency proceedings, particularly in jurisdictions outside the U.S., will result in a favorable outcome with respect to the clients’ investments. In addition, as more



and more issuers conduct operations internationally, multi-jurisdictional bankruptcy or insolvency proceedings are increasing in prevalence and the foregoing factors may result in unique challenges that impact the potential recovery and timing thereof.

**Certain Implications Arising from Service on Creditors' Committees or Other Service in Relation to a Client's Investments.** Centerbridge, on behalf of each client, from time to time elects to serve on creditors' or coordinating committees, official or unofficial, equity holders' committees or other groups to ensure preservation or enhancement of each client's position as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If Centerbridge concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to one or more clients, it may be necessary to resign from that committee or group if such conflict cannot be appropriately resolved, and the clients may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if a client is represented on a committee or group, it may be restricted or prohibited under applicable law or Centerbridge internal policy from disposing of or increasing its investments in such debtor while it continues to be represented on such committee or group.

**Companies Emerging from Bankruptcy May be Unable to Discharge Certain Indebtedness or Obligations.** Companies in which a client invests may have been the subject of bankruptcy proceedings either prior to such client's investment or during the period that such client is invested in such companies. When a company files for Chapter 11 relief, most of its debts and obligations likely would be dischargeable under section 1141(d) of the U.S. Bankruptcy Code. The ability of a debtor to obtain a discharge of its debts and obligations would depend on a number of factors. First, obtaining a Chapter 11 discharge requires confirmation of a plan of reorganization providing for the continuation of the debtor's business. Were a company to cease to do business pursuant to its plan, or to otherwise liquidate under Chapter 7 or Chapter 11, then it would not be eligible for a discharge. Second, while confirmation of a corporate debtor's plan generally discharges it from all of its debts that arose prior to confirmation (except to the extent that the plan or the order confirming the plan provides for payment of those debts) there are certain debts or obligations of a corporate debtor that cannot be discharged. These include (i) taxes owed by the debtor for which the debtor filed fraudulent tax returns, (ii) certain environmental liabilities and (iii) debts owed to a domestic governmental unit for fraudulent activities in connection with obtaining money, property, services or an extension, renewal or refinancing of credit, or owed as a result of an action filed under Subchapter III of chapter 37 of title 31 or any similar state statute. Claims under Subchapter III of chapter 37 of title 31 include claims made under the False Claims Act. The False Claims Act, a federal law that imposes liability on persons and companies who defraud the federal government, includes a "*qui tam*" provision that allows people (so-called "whistleblowers" or "relators") who are not affiliated with the government to file actions on the government's behalf.



Any claims against a debtor not discharged in its bankruptcy case would remain obligations of the debtor after confirmation of its plan of reorganization which could adversely affect the future performance of the relevant client's investment in such debtor.

**Equitable Remedies.** Under common law principles (that in some cases form the basis for lender liability claims), if a lender or bondholder (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer; (ii) engages in other inequitable conduct to the detriment of such other creditors; (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors; or (iv) uses its influence to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a bankruptcy court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). A client may purchase creditor claims subsequent to the commencement of a bankruptcy case. Such purchase may be disallowed if disallowance is permitted under applicable law. Each client will seek to conduct its activities in a manner that would not form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the often contentious nature of bankruptcy and insolvency proceedings, a client may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

**General Real Estate Risks.** Real estate investments generally will be subject to the risks incident to the ownership and operation of real estate and real-estate-related assets and / or risks incident to the making of non-recourse mortgage loans secured by real estate, including risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); seizure under eminent domain; the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability of the clients or third-party borrowers to manage the real properties. A client may incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property. In addition, an investment in real estate may subject the investors to taxation and tax return filings with respect to such investment in the jurisdiction in which such real estate is located.

Changes in general economic conditions will affect the performance of real estate investments and / or the value of the underlying real estate relating to the clients' investments and may include economic and / or market fluctuations, changes in environmental and zoning laws, casualty or condemnation losses, regulatory limitations on rents, decreases in property values, changes in the appeal of properties to tenants,



changes in supply and demand, fluctuations in real estate fundamentals, the financial resources of issuers / borrowers, changes in building, environmental and other laws, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations, changes in real property tax rates and / or tax credits, changes in operating expenses, changes in interest rates, changes in foreign exchange rates, changes in the availability of debt financing and / or mortgage funds which may render the sale or refinancing of properties difficult or impracticable, increased mortgage defaults, increases in borrowing rates, negative developments in the economy and / or adverse changes in real estate values generally and other factors that are beyond Centerbridge's control. Consumer demand for certain industries in which the clients invest (such as hospitality) is particularly sensitive to downturns in the economy and the corresponding impact on discretionary spending on leisure activities. Changes in discretionary consumer spending or consumer preferences brought about by factors such as perceived or actual general economic conditions, effects of decline in consumer confidence in the economy, the impact of high energy or food costs, the increased cost of travel, the potential for decreases in perceived or actual disposable consumer income and wealth or other political, cultural or economic fears may reduce consumer demand for the amenities such industries and the investments offer, thus imposing practical limits on pricing and negatively impacting the financial condition of the clients.

A client's investments in a real estate asset is sometimes structured on a passive basis, giving a third-party operating partner and / or property manager a large degree of authority and responsibility for daily management of the assets and, therefore, will in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets. In addition, that client will be unable to exercise sole decision-making authority and will be subject to the risk that a joint venturer or partner will act negligently or in a manner contrary to the client's best interest.

There is no assurance that there will be a ready market for resale of investments because investments in real estate generally are not liquid; holding periods accordingly are difficult to predict, particularly as business plans may be revised to adapt to changing economic, business and financial conditions. Real estate investments are not as liquid as other types of investments and this lack of liquidity has the potential to limit a client's ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, as a general matter, are not reduced when circumstances cause a reduction in income from the investments. A client would need to comply with certain legal, tax and other requirements prior to liquidating such investments.

The insurance coverage applicable to real estate investments contains policy specifications and insured limits customarily carried for similar properties, business activities and markets. There are certain losses, including losses from floods and losses from earthquakes, acts of war, acts of terrorism or riots, that generally are not insured against or that generally are not fully insured against because it is not deemed to be economically feasible or prudent to do so. If an uninsured loss or a loss in excess of



insured limits occurs with respect to a real estate investment, a client could experience a significant loss and could potentially remain obligated under any recourse debt associated with the property.

The clients also may have potential limited recourse against prior owners with respect to unknown liabilities, which could be substantial. The clients will attempt to uncover any such risks as part of their due diligence activities, but cannot give any assurance that such conditions do not exist or may not arise in the future. In addition, fluctuations within the insurance and reinsurance industry will impact real estate investments. The insurance and reinsurance business has historically been a cyclical industry, with prolonged periods of “hard” or “soft” pricing due to competition, catastrophic events, general economic and social conditions and other factors. This cyclicity has produced periods characterized by intense price competition due to excess underwriting capacity as well as periods during which shortages of capacity resulted in high premium levels. Increases in the frequency and severity of losses suffered by reinsurers can also significantly affect these cycles. It is difficult to predict the timing of such events with certainty or to estimate the amount of loss that any given event will generate. To the extent such events impact the coverage of a client’s real estate investments, such client can be expected to be exposed to the effects of such cyclicity. Under various federal, state, and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate is generally liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. The clients will attempt to assess such risks as part of their due diligence activities, but cannot give any assurance that such conditions do not exist or may not arise in the future. The presence of such substances on a client’s real estate investments could adversely affect its ability to sell such investments or to borrow using such investments as collateral.

**Real Estate Title.** Disputes over ownership of land sometimes occur. In some jurisdictions, certain social groups may have claims against property that otherwise appears to be properly entitled in the real estate registries, which may encumber the title of the property acquired by the clients or their portfolio companies. In other jurisdictions, the real estate registry commonly does not reflect the true holder of the real estate title, which complicates title research and may result in title disputes. Additionally, in some jurisdictions, a purchase of real property can be challenged and / or invalidated for not meeting “true sale” requirements and recharacterized as secured financing in the event the seller becomes insolvent. If any of these events occurs in relation to any of a client’s interests or properties, such client could lose certain of its rights in relation thereto. In some countries, such as the U.S., title insurance is readily available to mitigate such risks, though typical exclusions from policies render title insurance ineffective in certain cases. In other countries where title insurance is not readily available, or where a client does not obtain it, such client could seek opinions of title from lawyers or other professionals, which may prove inaccurate.





**Real Property.** For clients that make investments in real property (real property investments being more primary to the Real Estate Funds), such clients' investments are subject to various risks which may correlate with (either causing or being caused by) fluctuations in occupancy, rental rates, operating income and expenses, or which may render the sale or financing of its properties difficult or unattractive. For example, following the termination or expiration of a tenant's lease, there may be a period of time before a client will begin receiving rental payments under a replacement lease. During that period, such client will continue to bear fixed expenses such as interest, real estate taxes, maintenance and other operating expenses. In addition, declining economic conditions may impair such client's ability to attract replacement tenants and achieve rental rates equal to or greater than the rents paid under previous leases. Increased competition for tenants may require such client to make capital improvements to properties which otherwise would not have been planned. In some locations, state and local regulations may restrict such client from raising rental rates to a level that they consider to be "market" for a substantially similar property. A client will attempt to assess any such known regulations as part of its due diligence; however, if such regulations change or increase it may adversely impact such client. Any unbudgeted capital improvements that a client undertakes may divert cash that otherwise would be available for distribution to investors. Ultimately, to the extent that a client is unable to renew leases or re-let space as leases expire, decreased cash flow from tenants will result, which could adversely impact such client's operating results.

Real estate investing is capital intensive. A client could acquire assets that have defects, and normal wear and tear on such client's assets necessitate repairs. A client may be required to expend funds to correct defects or to make improvements before an investment in a property can be sold. No assurance can be given that such client will have funds available to correct those defects or to make those improvements. In acquiring a property, such client may agree to lock-out provisions that materially restrict it from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed on that property. These factors and others that could impede the client's ability to respond to adverse changes in the performance of its properties could significantly affect its financial condition and operating results.

In some instances, the principal asset of the lessee of a client property may be only the tenant's improvements thereon, or the liability of the lessee may be limited to its interest in such improvements. In those cases, the client will be required to rely on the lessee's equity interest in the improvements for its security. In the event of a default by a lessee or other premature termination of a lease, the client may experience delays in enforcing its rights as a lessor, may incur substantial costs in protecting its investment and / or may experience an impairment of value. In addition, adverse changes in the operation of any property, or the financial condition of any tenant, could have an adverse effect on the client's ability to collect rent payments and, accordingly, on its ability to make distributions to investors. A tenant may experience, from time to time, a downturn in its business which may weaken its financial condition and result in its failure to make rental payments when due. Both the rental income and market value of the properties the clients could invest in may be affected by the operational performance of the tenants'



businesses. This relates both to the business being carried out at a specific property and to the general financial performance of the tenant. The operational performance of a tenant may in turn be affected by both local conditions and the wider economy. In addition, commercial real estate properties, including office, retail, hotel and industrial properties, are relatively illiquid compared to other types of real estate and financial assets. This illiquidity will limit the clients' ability to quickly change their portfolio in response to changes in economic or other conditions. If an existing lease is terminated or not renewed, the clients may be required to renovate the property or to make rent concessions in order to lease the property to another tenant or sell the property. Certain properties might be designed for special purposes, which will limit a client's ability to lease or sell such properties. A single property or properties serving a particular industry, such as hotel, office or other property types also carry the risks associated with significant industry concentration. At any time, a tenant may seek the protection of applicable bankruptcy or insolvency laws, which could result in the rejection and termination of such tenant's lease or other adverse consequences and thereby cause a reduction in the distributable cash flow of such client. If a tenant's lease is not affirmed following bankruptcy or if a tenant's financial condition weakens, the clients' operating cash flow may be adversely affected. No assurance can be given that tenants will not file for bankruptcy protection in the future or, if they do, that their leases will continue in effect. After a lease has been terminated, the clients nonetheless bear the fixed costs of ownership of the asset, such as real estate taxes, maintenance and other operating expenses and, if applicable, interest and amortization on any related financing. Property that has been vacated by a tenant may not be relet at the same rental rate (or at all), thereby reducing the operating income from the property, and a client may be required to make unexpected capital investments to lease the property again.

**Laws Protecting Tenants.** Tenants in certain jurisdictions benefit from legal protections and customary contractual provisions that generally do not apply elsewhere. For example, in some jurisdictions, a tenant is entitled to seek a rent reduction when market rents decrease, thereby exposing the clients to risk of decreasing revenue in a market decline. In some countries, tenants have the right to terminate leases before the stated term ends. Residential and / or commercial tenants in some jurisdictions may benefit from rent control programs that limit the ability of an owner to raise rents. In others, retail leases are subject to special tenant-friendly rules. Finally, even when an owner of real estate has clear legal rights, the judiciary may fail to uphold those rights. All of these considerations significantly increase the risk of holding a real estate asset.

**Real Estate Debt Investments.** Real estate debt investments present additional risks not necessarily present in other types of investments. In the case of certain real estate debt investments, a client's investment strategy may be based, in part, upon the premise that real estate loans, debt Instruments and / or participation interests related thereto that are otherwise performing are from time to time available for purchase by a client at "discounted" rates or at "undervalued" prices. Purchasing debt Instruments and / or other interests at what may appear to be "undervalued" or "discounted" levels is no guarantee that these investments will generate attractive risk-adjusted returns to a client or will not be subject to further reductions in value. No assurance can be given that



real estate loans and / or participation interests can be acquired at or disposed of on favorable terms, that such loans or participation interests will not present risk of default or that the market for such interests will continue to improve since this depends, in part, upon events and factors outside the control of Centerbridge. In addition, there can be no assurance that the market conditions for investing in real estate-related debt Instruments will not deteriorate further, which could have an adverse effect on the performance of these investments. While the clients perform due diligence in connection with each of their investments, there may be an increased risk that the documentation relating to an investment in real estate loans may contain a material misstatement, omission or misrepresentation, which may adversely affect the performance of such investment.

In the case of any real estate loans acquired by the clients that are non-performing at the time of acquisition and / or become non-performing following acquisition for a wide variety of reasons, such non-performing real estate loans may require a substantial amount of workout negotiations and / or restructuring, which can entail, among other things, a substantial reduction in the interest rate and a substantial writedown of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement “takeout” financing will not be available. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that Centerbridge will find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the clients. The foreclosure process varies jurisdiction by jurisdiction and can be lengthy and expensive. Borrowers in real estate projects often resist foreclosure actions, which often prolongs and complicates an already difficult and time-consuming process. In some states or other jurisdictions, real estate foreclosure actions can take up to several years or more to conclude. In addition to being lengthy and expensive, any bankruptcy may create a negative public image of the collateral property and disrupt or limit ongoing leasing and arrangement of the underlying real property. In the case of any real estate loans acquired by a client that were previously held by financial institutions and / or acquired by financial institutions through foreclosure, if the financial institution that originated the real estate loan inappropriately exercised control over the management and policies of a debtor, the related real estate loan acquired by such client may be subordinated to other claims or disallowed, or such client may be found liable for damages suffered by parties as a result of the actions taken by the financial institution. Developments affecting the laws or practices governing foreclosure and bankruptcy also can create a negative public image of property in foreclosure or the foreclosure process itself.

Any deterioration of real estate fundamentals generally, and in the U.S., in particular, could negatively impact the performance of the clients by making it more difficult for real estate assets to satisfy their debt payment obligations, increasing the default risk applicable to real estate assets, and / or making it more difficult for the clients to generate attractive risk-adjusted returns. Changes in general economic conditions as described herein will affect the creditworthiness of real estate assets and / or the value of the underlying real estate collateral relating to the investments. The value of Instruments



of companies which service the real estate business sector also may be affected by such risks.

Any declines in the performance of the relevant economy (whether within or outside the U.S.) or in the real estate debt markets could have a negative effect on the clients' business, financial condition and results of operations. Market conditions relating to real estate debt investments have evolved since the global financial crisis of 2008-2009 (the "Global Financial Crisis"), which has resulted in modifications to certain loan structures and / or market terms. For example, it is difficult for real estate debt investors in certain circumstances to receive full transparency with respect to underlying investments because transactions often are effectuated on an indirect basis through pools or conduit vehicles rather than directly with the borrower. Any such changes in loan structures and / or market terms may make it relatively more difficult for the clients to monitor and evaluate their investments.

**Construction Lending Risks.** For clients that provide debt financing to facilitate the construction or development of real estate-related assets, which may take the form of real estate loans, construction loans or other real estate-related debt securities or interests, such investments are subject to risks relating to real estate-related debt investments generally as well as the risks associated with the financing and construction of real assets and changes in general economic and market conditions affecting the creditworthiness of prospective borrowers. The availability of takeout financing and / or repayment, as applicable (the absence of which would diminish a client's return), is based upon the related construction or development being completed to specifications, future market conditions and the performance of all related parties.

**Residential Real Estate Investments.** For clients that invest in residential development projects and financing opportunities relating to certain residential real estate assets or portfolios thereof, the performance of such investments may become increasingly susceptible to adverse changes in prevailing economic and employment conditions in the United States and the other jurisdictions where such properties are located, as well as factors including, but not limited to, the supply of and demand for living space in the local market, availability of mortgage financing and homeownership affordability, tenant quality, the physical attributes of a building in relation to competing buildings (*e.g.*, age, condition, design, appearance, amenities and location), and access to transportation. Centerbridge's ability to invest in residential real estate-related opportunities (including providing financing for potential owners and operators of residential real estate assets or portfolios thereof) may depend upon its ability to strategically partner with established and sophisticated operating partners and third parties. Any downturn in the relevant economy (whether within or outside the U.S.) may adversely affect the financial condition of residential owners and tenants, making it more difficult for them to meet their periodic repayment obligations relating to certain residential real properties, which could adversely impact the clients' investment performance. In addition, there can be no assurance that the clients will be able to effectively partner with suitable operating partners and third parties in connection with



their residential real estate-related investment activities, which may impact the clients' ability to effectively identify and consummate such investments.

Investments in financing residential assets, such as mortgage loans (including loans that may be in default), involve additional risks. If a residential mortgage loan is in default, foreclosure of the mortgage loan can be a lengthy and expensive process. The ultimate disposition of a foreclosed asset may yield a price insufficient to cover the cost of the foreclosure process and the balance attached to the defaulted mortgage loan. In addition, politicians, regulators, journalists, housing advocates and others have been critical of private investment firms that have made investments in residential mortgage loans and, in some cases, led protests and social media campaigns. Such opposition could cause the clients to forego investment opportunities and subject the clients to new legislation, litigation and changes in regulatory oversight. For example, housing advocates in certain Spanish cities have sought to prohibit foreclosure practices through local ordinances, which would have an adverse effect on holders of residential credit in those areas.

**Office Real Estate Investments.** To the extent a client invests in office properties, which could include shared workspace or related assets where a membership model may be involved that may be dependent on revenue derived from the sale and renewal of memberships, such investments are subject to particular economic and operating risks. These risks relate to supply of and demand for office space in the local market, the impact of economic conditions on the local market and the building's tenants, tenant quality and diversification (which, in the case of shared workspace, often involve small- and medium-sized start-up or venture capital-backed companies focused in technology-related fields that generally lack significant financial reserves or access to credit), the physical attributes of the building in relation to competing buildings (*e.g.*, age, condition, design, appearance, amenities and location), and access to transportation. Changes in work patterns, such as telecommuting, which has increased in recent years, could depress demand for office space and adversely affect the value of office assets.

**Hospitality Real Estate Investments.** Hospitality assets are particularly exposed to short-term economic conditions in the global and local markets as their space is let on a short-term basis. Furthermore, upon acquisition of a hotel, the owner generally has limited visibility into future bookings. Hotels may be managed by third-party hotel management companies, and the business and operating results of such hotels will depend in large part upon the performance of such third parties. The management agreements that such third parties operate under may not be terminable for a period of time, while high performing third-party management companies may be difficult to renegotiate with or replace upon the expiration of such agreements. There is no guarantee that the third-party management company for any given hotel property will meet the investing client's investment or performance objectives.

Like most real estate, hospitality properties are highly competitive. If a property's occupancy or room rates drop such that its revenues are insufficient to cover its operating expenses, additional funds, including reserves, will be required to cover



operating expenses. Also, more so than certain other property types, hospitality properties need to make capital expenditures in order to remain competitive. There is a risk that cash flow from operations and reserves may be inadequate to fund capital improvements, or financing for these capital improvements may not be available on attractive terms. In addition, given zoning, structural and other considerations, hotel properties may not readily be converted to alternative uses if they become unprofitable due to competition, obsolescence, or decreased demand. The COVID-19 Pandemic and its effects have had an adverse and continuing impact on transportation, hospitality and tourism, which in turn contributes to the risks described above.

**Retail Investments.** To the extent a client invests in retail assets, like other properties, retail properties are subject to the risk that tenants may be unable to make their lease payments or may decline to extend a lease upon its expiration. A lease termination or business closure by a tenant that occupies a large area of a retail center (commonly referred to as an anchor tenant) could impact leases of other tenants, and other tenants may be entitled to modify the terms of their existing leases in the event of such a lease termination or business closure of an anchor tenant even if the anchor tenant continues to pay rent. Any such modifications or conditions could be unfavorable to the clients as the property owner and could decrease rents or expense recoveries. Additionally, major tenant closures may result in decreased customer traffic, which could lead to decreased sales at other stores. In the event of default by a tenant or anchor store, a client may experience delays and costs in enforcing its rights as landlord to recover amounts due to it under the terms of its agreements with those parties. Furthermore, most leases with retail tenants contain provisions giving the particular tenant the exclusive right to sell particular types of merchandise or provide specific types of services within the particular retail center. These provisions may limit the number and types of prospective tenants interested in leasing space in a particular retail property. Finally, retailers leasing properties will face continued competition from discount or value retailers, factory outlet centers, wholesale clubs, mail order catalogues and operators, television shopping networks and shopping via the internet. Such competition could adversely affect tenants and, consequently, revenues and funds available for distribution. The COVID-19 Pandemic and its effects have had an adverse and continuing impact on retail assets, which in turn contributes to the risks described above.

**Ground Lease Investments.** For clients that invest in real properties that are subject to ground leases, as a lessee under a ground lease, a client would be exposed to the possibility of losing the property upon termination, or an earlier breach by such client of the ground lease, which could have an adverse impact on such client's investment performance. Furthermore, ground leases generally provide for certain provisions that limit the ability to sell certain properties subject to the lease, including assigning or transferring rights and obligations appurtenant to property. In order to assign or transfer rights and obligations under certain ground leases, a client generally will need to obtain consent of the landlord of such property, which, in turn, could adversely impact the price realized from any such sale. In addition, the value of a real estate property subject to a ground lease can be more volatile, as its entire value is defined by cash flows to a date certain, after which there is generally no value.





**Land/New Development; Risk of Fraud.** For clients that acquire direct or indirect interests in undeveloped land or underdeveloped real property, which oftentimes may be non-income producing during the development and marketing phase. To the extent that a client invests in such assets, it will be subject to the risks normally associated with such assets and development activities. Such risks include, without limitation, new project commencement risks, such as the failure to obtain zoning, occupancy and other required governmental permits and other regulatory or environmental approvals, and / or issuance of permits containing unfavorable terms, the cost and timely completion of construction (including risks beyond the control of the client, such as weather conditions or material shortages), risks connected to environmental issues or labor disputes (such as work stoppages), risks relating to the performance of a client's builders or, subcontractors and / or third-party consultants, risks of inaccurate project feasibility assessments, risks of incorrectly forecasting the risk associated with development in new geographic regions, risks relating to the availability of both construction and / or permanent financing on favorable terms, risks that the properties will not achieve anticipated occupancy levels or sustain anticipated rent levels (such as decreased demand due to competition from other developers or depressed lease rates and rents due to market and economic conditions) and risks associated with political or local opposition. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on such client and on the amount of funds available for distribution to the investors. Properties under development or properties acquired for development may receive little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. In addition, market conditions may change after the initial investment and during the course of development that make such development less attractive than at the time it was commenced. Certain investments will require a client to enter into partnership, joint ventures, and / or other arrangements with developers or operators, any of whom may fail to perform as expected.

In addition, investments in new development activities could be more susceptible to irregular accounting or other fraudulent practices. In the event of fraud by any company in which the clients invest, the clients may suffer a partial or total loss of capital invested in that company.

**Zoning, Siting, and Permitting Risks.** For clients that invest in assets that are subject to zoning, siting, permitting and other requirements, which may be long, burdensome and costly, such requirements may subject the clients and their portfolio companies to governmental and public scrutiny. Zoning and permitting processes vary depending on the nature and location of the assets in question and, depending on the asset and activity to be conducted, licenses, permits or approvals granted by, or registrations with, multiple federal, state, local and other authorities may be required. There can be no guarantee of when and if such licenses, approvals or permits will be obtained or if such registrations will be effected. In addition, zoning, siting and permitting processes often face local opposition and may be challenged by a number of parties, including non-governmental organizations and special interest groups based on alleged security





concerns, disturbances to natural habitats for wildlife and adverse aesthetic impacts. Beyond the time-consuming process of applying for the necessary permits, the clients and their portfolio companies may be required to undergo public hearings at which local communities will decide whether or not to grant the proper land use designations. Highly motivated citizens in many local communities often oppose plans to develop new properties or to expand existing properties, in many cases demonstrating the “Not in My Backyard” phenomenon. Such factors could make it difficult to develop new development sites and to expand existing assets. The failure to receive, renew or maintain any required permits or approvals may result in increased compliance costs, the need for additional capital expenditures or a suspension of a portfolio company’s operations.

**Increases in Operating Expenses.** Properties owned by the clients generally are subject to the risk, which often manifests in connection with real properties, of increases in operating expenses such as maintenance and utility costs, property taxes, insurance and administrative costs, and other general costs associated with security, landscaping, repairs and maintenance. If operating expenses increase, competition in local rental markets may limit the extent to which rents may be increased to meet increased expenses without decreasing occupancy rates, and the clients’ operating cash flow may be adversely affected.

**Investments Held in REITs.** The clients may invest a portion of their assets in one or more entities intending to qualify as a REIT under the Code (each, a “Centerbridge REIT”). However, no assurance can be given that any such Centerbridge REIT will qualify or remain qualified as a REIT. Failure of a Centerbridge REIT in any taxable year to qualify as a REIT would render such Centerbridge REIT subject to tax on its taxable income at regular corporate rates, and an investor’s share of distributions made by a Centerbridge REIT to the clients in any non-qualifying years would not be deductible by such Centerbridge REIT. If an entity’s status as a REIT is terminated, the entity generally will not be eligible to elect REIT status again prior to the fifth taxable year following the year in which it fails to qualify under the Code as a REIT. The requirements for qualification as a REIT are extremely complex, and a Centerbridge REIT’s compliance with such requirements may depend on factors that are outside of its control or upon the resolution of legal issues for which guidance is lacking. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT. Any such change could adversely affect a Centerbridge REIT’s ability to qualify as a REIT or the U.S. federal income tax consequences of such qualification. Even if a Centerbridge REIT qualifies as a REIT, such Centerbridge REIT may be subject to federal income tax in certain circumstances.

A Centerbridge REIT may engage in transactions with one or more taxable REIT subsidiaries. If amounts paid for services by a Centerbridge REIT to a taxable REIT subsidiary are determined to be not at arm’s-length, the difference between the amount paid and the fair value of the transaction will be subject to a 100% tax.



**Developments in the Structured Credit Markets and Their Broader Impact.** Declines in the market value of asset-backed securities (“ABS”) mortgage-backed securities (“MBS”) and CDO Instruments, especially those backed by subprime mortgages, were associated with significant market events resulting in the Global Financial Crisis and the subsequent regulatory and market responses to that crisis. Increasing credit and valuation problems in the subprime mortgage market generated extreme volatility and illiquidity in the markets for Instruments directly or indirectly exposed to subprime mortgage loans. This volatility and illiquidity extended to the global credit and equity markets generally, and, in particular, to the high-yield bond and loan markets, exacerbated by, among other things, uncertainty regarding the extent of problems in the mortgage industry and the degree of exposure of financial institutions and others, decreased risk tolerance by investors and significantly tightened availability of credit. Except for agency residential mortgage-backed securities (“RMBS”), and despite modest increases in non-agency RMBS issuance, the market for RMBS was impacted for an extended period of time following the Global Financial Crisis and it is difficult to predict how future events could impact the non-agency RMBS market. If the structured credit markets face uncertainty or deteriorate, then the clients may not be presented with sufficient investment opportunities in ABS, MBS and CDO Instruments, which may prevent the clients from successfully executing investment strategies in such Instruments. Moreover, future uncertainty or deterioration in the structured credit markets could result in declines in the market values of or increased uncertainty with respect to investments made or considered by the clients, which could require the clients to dispose of investments at a loss while such adverse market conditions prevail.

**Ratings of Instruments May Not Accurately Reflect Risks.** The clients may invest in debt securities that have been rated by internationally recognized rating organizations. While Centerbridge gives some consideration to ratings, ratings often are not fully indicative of the actual credit risk of the investments in rated Instruments, including ABS, MBS and CDO Instruments. In general, the credit ratings of these organizations represent the opinions of such agencies as to the quality of investments that they rate and are not a guarantee of quality. Such agencies may change their method of valuation of, and the ratings of, securities held by the clients at any time. These changes may occur quickly and often. A credit rating is not a recommendation to buy, sell or hold assets and may be subject to revision or withdrawal at any time by the assigning rating agency. In the event that a rating assigned to any corporate debt obligation is lowered for any reason, no party is obligated to provide any additional support or credit enhancement with respect to such corporate debt obligation. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value; therefore, ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an obligor’s current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of any corporate debt obligation are only a preliminary indicator of investment quality as of a point in time, and not a guarantee of investment quality as of that point in time or any future point in time. Rating changes, including but not limited to reductions or withdrawals, may occur for any number of reasons. The changes may affect one or more assets at a single time or within a



short period of time, and such changes can have a material adverse effect upon the instrument and company to which they relate.

**General Private Equity Risks.** One or more of the clients from time to time will invest in private equity investments, including those that relate to companies undergoing debt restructurings and recapitalized companies, which involves a high degree of business and financial risk. Such companies may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period-to-period or operate at a loss. Such companies also may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may affect the performance of such investments adversely and result in substantial losses.

Although Centerbridge generally seeks protective provisions, including, possibly, board representation, in connection with certain of its private equity investments, to the extent a client takes minority positions in companies in which it invests, Centerbridge may not be in a position to exercise control over the management of such companies, and in such cases would have a limited ability to protect a position in such companies. Additionally, there can be no assurance that any such minority shareholder rights will be available or that such rights will provide sufficient protection of the client's interests.

**Illiquid Investments.** The clients' investments include Instruments such as claims (whether debt claims, trade claims, litigation-related or other claims) and litigation strategies, the return or recovery prospect of which involves uncertainty, and also are subject to legal and other restrictions on transfer or for which no liquid market exists. These Instruments may be illiquid at the time an investment is made or may become and potentially stay illiquid during the pendency of an investment. The market prices, if any, for such investments tend to be volatile and / or may not be readily ascertainable, and it is possible that a client will not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid Instruments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of Instruments eligible for trading on national securities exchanges or in the over-the-counter markets. The clients may not be able to readily dispose of such illiquid Instruments and, in some cases, may be contractually prohibited from disposing of such Instruments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. An investment in one or more of the clients is suitable only for certain sophisticated investors who do not require immediate liquidity for their investments.

**Restricted Instruments.** Restricted Instruments cannot be sold to the public without registration under the Securities Act. Unless registered for sale, restricted Instruments can be sold only in privately negotiated transactions or pursuant to an



exemption from registration (*e.g.*, under Rule 144A of the Securities Act). Although these Instruments may be resold in privately negotiated transactions, because there is often limited liquidity for these Instruments, they can be difficult and take a substantial amount of time to sell, and the prices realized from these sales could be less than those originally paid by the clients. Investments in restricted Instruments therefore involve a high degree of business and financial risk which could result in substantial losses.

**Illiquid and Long-Term Investments, Investments Longer than Term.**

Due to the illiquid nature of many of the positions which a client is expected to acquire, as well as the uncertainties of the reorganization and active management process or litigation related to investments made by a client, Centerbridge is unable to predict with confidence what the exit strategy will ultimately be for any given core position, or that one will definitely be available. It is anticipated that there will be a significant period of time before the clients will have realized their investments. Many of such investments could take at least three to five years, and sometimes possibly longer, particularly in the case of control investments, from the date of initial investment to reach a state of maturity when realization of the investment can be achieved. Exit strategies that appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

Although investments by a client occasionally generate some current income, private investment transaction structures typically will not provide for liquidity of such client's investment prior to that time. For example, during and in the years following the Global Financial Crisis, there was limited funding capacity in the capital markets as a result of that crisis and, as a result, there was lower demand for private equity investments as fewer buyers were able to raise financing on attractive terms to purchase the investments, thereby making private equity investments more illiquid than they may have been previously. It is unlikely there will be a public market for the Instruments held by a client at the time of their acquisition. In the case of privately negotiated transactions, the clients generally will not be able to sell their Instruments publicly unless the company has made a public offering and such sale is registered under applicable securities laws or unless an exemption from such registration requirements is available (and in either case, such a sale is likely to be subject to a discount relative to what might have been obtained absent any such restriction). In addition, in some cases, it is expected that a client will be prohibited by contract or other limitation from selling certain Instruments for a period of time (*e.g.*, due to limitations on sale arising from contractual lockups, obligations to receive consent to transfer or assign interests, or rights of first offer), and as a result may not be permitted to sell an investment at a time it might otherwise desire to do so. Further, disposition of such investments may require a lengthy time period or result in distributions in kind to investors. In such cases, the range of disposal strategies available to the clients would be further limited. In light of the foregoing, it is likely that no significant return from the disposition of a client's investments will occur for a substantial period of time.

A client may invest in Instruments which cannot be advantageously disposed of prior to the date that such client will be dissolved, either by expiration of



such client's term or otherwise. Although Centerbridge expects that investments will either be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, it may be necessary or advisable for the clients to sell, distribute or otherwise dispose of Instruments at a disadvantageous time as a result of dissolution. In the event that Centerbridge cannot advantageously dispose of one or more Instruments, including at the end of a client's term or thereafter, Centerbridge may seek to restructure such client or such Instruments, including by way of a secondary transaction, asset sale or similar transaction. See also Item 11.B.1.

*Various industries in which Centerbridge has experience and in which a client may invest are heavily regulated. A discussion of the risks associated with certain regulated industries follows; changes to a client's investments due to such risks may directly or indirectly affect such client's performance. The industries discussed below do not represent an exclusive list of the industries in which a client may invest.*

**Insurance and Reinsurance.** Insurance-related investments and insurance-linked Instruments (whereby the performance and return of the investment depend on the results of the underlying policy or Instrument), including, without limitation, insurance securitizations, catastrophe bonds, life insurance or life annuity combination bonds, structured settlements, insurance reserve financing, mortality or longevity swaps, life settlements, premium finance loans and other similar asset backed Instruments and subrogation claims, where insurers sell the right to sue to recoup damages suffered by policyholders, are subject to the risks of the insurance and reinsurance business generally. Relative regulatory and legal uncertainty mean that the clients' subrogation claim investments may be challenged, reduced in value or extinguished in their entirety. The profitability of such investments is dependent on the outcome of the underlying claims, and there can be no guarantee that claims underlying such assets in which the clients invest will be successful and, if successful, that the related settlement, award or judgment will be collectable and equal to the returns targeted by Centerbridge. Such investments would constitute investing in an evolving asset class where a significant part of the asset class involves relatively illiquid Instruments. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge, which could adversely affect the clients' investments in certain insurance-linked Instruments and, in some instances, these changes may not become apparent until such Instruments are affected by these changes.

The insurance and reinsurance business has historically been a cyclical industry, with prolonged periods of "hard" or "soft" pricing and significant fluctuations in operating results due to competition, catastrophic events, general economic and social conditions and other factors. This cyclicity has produced periods characterized by intense price competition due to excess underwriting capacity as well as periods during which shortages of capacity permitted favorable premium levels. In addition, increases in the frequency and severity of losses suffered by reinsurers can significantly affect these cycles. It is difficult to predict the timing of such events with certainty or to estimate the amount of loss that any given event will generate. To the extent the clients make





investments in these Instruments, the clients (and it is noted that through its investment in Martello Re, Special Credit IV bears such risks), can be expected to be exposed to the effects of such cyclicity. Moreover, in respect of certain insurance derivatives, there can be significant fluctuations in operating results due to competition, catastrophic events and other factors.

**Energy.** The energy sector is affected by changes in supply and demand, geopolitical dynamics and other factors. In addition, the energy sector is highly regulated and companies operating in the industry are subject to significant regulation of nearly every aspect of their operations by federal, state and local governmental agencies and other authorities. Examples of governmental regulations which impact companies operating in the energy sector include, without limitation, regulation of the construction, maintenance and operation of facilities, environmental regulation, worker safety regulation, labor regulation, trade regulation and the regulation of the prices charged for products and services. Compliance with these regulations is enforced by numerous governmental agencies and authorities through administrative, civil and criminal penalties. Stricter laws or regulations or stricter enforcement policies with respect to existing regulations likely would increase the costs of regulatory compliance and could have an adverse effect on the financial performance of companies operating in the energy sector.

Companies operating in the energy sector are subject to many dangers inherent in the production, exploration, management, transportation, processing and distribution of natural gas, natural gas liquids, crude oil, refined petroleum and petroleum products and other hydrocarbons. These dangers include leaks, fires, explosions, damage to facilities and equipment resulting from natural disasters, inadvertent damage to facilities and equipment and terrorist acts. These dangers give rise to risks of substantial losses as a result of the following: loss or destruction of commodity reserves; damage to or destruction of property, facilities and equipment; pollution and environmental damage; and personal injury or loss of life. Any occurrence of such catastrophic events could bring about a limitation, suspension or discontinuation of the operations of companies operating in the energy sector. Companies operating in the energy sector may not be fully insured against all risks inherent in their business operations and, therefore, accidents and catastrophic events could adversely affect such companies' financial conditions and ability to pay distributions to shareholders.

Certain energy companies may be particularly sensitive to weather and climate conditions. For example, solar power generators rely on the frequency and intensity of sunlight, wind turbines rely on the frequency and intensity of the wind, and companies focused on biomass rely on the production of crops, which can be adversely affected by droughts and other weather conditions. Furthermore, climate change may cause more extreme weather conditions and increased volatility in seasonal temperatures. Extreme weather conditions can interfere with operations and increase operating costs, and damage resulting from extreme weather may not be fully insured.



**Healthcare.** Healthcare-related companies generally are subject to greater governmental regulation than other companies at both the state and federal levels. Changes in governmental policies may have a material effect on the demand for, or costs of, certain products and services. For example, a healthcare-related company typically must receive government approval before introducing new drugs and medical devices or procedures. This process often delays the introduction of these products and services to the marketplace, resulting in increased development costs, delayed cost-recovery and loss of competitive advantage to the extent that rival companies have developed competing products or procedures, adversely affecting the company's revenues and profitability. Certain healthcare-related companies depend on the exclusive rights or patents for the products they develop and distribute. Patents have a limited duration and, upon expiration, other companies often market substantially similar "generic" products that cost less to develop and often cause the original developer of the product to lose market share or reduce the price charged for the product, resulting in lower profits for the original developer. Finally, because the products and services of healthcare-related companies affect the health and well-being of many individuals, these companies are especially susceptible to product liability and other lawsuits. The share price of a healthcare-related company can drop dramatically not only as a reaction to an adverse judicial ruling, but also from the adverse publicity accompanying threatened litigation. Other conditions affecting public health also can affect the performance of companies in the healthcare sector.

**Technology, Media and Telecommunications.** The Technology, Media and Telecommunications (or "TMT") space is subject to regulation within the U.S., Europe and in other jurisdictions. Within the U.S., pursuant to the U.S. Communications Act of 1934, as amended, governmental agencies such as the U.S. Federal Communications Commission ("FCC") administer communications policy and regulate the provision of communications services originating or terminating within the U.S. Investments in the clients and by the clients in U.S.-regulated communications portfolio companies may be subject to a variety of FCC, state and local communications regulations. The applicable FCC regulations include limits on multiple ownership, cross-ownership, and non-U.S. ownership. To ensure compliance with these and similar rules, the clients may be required to limit their portfolio of investments, and investors that have interests in communications companies outside of the clients may be required to evaluate the legal consequences of their aggregate holdings. In some circumstances, investors could be prohibited by applicable laws and regulations from making certain investments in communications companies outside of the clients. Below is an overview of other risks associated with Instruments in the communications, media and entertainment and technology industries.

*Communications.* Communications companies are undergoing changes, mainly due to evolving levels of governmental regulation or deregulation as well as the development of communication technologies. Competitive pressures within the communications industry are intense and the Instruments of communications companies may be subject to significant price volatility. In addition, because the communications industry is subject to significant changes in technology, the companies that the clients



invest in will face competition from technologies being developed or to be developed in the future by other entities, which may make such companies' products and services obsolete.

*Media and Entertainment.* The success of media and entertainment companies depends substantially on consumer tastes and preferences that change in often unpredictable ways, giving rise to a highly competitive landscape. The increasing number of choices available to audiences, including low-cost or free choices, could negatively impact not only consumer demand for media and entertainment companies products and services, but also advertisers' willingness to purchase advertising from such companies. Accordingly, the success of companies in this space is increasingly dependent on their ability to successfully adapt to shifting patterns of content consumption through the adoption and exploitation of new technologies. Additionally, the value of a media company's intellectual property rights is dependent on the scope and duration of such rights as defined by applicable laws in the U.S. and abroad and the manner in which those laws are construed. If such laws are drafted or interpreted in ways that limit the extent or duration of such rights, or if existing laws are changed, a company's ability to generate revenue from its intellectual property may decrease, or the cost of obtaining and maintaining intellectual property rights may increase. The unauthorized use of intellectual property may increase the cost of protecting rights to intellectual property and / or reduce revenues. The convergence of computing, communication, and entertainment devices, increased broadband internet speed and penetration, increased availability and speed of mobile data transmission and increasingly sophisticated attempts to obtain unauthorized access to data systems have made the unauthorized digital copying and distribution of films, sports, television productions and other creative works easier and faster and protection and enforcement of intellectual property rights more challenging. Inadequate laws or weak enforcement mechanisms to protect entertainment industry intellectual property in one country can adversely affect the results of a company's operations worldwide, despite efforts to protect its intellectual property rights. As has been seen with the COVID-19 Pandemic, in the event of a public health emergency, pandemic, or any other situation that could adversely impact the media and entertainment industry (for example, but not by limitation, where it is not feasible to attend live entertainment events or attendance at such events is limited), whether for an isolated event or a series of events or for a protracted period of time, such a situation could adversely impact any companies that are in any way dependent on the media/entertainment sectors to generate revenue, potentially materially so.

*Technology.* Technology companies face similar risks as companies within the communications and media and entertainment industries. Moreover, the technology industry is challenged by various factors, including rapidly changing market conditions and / or participants, new competing products, services and / or improvements in existing products. The companies in this industry in which a client makes an investment will compete in this volatile environment. There is no assurance that products or services sold by these companies will not be rendered obsolete or adversely affected by competing products and services or that these investments will not be adversely affected by other

challenges. Instability, fluctuation or an overall decline within the technology industry may not be offset by increases in other industries not so affected.

**Shipping.** The shipping industry is affected by global trade in general and, more particularly, trade in commodities. Low economic growth and volatility in commodity pricing (*e.g.*, iron ore) have contributed to lower shipping rates, and there can be no assurance that weakness in the shipping sector will not continue for a protracted period, or that the industry will not experience volatility in future periods. Companies in the shipping industry are subject to, among others, the following risks, in each case, which may not be insurable: (i) extensive and changing safety, environmental protection and other international, national, state and local governmental laws, regulations, treaties and conventions, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which a shipping company's vessels operate, as well as the countries of such vessels' registration, compliance with which may require ship modifications and changes in operating procedure; (ii) risks associated with non-U.S. investments and force majeure risks (for example, international sanctions, embargoes, restrictions, nationalizations, and wars or acts of piracy or terrorist attacks and severe weather, natural disasters and public health crises); (iii) labor-related risks; (iv) adverse changes in maintenance and other fixed costs and / or capital expenditure requirements; and (v) counterparty risks, including risks of adverse changes affecting chartering agreements from which a shipping company derives income. Additionally, Section 27 of the U.S. Merchant Marine Act of 1920 requires that vessels transporting cargo between U.S. ports must, among other requirements, be owned and operated by U.S.-organized companies that are controlled and 75% owned by U.S. citizens, which may substantially limit the potential pool of purchasers of a shipping vessel.

**Other Regulated Industries.** In addition to the foregoing, other industries are heavily regulated. The clients' investments include investments in companies operating in industries that are subject to greater amounts of regulation than other industries generally. Further to the discussion above, these more highly regulated industries include real estate, financial services (including banking, investing and mortgage servicing), transportation (*e.g.*, aviation), construction and businesses that serve primarily customers that are governmental entities, including the defense industry. Certain investments (*e.g.*, those involving hospitality, hotels and leisure) also can involve regulated activities (*e.g.*, gaming and liquor). Investments in companies that are subject to greater amounts of governmental regulation pose additional risks relative to investments in other companies generally, including, but not limited to, risks relating to approval of a change in ownership, and the acquisition and maintenance of applicable licenses. Changes in applicable laws or regulations, or in the interpretations of these laws and regulations, could result in increased compliance costs or the need for additional capital expenditures and / or regulatory capital requirements in the case of banks or similarly regulated entities. If a company fails to comply with these requirements, it could also be subject to civil or criminal liability and the imposition of fines. A company also could be negatively affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on such company. Governments have



considerable discretion in implementing regulations that could impact a company's business and governments may be influenced by political considerations and may make decisions that adversely affect a company's business. Additionally, certain companies and / or their service providers, agents or other counterparties, have unionized work forces or employees who are covered by a collective bargaining agreement, which could subject any such company's activities and labor relations matters to complex laws and regulations relating thereto. Moreover, a company's operations and profitability could suffer if it experiences labor relations problems with respect to its workforce or the workforce of any of its service providers, agents or other counterparties. Upon the expiration of any such company's collective bargaining agreements, a company or any of its service providers, agents or other counterparties may be unable to negotiate new collective bargaining agreements on terms favorable to it, and its business operations at one or more of its facilities may be interrupted as a result of labor disputes or difficulties and delays in the process of renegotiating its collective bargaining agreements. A work stoppage at one or more of any such company's facilities (or at that of any service provider, agent or other counterparty) could have a negative effect on its business, results of operations and financial condition. Additionally, any such problems may bring scrutiny and attention to a client itself, which could adversely affect that client's ability to implement its investment objective.

**Less-Established Companies.** The clients' investments include Instruments issued by less-established companies. Investments in less mature companies may involve greater risks than generally are associated with investments in more-established companies. Such less-established companies often do not have Instruments that trade publicly or easy access to the capital markets or other traditional funding sources. Instruments of such companies also often are subject to transfer limitations and other restrictions. To the extent there is any market for the Instruments of less-established companies, such Instruments may be subject to more abrupt and erratic market price movements than those of larger, more-established companies. Less-established companies tend to have lower capitalizations and fewer resources and, therefore, often are more vulnerable to financial failure. Such less-established companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. Very few start-up enterprises have significant (or any) operating revenues. Any such investment in a start-up should be considered highly speculative and may result in the loss of a client's entire investment therein. In addition, start-ups could be more susceptible to irregular accounting or other fraudulent practices, and in the event of fraud by any company in which a client invests, such client is likely to suffer a partial or total loss of capital invested in that company. The foregoing factors often increase the difficulty of valuing investments in less established companies. In addition, there can be no assurance that any losses on such investments will be offset by gains (if any) realized on a client's other investments.

**Additional Capital Requirements of Investments.** Certain of the companies in which the clients invest, especially those in a development or "platform" phase, may require, or potentially would benefit from, additional financing to satisfy their working capital requirements or acquisition strategies. The amount of any additional



financing to be raised will depend upon the maturity and objectives of each particular company. Each such round of additional financing (whether from the clients or other investors) typically is intended to provide such company with enough capital to reach the next major corporate milestone in an asset's lifecycle. If such financing is insufficient, such company may have to raise additional capital at a price unfavorable to existing investors, including the clients. The availability of capital is generally a function of capital market conditions that are beyond the control of the clients or any company. In addition, it may be necessary or desirable for a client to make additional debt and equity investments (including follow-on investments) or exercise warrants, options or convertible Instruments that were acquired in an earlier investment in such company in order to preserve that client's proportionate ownership when a subsequent financing is planned, or to protect that client's investment when the performance of such company does not meet expectations. Conversely, a client may elect not to make an additional equity and / or debt investment even where it has available funds, based on Centerbridge's business judgment, for example, regarding the long-term prospects of the investment. If a client does not participate in any such additional financing, that client's interest in such company likely would be diluted or become functionally subordinated. There can be no assurance that Centerbridge or any company would be able to predict accurately the future capital requirements necessary for success, or that additional funds will be available from any source.

**Non-Control Investments and / or Investments with Third Parties in Joint Ventures and Other Entities; Investments in Platforms.** The clients hold non-controlling interests in certain portfolio companies and, therefore, may have no right to appoint any directors and a limited ability to protect its interests in such companies and to influence such companies' management.

The clients may pursue certain of their strategies by investing in ventures such as joint ventures, syndicates or "club" deals or platforms. Such a platform may be one that has been formed by Centerbridge either exclusively or as a joint venture with others, through which Centerbridge executes a particular strategy (as is the case with Martello Re and existing and potential future CDO vehicles). In making the determination to invest client capital in a platform or joint venture, Centerbridge will have determined such an investment to be suitable for such client; even so, the involvement of Centerbridge and a client in establishing and funding a new platform through which a strategy that is suitable for such client is executed presents a potential conflict in that it contributes to the prospects of such platform, and the prospects of platforms formed by Centerbridge can contribute to Centerbridge's overall prospects. Fees charged by Centerbridge both directly to a client and indirectly through the fees of any other client in which such client invests may not be the lowest fee available for similar investment management services offered by unrelated managers, although, subject to the terms of the relevant client's governing documents, there could be a management fee offset relating to such indirect fees. In addition, it is possible that unrelated managers perform better than Centerbridge.





A platform or joint venture may be one in which the underlying investments selected by Centerbridge are not controlled (exclusively or at all) by Centerbridge or its affiliates. In such cases, the clients will be significantly reliant on the existing management and board of directors of such companies, which could include representation of other financial investors with whom the clients are not affiliates and whose interests may conflict with the interests of the clients. Such investments involve risks not present in investments where a third party is not involved, including the possibility that a third-party partner or co-venturer (i) has financial difficulties resulting in a negative impact on such investment, (ii) has economic or business interests or goals that are inconsistent with those of the client making such investment, or (iii) is in a position to take action contrary to such client's investment objectives. In addition, a client may, in certain circumstances, be liable for the actions of certain third parties, including co-investors. Investments made with third parties in joint ventures or other entities also often involve a special profits allocation and / or other fees, compensation or other amounts payable to such third-party partners or co-venturers. As a result, the clients will have to bear the expenses, fees and performance-based compensation associated with such investments. There is a risk that the combination of the Management Fee and incentive allocation and / or carried interest with such expenses, fees and performance-based compensation relating to such investments could result in lower returns to investors than are associated with other investments.

It is possible that clients, portfolio companies, joint ventures and / or platforms can have commercial interactions with one another, including where one party could also serve as a financing or similar source in connection with the acquisition, financing or disposition of another's investments, which could involve existing or potential investments or in connection with the activities and business operations of such existing or potential investments (regardless of the type of investment, be it a control, non-control, preferred equity, structured or other type of investment structure). There will not necessarily be third parties involved in any such transaction in order to help seek to ensure, among other things, that the terms of such participation by such client and / or its investments will reflect customary or market terms.

Similarly, if a client acquires certain interests in or securities of CDOs and other similar issuers, sponsored or managed by third parties, whether in the primary or secondary market, such client will bear all of the underlying fees, costs and incentive compensation payable to the CDO manager in full. If, however, such client were to acquire in the primary market certain interests in or securities of CDOs managed by Centerbridge, it is expected that Centerbridge would cause any fees or other compensation received by it with respect to such securities to be rebated to such client or offset the Management Fee by such amounts, for the benefit of such client and its investors. A potential conflict can arise, in that Centerbridge may be incentivized to cause a client to invest in a CDO managed by Centerbridge to enable it to launch such CDO and to encourage other market participants to invest in such CDO, or, conversely, may not be incentivized to invest a client's capital in such CDO even if it were an attractive investment if such investment would cause a reduction of fees to Centerbridge due to the rebate or offset mechanism. In addition, where a client owns a controlling position of





such CDO equity, a potential conflict can arise in that it may be in such client's best interests to "call" the deal and cause the redemption of the CDO securities issued by such CDO where an alternative and potentially more attractive investment opportunity exists, but detrimental to Centerbridge if it would lose associated fee revenues in its capacity as collateral manager of the CDO. Similar conflicts of interest can arise in connection with Centerbridge's exercise (or failure to exercise) the client's other rights as holder of such CDO equity, including rights relating to the refinance of such CDO, approval of amendments and removal of the collateral manager, or otherwise in connection with the activities of the clients (and Centerbridge on its behalf) or the applicable CDO (and the applicable Centerbridge affiliate acting as its manager on its behalf), including in connection with cross trades. For the avoidance of doubt, any fees, costs and expenses or other amounts or compensation (including management fees, operating expenses, incentive allocation and / or carried interest) earned by Centerbridge or otherwise borne with respect to investments and / or securities that are managed by Centerbridge (including an investment in another client) that are acquired by a client in the secondary market will not be rebated to such client and such amounts would not offset the Management Fee.

**Reliance on Companies' Management Teams.** The day-to-day operations of each company in which the clients invest will be the responsibility of such company's management team. The success of each company depends in substantial part upon the skill, expertise and cooperation of the applicable company's management team. The amount of time spent by management teams on their companies will also be important, and in that respect it is noted that management teams of one company can be expected, from time to time, to have involvement in sourcing and / or management functions of other companies (including portfolio companies of other Centerbridge clients). Additionally, companies will need to attract, retain and develop executives and members of their management teams. The market for executive talent is, notwithstanding general unemployment levels or developments within a particular industry, extremely competitive. There can be no assurance that companies will be able to attract, develop, integrate and retain suitable members of their management teams and, as a result, the clients may be adversely affected thereby. Centerbridge will also be responsible for monitoring the performance of each company to varying degrees, depending on a number of factors such as ownership interest, level of governance and information rights, but there can be no assurance that the existing management team, or any successor, will operate the company in accordance with the clients' preferences or expectations.

In the case of certain types of businesses / operating companies, including corporate platforms, it may be beneficial to involve a local sourcer, operating partner and / or other resource. The clients can be expected to enter into an arrangement with one or more individuals (who typically have experience or capability in sourcing and / or managing investments) to undertake a build-up strategy to acquire and develop assets and business in a particular sector or involving a particular strategy. Such individuals typically are compensated with a salary and / or equity incentive plan, which often takes the form of a management fee and / or profits allocation (whether paid, distributed or allocated directly to such individuals and / or to an affiliated entity controlled by such



individuals). This can be calculated as a percentage of assets under management, a profits allocation and / or a distribution waterfall similar to a carried interest, as applicable. Each such individual, including existing or past Service Providers (as defined herein) to Centerbridge or companies in which the clients invest, can be expected to undertake analysis and evaluation of potential investment opportunities for such companies. In such circumstances, the clients initially would invest capital to fund all or a portion of the overhead (including rent, salary or retainers for such individuals and / or their affiliated entity) and sourcing costs for initial investments by the platform and may provide ongoing contributions, for example, to fund investments and working capital. The clients (and indirectly the investors, and not solely Centerbridge) will bear the cost of overhead and the sourcing and analysis of investments, as well as compensation for the related counterparties, for any such arrangements, including platform companies (even if former Centerbridge personnel are part of the management team of such platform companies).

**Risks in Managing Portfolio Companies and Effecting Operating Improvements.** In some cases, the success of the clients' investment strategy will depend, in part, on the ability of the clients to restructure and effect improvements in the operations of a company in which a client invests. The activity of identifying and implementing operating improvements at companies entails a high degree of uncertainty. There can be no assurance that the clients will be able to successfully identify and implement such improvements. Additionally, to the extent the clients acquire a controlling or control-oriented interest in a company, the clients are exposed to risks inherent in owning or operating the business of such company.

Companies in certain industries in which the clients invest, for example, in the healthcare and hospitality sectors, will be subject to additional pressures to continuously upgrade their facilities through ongoing renovations and capital improvements in order to stay competitive. There is no assurance that a company's management team will undertake such capital improvements or that cash flow and reserves from operations will be adequate to meet costs of such improvements. In these circumstances, the clients may be required to provide additional funding and may be adversely affected thereby. In addition, owned properties that become unprofitable may not be easily converted to other uses.

The exercise of control over a company through a control position, or the service of an officer or employee of Centerbridge and its affiliates as a director of a company, could (i) expose the assets of the clients to claims by such company, its Instrument holders and creditors or (ii) impose additional risks of liability for environmental damage, social and governance issues, workplace accidents, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored. Liabilities of companies, including those related to activities that occurred prior to a client's investment therein, could have an adverse impact on such client. If these liabilities were to accrue, the clients, directly, and the clients' investors indirectly, could suffer losses. While Centerbridge intends to manage the clients in a manner that will minimize the exposure of these risks, the possibility of successful claims



cannot be precluded, and if these liabilities were to arise, the clients might suffer a significant loss.

**Contingent Liabilities.** From time to time, the clients may incur contingent liabilities in connection with an investment. For example, a client may enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to that client. From time to time, the client also may be asked to guarantee the liabilities of its affiliates. In addition, in connection with the disposition or financing of an investment, a client may be required to make representations about the business, financial affairs and other aspects (such as property, tax, insurance and litigation) of an issuer typical of those made in connection with the sale of any business and may be responsible for the content of disclosure documents under applicable securities laws. It also may be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosures ultimately prove to be inaccurate. In the event that the amount of such contingent liabilities exceeds the reserves and other assets of the relevant client, subject to the terms of such client's governing documents, the investors may be required to return to such client all or a portion of amounts distributed to them to fund such client's indemnification obligations.

**Environmental Liabilities.** The clients may be exposed to substantial risk of loss from environmental claims arising from their investments involving undisclosed or unknown environmental, health or occupational safety matters, or problems with inadequate reserves, insurance or insurance proceeds for such matters that have been previously identified. Under various federal, state, and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate is generally liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Such laws may impose joint and several liability, which can result in a party being obligated to pay for greater than its share, or even all, of the liability involved. Such liability also may be imposed without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefor as to any property generally are not limited under such laws and could exceed the value of the property and / or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on a client's return from such investments. Environmental claims with respect to a specific investment may exceed the value of such investment, and under certain circumstances, subject the other assets of the relevant client to such liabilities. In addition, even in cases where a client is indemnified by the seller with respect to an investment against liabilities arising out of violations of environmental laws and regulations, there can be no assurance as to the financial viability of the seller to satisfy such indemnities or the ability of such client to achieve enforcement of such indemnities.

Prolonged changes in climatic conditions could have a significant impact on the revenues, expenses and conditions of certain investments. Additionally, initiatives seeking to address climate change through regulation of greenhouse gas emissions have been adopted by, are pending or have been proposed before international, federal, state and regional regulatory authorities. Such regulations could materially impact the revenues and expenses of an investment. Climate change may cause more extreme weather conditions and increased volatility in seasonal temperatures, which can interfere with operations and increase operating costs, and damage resulting from extreme weather may not be fully insured. Many industries (*e.g.*, electrical power, mining, manufacturing, transportation, sports, entertainment and insurance) face various climate change risks, many of which could conceivably materially impact them. While the precise future effects of climate change are unknown, it is possible that climate change could create risks such as (i) regulatory/litigation risk (*e.g.*, changing legal requirements that could result in increased zoning and compliance costs, changes in business operations, the discontinuance of certain operations and related litigation); (ii) market risk (*e.g.*, declining market for products and services perceived as greenhouse gas intensive or where weather events make live events impracticable); and (iii) physical risk (*e.g.*, risks to plants or property owned, operated or insured by a company posed by rising sea levels, increased severity or frequency of storms, drought, changes of precipitation levels, wind levels, annual sunshine levels, and other meteorological occurrences that are attributable to climate change or create or substantially contribute to other severe weather events). In the event that climate change causes sea levels to rise, certain investments might be forced to incur expenses to prevent assets from being damaged or rendered unusable by such rising sea levels. These risks could result in unanticipated delays or expenses, especially for electricity, and, under certain circumstances, could prevent completion of investment or disposition activities once undertaken, any of which could have an adverse effect on the clients.

**Control Person Liability.** Certain clients acquire (including through restructurings or otherwise) controlling interests in certain investments. The fact that a client or Centerbridge exercises control or exerts influence (or merely has the ability to exercise control or exert influence) over a company may give rise to risks of liability (including under various theories of parental liability and piercing the corporate veil doctrines) for, among other things, personal injury and / or property or environmental damage claims arising from an accident or other unforeseen event, social and governance issues, product defects, employee benefits (including pension and other fringe benefits), failure to supervise management, violation of laws and governmental regulations (including securities laws, anti-trust laws, employment laws, anti-bribery (and other anti-corruption) laws) and other types of liability for which the limited liability characteristic of business ownership and the clients themselves (and the limited liability structures that may be utilized by the clients or otherwise) may be ignored or pierced, as if such limited liability characteristics or structures did not exist for purposes of the application of such laws, rules regulations and court decisions. These risks of liability may arise pursuant to U.S. and non-U.S. laws, rules, regulations, court decisions or otherwise (including the laws, rules, regulations and court decisions that apply in jurisdictions in which an investment or its subsidiaries are organized, headquartered or conduct business). Such



liabilities also may arise to the extent that any such laws, rules, regulations or court decisions are interpreted or applied in a manner that imposes liability on all persons that stand to economically benefit (directly or indirectly) from its investments, even if such persons do not exercise control or otherwise exert influence over such investments (*e.g.*, investors). Lawmakers, regulators and plaintiffs have recently made (and may continue to make) claims along the lines of the foregoing, some of which have been successful. For example, the European Commission held a fund (unrelated to Centerbridge) liable as a result of a portfolio entity that engaged in anticompetitive cartel activities on the basis that the fund had exercised influence over the portfolio entity. Similarly, various jurisdictions permit certain classes of creditors to make claims (including, by way of example only, with regard to, environmental, consumer protection and pension and labor law matters and liabilities) against shareholders of a company if the company does not have resources to pay out the claim. The clients could become liable for certain classes of claims against the companies they own. It is possible that creditors of portfolio companies owned by one client may seek to make certain claims (including, by way of example only, with regard to, environmental, consumer protection and pension / labor law matters and liabilities) against other clients or portfolio companies due to their common control relationship. The laws of certain jurisdictions provide not only for carve-outs from limited liability protection for a company that has incurred certain liabilities, but also for recourse to assets of other entities under common control with, or that are part of the same economic group as, such company. For example, if a portfolio company is subject to bankruptcy or insolvency proceedings in a jurisdiction and is found to have liabilities under the local consumer protection laws, the laws of that jurisdiction may permit authorities or creditors to file a lien on, or to otherwise have recourse to, assets held by entities under common control or that form part of the same economic group, potentially including portfolio companies of the clients. If these liabilities were to arise with respect to the clients or their investments, the clients might suffer significant losses and incur significant liabilities and obligations. The having or exercise of control or influence over an investment could expose the assets of the clients, Centerbridge and their respective affiliates to such claims, and to claims of its security holders and its creditors and regulatory authorities or other bodies. While Centerbridge intends to manage the clients to minimize exposure to these risks, the possibility of successful claims cannot be precluded, nor can there be any assurance as to whether such laws, rules, regulations and court decisions will be expanded or otherwise applied in a manner that is adverse to the clients. Moreover, it is possible that, when evaluating a potential investment, Centerbridge may choose not to pursue or consummate such investment, if any of the foregoing risks may create liabilities or other obligations for any of the clients, Centerbridge or any of their respective affiliates.

**Holding Vehicles and Special Purpose Vehicles.** Centerbridge expects to establish holding vehicles, special purpose vehicles or other similar vehicles (possibly qualifying as alternative investment vehicles) beneath the clients to hold directly or indirectly one or more investments. Proceeds received by such holding vehicle, special purpose vehicle or other similar vehicle from one investment which it holds may be applied to satisfy obligations in respect of such investment and / or one or more other investments held by such holding vehicle. Proceeds also may be used to pay other





portfolio companies' or holding vehicles' obligations under a cross-collateralized facility (including the payment of principal, interest, fees and expenses related thereto), and thereafter such holding vehicle, special purpose vehicle or other similar vehicle may re-borrow from the facility to satisfy obligations in respect of the investment that generated such proceeds or one or more other investments. The treatment of the receipt, use and recontribution by such holding vehicle, special purpose vehicle or other similar vehicle of any such proceeds for purposes of, among other things, calculating an investor's unfunded capital commitment, the carried interest waterfall, and preferred returns are described in more detail in each client's offering documents. In addition, such arrangement may result in higher or lower reported multiples than if such proceeds had otherwise been distributed (or deemed distributed) to the clients or the investors.

**Appraisals.** Deficiencies in appraisal quality in the loan origination or investment process may adversely impact the performance of the investments. During the loan underwriting process, appraisals may be obtained on the collateral underlying each prospective loan. The quality of these appraisals may vary widely in accuracy and consistency. The appraiser may feel pressure to provide an appraisal in the amount necessary to enable the originator to make the loan, whether or not the value of the property justifies such an appraised value. If inaccurate or inflated appraisals result in an increase in the severity of losses on the loans, the clients could incur losses that materially and adversely affect their financial condition.

**Financial Projections Related to the clients' Investments.** Centerbridge generally will make investment decisions and establish the capital structure of companies and / or the terms of financing for a company, on the basis of financial projections, including projections specific for such companies. There can be no assurance that financial or economic models used to determine investment decisions will be correct, accurate or appropriately reflect subsequent developments or all the other factors that could cause actual results to differ from such models or projections. Projected operating results will often be based on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a negative impact on the reliability of such projections. Moreover, a client's investments, particularly investments in loans or other forms of indebtedness, may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer or borrower repaying the principal on an obligation held by that client earlier than expected (which could result in the client's investment return from such investment being less than that anticipated by the client when it made the investment). As a consequence, the client's ability to achieve its investment objective may be affected.

**Risks Relating to Due Diligence of and Conduct at Companies.** Before making an investment in a company, Centerbridge typically will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to such company (including the nature of the security, the size of the clients' proposed





investment and deal dynamics). Due diligence generally entails evaluation of important and complex business, financial, tax, accounting, environmental, social, government, technical, compliance and legal issues. When conducting due diligence and making an assessment regarding an investment, Centerbridge will rely on the resources available to it, including information provided by the target of the investment and, in some circumstances, third-party investigations. Representations made by a counterparty could be inaccurate, and third-party investigations may not uncover risks. Conduct occurring at a company, even activities that occurred prior to a client's investment therein, could have an adverse impact (financial or otherwise) on such client. The due diligence investigation that Centerbridge carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that are necessary or helpful in evaluating such investment opportunity or may have been discovered with a more fulsome process (as discussed in more detail in the following paragraph), where there may be limited publicly available information with respect to a particular company or its executives, where, because of the size or other aspects of an investment, limited information is made available to the clients by the prospective company, or in circumstances where all or a portion of such due diligence is conducted remotely. Moreover, conducting such diligence will not necessarily result in an investment in a company being successful. In circumstances where Centerbridge accesses non-public confidential information, there is a possibility that certain trading restrictions would apply to Centerbridge, which may affect the clients' ability to transact. See also Item 11.D. Additionally, it is difficult to obtain accurate and complete information regarding the true financial condition of certain companies, especially those in financial distress. There can be no assurance that attempts to provide downside protection with respect to assets or companies in which a client invests will achieve their desired effect, and potential investors should regard an investment in a client as being speculative and having a high degree of risk.

In addition, at times, a client's investment opportunities will require rapid execution, and investment analyses and decisions by Centerbridge frequently will be undertaken on an expedited basis to take advantage of investment opportunities. Accordingly, in certain cases, Centerbridge may not conduct its standard level of due diligence with respect to a particular prospective investment, including where Centerbridge believes that such level of due diligence is either not possible or not practicable given the circumstances of the proposed investment (such as where the window of opportunity is short and the demand by other investors is high). In such circumstances, there may be a shorter due diligence process, a smaller Centerbridge deal team and / or a less formal investment committee process than another investment under different circumstances might entail. In such cases, the information available to Centerbridge at the time an investment decision is made can be limited, and Centerbridge at times will not have access to detailed information regarding the investment opportunity. With respect to real estate-related investments, Centerbridge may not be able to undertake all appropriate inquiries into the previous ownership and uses of a property consistent with typical or customary practice. Therefore, no assurance can be given that Centerbridge will have knowledge of all circumstances that could adversely affect an investment.



Outside consultants, legal advisors, accountants, investment banks and other third parties often are involved in the due diligence process to varying degrees depending on the type of investment. Such involvement of third-party advisors or consultants presents a number of risks, including that Centerbridge has reduced control of the functions that are outsourced. In addition, if Centerbridge is unable to timely engage third-party providers, its ability to evaluate and acquire more complex targets could be adversely affected. No assurance can be given as to the accuracy or completeness of the information provided by such independent consultants and the clients may incur liability as a result of such consultants' actions.

Additionally, in the case of investments in loans, the company or the seller thereof may make material misrepresentations or omissions with respect to such loans. Such inaccuracy or incompleteness may adversely affect the value of the relevant client's Instruments in such company and / or the valuation of the collateral underlying the loans or adversely affect the ability of such client to perfect or effectuate a lien on the collateral securing the loan. The relevant client will rely upon the accuracy and completeness of representations made by companies and / or their former owners in the due diligence process to the extent reasonable, but cannot guarantee the accuracy or completeness of such representations. Under certain circumstances, payments to a client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Indemnification; Absence of Recourse.** The governing documents of each client provide for indemnification by the applicable client of Centerbridge, certain service providers and their respective affiliates, and their respective officers, directors, agents (including the "partnership representative" and the "designated individual"), stockholders, members and partners for liabilities incurred in connection with the affairs of such client. Additionally, such parties may be entitled to exculpation by the clients. Such liabilities (including, without limitation, in connection with trade errors borne by the applicable client) may have a negative effect on the returns to the investors in the applicable client. For example, in their capacity as directors of portfolio companies, the officers, directors, agents, stockholders, members or partners of Centerbridge may be subject to derivative or other similar claims brought by shareholders of such companies. The indemnification obligation of the applicable client would be payable from the assets of such client (including any unfunded capital commitments). If the assets of the applicable client are insufficient, Centerbridge could recall distributions previously made to the investors in such client (subject to certain limitations). Furthermore, investors in a client may have a more limited right of action in certain cases than they would in the absence of such limitations. In addition, in order to comply (or to facilitate compliance) with regulations and policies to which the clients, Centerbridge or service providers (including financial institutions) are or may become subject, or to satisfy regulatory or other requirements in connection with the consummation of investments or with respect to any lender, the clients, Centerbridge, their respective affiliates and their respective consultants, attorneys or other advisors could be required to disclose information about the investors, including their identities and the identities of their beneficial owners, as well as information reasonably required in connection with any tax audit involving a



client or any investor. It should be noted that Centerbridge causes the clients to purchase insurance for the clients, Centerbridge and their employees, agents and representatives. In addition, Centerbridge could cause a client to advance the costs and expenses of an indemnitee pending outcome of the particular matter (including determination as to whether or not the person was entitled to indemnification or engaged in conduct that negated such person's entitlement to indemnification). As a result, there may be periods where a client is advancing expenses to an individual or entity with whom such client is not aligned or is otherwise an adverse party in a dispute.

As set forth in the client's governing documents, any person entitled to indemnification from a client is obligated to first seek recovery under any other indemnity or under any insurance policy applicable and available to such person before seeking indemnification from such client, but only to the extent that the indemnitor with respect to such indemnity or the insurer with respect to such insurance policy provides (or acknowledges its obligation to provide) such indemnity or coverage on a timely basis, as the case may be.

**Section 16 Restrictions and Participation on Boards of Directors and Other Committees.** It is anticipated that the clients may, in certain circumstances, and when and if applicable, have the opportunity to place their representatives on the boards of directors and / or other committees of certain companies in which the clients have invested. It is also anticipated that the clients will invest in affiliate companies in which Centerbridge and / or other investors in their clients will have representatives on the boards of such companies. While such representation could enable the clients to enhance the sale value of their debt investments in a company, such involvement (and / or an equity stake by the clients, Centerbridge and / or other investors in the clients in such company) could also prevent the clients from freely disposing of their debt investments and subject the clients to additional liability or result in re-characterization of the clients' debt investments as equity. In addition, the clients' acquisition of beneficial ownership of more than 10% of the equity Instruments of certain issuers (either alone or as part of a group) or the service by officers or employees of Centerbridge and its affiliates as directors of such issuers may subject the clients to reporting obligation under Section 16(a) of the Exchange Act, liability for "short-swing profits" under Section 16(b) of the Exchange Act and / or restrict the clients' ability to hedge under 16(c) of the Exchange Act. In this regard, in determining whether the clients would be subject to Section 16 as a greater than 10% beneficial owner, it may be alleged that the clients should be classified as a group with each other. Under Section 16(b), beneficial owners of more than 10% of any class of voting, equity Instruments of an issuer registered under Section 12 of the Exchange Act and executive officers and directors of such an issuer may be subject to short-swing profit liability from any purchase and sale, or any sale and purchase, of any equity or derivative Instrument of such issuer within any period of less than six months. If the clients engage in a transaction that results in short-swing profits, subject to disgorgement under the Exchange Act, the issuer (or a shareholder on the issuer's behalf) may bring an action or otherwise seek such disgorgement, which could adversely affect the overall return on investment realized by the clients. Measures to avoid short-swing profit liability often limit the ability of the clients to buy or sell Instruments of such



issuers. In addition, in such circumstances, the clients will be prohibited from entering into certain short positions in such issuer's Instruments and limited in its ability to put on short exposure through options or derivatives and therefore may be limited in their ability to hedge such Instruments.

A client would expect to seek from a company and, where applicable, its affiliates, customary rights of indemnification and / or contribution related to such client's involvement with and / or ownership position in such portfolio company. It is possible that, for a variety of reasons, indemnification or contribution from a portfolio company is not available (whether because the portfolio company is insolvent, because the claims for indemnification or contribution are disallowed or there is a delay in payment or other reimbursement associated therewith). In addition, any "D&O," "E&O" or other similar insurance may be unavailable or insufficient to cover the losses to Centerbridge and / or the relevant client. In such case, such client and its investors, rather than the portfolio company and its affiliates, would bear the costs and expenses of such indemnification and obligations. The relevant client will indemnify Centerbridge, and its members, partners, shareholders, directors, officers, employees and, if specifically agreed by Centerbridge, its agents of each of them, for claims arising from such board and / or committee representation and / or service. Centerbridge will attempt to balance the advantages and disadvantages of such representation and / or service when deciding whether and how to cause the clients to exercise their rights with respect to such companies, but the exercise of such rights could produce adverse consequences in particular situations.

**Potential Impact of Consulting and Other Relationships.** Centerbridge has the ability to engage and retain strategic advisors, senior advisors and other consultants and professionals, including members of "expert networks" who are not employees or affiliates of Centerbridge, including former senior officials, other high-profile figures and persons known to be close associates of such individuals. The nature of the relationship with each of these professionals and the amount of time devoted or required to be devoted by them varies considerably. In certain cases, they provide Centerbridge with industry- or jurisdiction-specific insights and feedback on investment themes, assist in transaction due diligence and make introductions to and provide reference checks on management teams. In other cases, they take on more extensive roles and contribute to the origination of new investment opportunities, or make introductions to and provide reference checks on management teams. They also may contribute insights in relation to other topics of importance to portfolio companies, such as environmental, social and governance (or ESG) and diversity, equity and inclusion (or DEI) topics. In certain instances, Centerbridge has formal arrangements with these professionals (with varying termination features), and in other cases the relationships are more informal.

There can be no assurance that any of the consultants and / or other professionals will continue to serve in such roles and / or continue their arrangements with Centerbridge for the duration of the investments with which they are involved or otherwise throughout the term of the clients. Further, by virtue of information received from such professionals, the clients may become (or elect to become) subject to trading



restrictions pursuant to the internal trading policies of Centerbridge or as a result of applicable law or regulations or be prohibited for a period of time from purchasing or selling Instruments, which prohibition may have an adverse effect on the clients. Centerbridge and the clients also may become subject to legal, regulatory, reputational and other unforeseen risks that arise from associating with these and other Service Providers who themselves face such issues.

**FCPA Considerations and Anti-Bribery Laws.** There can be no assurance that a client will be able to detect or prevent irregular accounting, employee misconduct or other fraudulent practices (including, without limitation, violations of applicable anti-bribery laws, including the U.S. Foreign Corrupt Practices Act (the “FCPA”) and the U.K. Bribery Act (the “Bribery Act”)) during the due diligence phase or during its efforts to monitor a company on an ongoing basis. In the event of fraud by any company or any of its affiliates or any of their officers, directors or employees, the relevant client is likely to suffer a partial or total loss of capital invested in such company. In some countries, there is a greater acceptance than in the United States of government involvement in commercial activities and of corruption. Under the FCPA, it is unlawful for U.S. persons and, in certain circumstances, foreign persons to pay or offer bribes, directly or indirectly, to a foreign official in order to obtain, retain or direct business. In recent years, the U.S. Department of Justice and the SEC have devoted greater resources to enforcement of the FCPA. In addition, with the enactment in 2010 of the Bribery Act, the U.K. significantly expanded the reach of its anti-bribery laws. Although Centerbridge has adopted and will maintain policies and procedures reasonably designed to ensure compliance by the clients with applicable anti-bribery and anti-corruption laws and regulations, there can be no guarantee that the clients, their portfolio companies, or their respective officers, directors and employees, will comply with those policies and procedures or applicable anti-bribery and anti-corruption laws. Centerbridge is dedicated to complying with the FCPA and other anti-corruption laws, anti-bribery laws and regulations, as well as anti-boycott regulations, to which it is subject.

In spite of Centerbridge’s efforts to comply with the FCPA, the Bribery Act and other applicable laws, individuals purporting to act on behalf of Centerbridge or affiliates of portfolio companies, particularly in cases where the clients do not control such portfolio company, could engage in activities that could have legal implications under such laws, including allegations of violations of such laws, whether before or after the clients make an investment. Any allegation or determination that the clients or Centerbridge has liability arising from a violation of the FCPA or other applicable anti-corruption laws or anti-bribery laws could subject the clients or Centerbridge to, among other things, civil and criminal proceedings and penalties, fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect Centerbridge’s business prospects and / or financial position, as well as the clients’ ability to achieve their investment objectives and / or conduct their operations.

**Litigation.** In connection with ordinary course investing activities, Centerbridge, the clients and their respective affiliates, employees and directors, as well





as portfolio companies of the clients are and may become involved in litigation either as a plaintiff or a defendant. Moreover, in light of Centerbridge's distressed investment activities, Centerbridge, the clients and their respective affiliates as well as portfolio companies of the clients are and may become parties in interest (for example, as creditors) in bankruptcy proceedings. Given the inherently adverse nature of the bankruptcy claims process, claimants having diverse interests to Centerbridge, its affiliates and portfolio companies have sought and will seek to advance wide-ranging arguments intended to enhance their recovery prospects.

With respect to the clients' real estate investing activities, the acquisition, ownership and disposition of real property carries certain specific litigation risks. Litigation may be commenced with respect to a property or asset acquired by a client in relation to activities that took place prior to such client's acquisition of such property or asset. In addition, at the time of disposition of an individual property or asset, a potential buyer may claim that it should have been afforded the opportunity to purchase the asset, or alternatively that such potential buyer should be awarded due diligence expenses incurred or statutory damages for misrepresentation relating to disclosure made or not made by the relevant client, if such buyer is passed over in favor of another as part of a client's efforts to maximize sale proceeds. Similarly, successful buyers may later sue the relevant client(s) under various damage theories, including those sounding in tort, for losses associated with latent defects or other problems not uncovered in due diligence.

There can be no assurance that any litigation, once begun, will be resolved in favor of a client. Any such litigation could be prolonged and expensive and typically such costs (which may include consultants, investigators, experts, electronic discovery vendors and other advisors, in addition to legal costs, and which in the aggregate may be substantial) are borne by the client. In addition, it is not unusual for participants in reorganizations to use the threat of, as well as actual, litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by a client and would reduce net assets or could require investors to return to the client distributed capital and withdrawal proceeds.

**Leverage and Financing Risk.** Each client has the authority to use leverage in various forms, including through borrowing on margin, derivative instruments, repurchase agreements or otherwise. Certain clients have restrictions or limitations on leverage, including on the amount of borrowings and guarantees that the clients may incur, as more fully described in their governing documents. While the clients are subject to certain limits on borrowings as set for their in their governing documents, investments, holding companies and / or special purpose entities formed by the clients are permitted to engage in borrowings and incur leverage (including through the use of any multi-asset back leverage facility), which will not count toward any caps on borrowings and guarantees of the clients, as contained in their governing documents. Similarly, embedded leverage and other similar forms of leverage generally will not be subject to the borrowing limitations set forth in the governing documents. Leverage will likely vary and could be meaningful at times.





The clients sometimes leverage their capital because Centerbridge believes that the use of leverage may enable the client to achieve a higher rate of return. Accordingly, in such circumstances a client may pledge its Instruments and provide credit support in order to borrow additional funds for investment purposes. A client also may leverage its investment return with options, short sales, swaps, forwards and other derivative instruments. The amount of indebtedness that a client may have outstanding at any time may be substantial in relation to its capital. Although indebtedness incurred by the clients can generate proceeds that can be deployed into new or follow-on investments made by the clients and has the potential to enhance overall returns that exceed the clients' cost of funds, it will further diminish returns (or increase losses on capital) to the extent overall returns are less than the clients' cost of funds. Borrowing money to take positions provides the clients with the advantages of leverage but exposes them to greater market risks and higher current expenses.

Use of a subscription-based credit facility (or other long-term leverage) can generate a higher reported internal rate of return for the clients' investors than if a facility had not been utilized and instead the client's investors' capital had been contributed at the inception of an investment, and may therefore present conflicts of interest as a result of certain factors, including that the interest rate payable to the lender(s) on such borrowings typically is less than the rate of the preferred return and that the preferred return does not accrue on such borrowings, but rather will accrue when capital contributions and / or investments are made as described in the clients' governing documents. As a result, use of such long-term leverage arrangements with respect to investments may reduce or eliminate in certain circumstances the preferred return received by the clients' investors and may have the effect of accelerating or increasing distributions of carried interest to Centerbridge, providing Centerbridge with an economic incentive to use long-term borrowings. Subject to the limitations in each of the client's governing documents, the use of a subscription-based credit facility by the clients is within Centerbridge's sole discretion, and the permitted duration for such borrowings and other terms varies by client as a function of a client's governing documents and other facts and circumstances. To the extent that a client is unable to obtain a credit facility, access to such facility becomes unavailable or Centerbridge otherwise determines not to use such facility, Centerbridge may draw down commitments in advance and hold them in reserve in order to make investments, satisfy fees and expenses and other capital needs as such needs may arise in the future.

While leverage presents opportunities for increasing a client's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by a client would be magnified to the extent the client is leveraged. The cumulative effect of the use of leverage by a client in a market that moves adversely to the client's investments (including if shares pledged to secure a margin loan experience a decline in value, potentially resulting in a margin call) could result in a substantial loss to the client which would be greater than if the client was not leveraged.



The Instruments and borrowing utilized by the clients to leverage investments is permitted to be collateralized by any assets of the clients, and collateral securing such borrowings will include (but is not limited to), either singly or in combination, the clients' and Centerbridge's rights to make capital calls, any accounts of the clients into which capital contributions are received and other related rights of the clients and / or Centerbridge with respect to the capital commitments and capital contributions of the investors and / or the clients' direct or indirect interests in its investments and related investment proceeds (and may be cross-collateralized with the assets of any parallel fund and / or any feeder fund, subsidiary, financing vehicle or alternative investment vehicle of the clients or with the assets of any other affiliates or other persons, including any applicable co-invest vehicle, and such entities may be held jointly and severally liable for the full amount of the obligations arising out of such Instruments and borrowings). Accordingly, the clients may pledge their assets (including their capital commitments) in order to borrow additional funds or otherwise obtain leverage for investment or other purposes (including in support of the obligations of any parallel fund and / or any feeder fund, subsidiary, financing vehicle or alternative investment vehicle of the clients or with the assets of any other affiliates or other persons, including any applicable co-invest vehicle).

Centerbridge is also permitted to pledge the obligations of the investors in a client to make capital contributions to secure financing arrangements for the clients, pledge assets of the clients and also guarantee or provide credit support with respect to the indebtedness of others (including portfolio companies and entities through which investments by the clients are held). In addition, where third-party investors, including any co-investors, participate in an investment, a client will (where Centerbridge deems appropriate) guarantee or provide other credit support in an amount in excess of its proportionate interest in the investment, including amounts in respect of the interests of co-investors or other third-parties, which could remain outstanding on a temporary or ongoing basis over the term of the investment. In these circumstances, the clients will bear a disproportionate amount of the liabilities and costs associated with the relevant guarantee or other credit support, and the clients' assets, including the relevant investment as well as the clients' assets generally (including unfunded capital commitments) will be available to satisfy such liabilities and costs.

If a client were to cross-collateralize any of its investments, each of such client's investors, including those that have no (or different) interest in certain investments (due to exercise of excuse or exclusion rights, for example), would nevertheless be exposed to risks associated with such client's interest in such cross-collateralized investments. For example, in the event that the value of such investment were to meaningfully deteriorate, there could be a margin call on the client's facility, in response to the decrease in the collateral value. A decline in the value of such investment could also result in increased costs of borrowing for the client as a whole. Investors may also have an interest in certain investments that is disproportionate to their exposure to leverage through cross-collateralization on other investments. For example, if an investor is excused or excluded from an investment, through cross-collateralization, they may nevertheless be indirectly exposed to risks associated with leverage on investments in



which they are not invested and distributions from unrelated investments may be used to satisfy obligations with respect to such investment, in which case investors without exposure to such investment may receive such proceeds later than they otherwise would have, in a reduced amount, or not at all. Similar circumstances could arise in a situation where a client and a co-invest vehicle participate in borrowings that experience a margin call, and a co-invest vehicle's investors already have funded their full commitments to such vehicle and accordingly have the option (and not the obligation) to fund additional amounts or otherwise be diluted by such client. The clients could experience concurrent liquidation on multiple investments to satisfy its borrowing obligations, and an adverse event or condition at or with respect to one investment could negatively affect and / or cause a loss of a different investment that would not otherwise be subject to such adverse event or condition.

The extent to which a client uses leverage may have consequences to the client's investors, including the following: (i) use of cash flow (including capital contributions) for debt service and related costs and expenses, rather than for follow-on investments, distributions or other purposes; (ii) interest expense, which can increase if interest rate levels rise; (iii) in certain circumstances, prematurely harvesting investments to service such client's debt obligations; and (iv) limitations on the activities of such client, including the flexibility of such client to make distributions to its investors or sell assets that are pledged to secure the indebtedness.

For example, a client or any portfolio company may, in the future, enter into financing arrangements that contain financial covenants that could require it to maintain certain financial metrics. The clients expect that the terms of such financing arrangements generally will provide that the principal amount of assets must exceed the principal balance or market value of the related debt by a certain amount, commonly referred to as "over-collateralization." Centerbridge anticipates that the financing terms available to a client may provide that, if certain delinquencies and / or losses exceed specified levels, the required level of over-collateralization may be increased or may be prevented from decreasing as would otherwise be permitted if losses or delinquencies did not exceed those levels. Failure to obtain favorable terms with regard to over-collateralization may materially and adversely affect the liquidity of the clients. If assets held by a company or investment vehicles fail to perform as anticipated, their over-collateralization or other credit enhancement expenses may increase, resulting in a reduction in income and cash flow to the clients from these companies and / or investment vehicles. If such client, portfolio company or investment vehicle were to breach the financial covenants contained in any such financing arrangement, it might be required to repay such debt immediately in whole or in part, together with any attendant costs, and such client might be forced to sell some of its assets to fund such costs or be restricted from making distributions. Such financial covenants could also limit the ability of Centerbridge to adopt the financial structure (*e.g.*, by reducing levels of borrowing) which it could have adopted in the absence of such covenants. In addition, such arrangements may contain provisions that expose it to particular risk of loss. For example, any cross-default provisions could magnify the effect of an individual default. If



a cross-default provision were exercised, this could result in a substantial loss for the clients.

In addition, a decline in the quality of assets in an investment vehicle due to poor operating results of the relevant issuer, or a decline in the value of collateral (whether due to poor operating results or economic conditions), among other things, may force an investment vehicle to sell certain assets at a loss, reducing their earnings and, in turn, cash potentially available for distribution to the clients, or in certain cases a margin call or mandatory prepayment may be triggered by such perceived decrease in value which may require a large amount of funding (either from separate borrowing proceeds or capital contributions) on short notice. The equity interests that the clients will hold in such an investment vehicle will not be secured by the assets of the investment vehicle, and the clients will rank behind all known or unknown creditors and other stakeholders, whether secured or unsecured, of the investment vehicle. To the extent that any losses are incurred by the investment vehicle in respect of any collateral, such losses will be borne first by the clients as owners of common equity interests. If a client securitizes or otherwise aggregates in a single investment vehicle some or all of its investments by issuing debt or preferred equity interests in such investment vehicle, the risks described above will similarly apply.

In general, the use of short-term margin borrowings results in certain additional risks to the clients. For example, such margin financing arrangements secured by a pledge of public shares of a portfolio company are not necessarily treated as borrowings incurred by a client to the extent not recourse to such client for purposes of determining such client's compliance with the limitations on borrowings set forth in such client's governing documents. In addition, should the Instruments pledged to brokers to secure a client's margin accounts decline in value, that client could be subject to a "margin call," pursuant to which such client must either deposit additional funds or Instruments with the broker, or suffer mandatory liquidation of the pledged Instruments to compensate for the decline in value. In the event of a sudden drop in the value of such client's assets, the client might not be able to liquidate assets quickly enough to satisfy its margin requirements.

The clients may enter into repurchase and reverse repurchase agreements. When a client enters into a repurchase agreement, it "sells" securities issued by the U.S. or a non-U.S. government, or agencies thereof, or corporate issuers to a broker-dealer or financial institution, and agrees to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, a client "buys" securities issued by the U.S. or a non-U.S. government, or agencies thereof, or corporate issuers from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the client, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the clients involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Exiting such arrangements in such case may involve costs to a client.



The clients may have differentiated permissions, objectives, costs and benefits with respect to leverage, including by virtue of where such clients may be in their respective investment horizons and their respective liquidity profiles, such that their use of leverage at the fund level and at the investment level can and likely will vary, including in relation to investments in which multiple clients are invested. Accordingly, for purposes of investments intended to have been made at the same time and on the same terms, Centerbridge looks to the underlying instrument in which an investment is made (for example, the price thereof) as the most practicable manner in which to make such determination, and not any leverage that a particular client may have applied with respect to such investment at any level. It is possible that one client will seek to use leverage for an investment as to which other clients, as applicable, do not seek to do so (due to legal restrictions on same or otherwise).

**Back Leverage.** The clients may (i) create an investment vehicle, contribute assets to such investment vehicle (or make such investments directly through such investment vehicles), and cause such investment vehicle to make borrowings or incur other indebtedness or (ii) cause multiple such investment vehicles to engage in joint borrowings, incur other indebtedness and / or cross-collateralize. In connection with the foregoing, distributions from one investment may be used to pay interest and / or principal or other obligations on borrowings or other indebtedness secured by other companies and / or distributions therefrom. The use of back leverage potentially enhances the return profile of these investments and the clients overall, but also increases the risk of the applicable investment, including the risks associated with collateralized investments held through the same leverage facilities.

If the clients were to create one or more of such investment vehicles, the clients would depend on distributions from an investment vehicle's assets out of its earnings and cash flows to enable the clients to make distributions to their investors. The ability of such an investment vehicle to make distributions will be subject to various limitations, including the terms and covenants of the debt it incurs. For example, tests (based on interest coverage or other financial ratios or other criteria) may restrict a client's ability, as the holder of an investment vehicle's common equity interests, to receive cash flow from these investments. There is no assurance any such performance tests will be satisfied. Also, an investment vehicle may take actions that delay distributions in order to preserve ratings and to keep the cost of present and future financings lower or be required to prepay all or a portion of its cash flows to pay outstanding obligations to credit parties. As a result, there may be a lag, which could be significant, between the repayment or other realization from, and the distribution of cash out of, such an investment vehicle, or cash flows may be completely restricted for the life of the relevant investment vehicle. To the extent any such investment vehicle defaults in its obligations to any credit parties, such credit parties may be entitled to foreclose on any collateral pledged by the applicable investment vehicle(s) and / or otherwise exercise rights and remedies as a creditor against the assets of any such investment vehicle(s), which could result in a loss of all or a part of a client's interest in any applicable investment and / or distributions therefrom. The clients also may incur indebtedness on similar terms as described above at the client-level, and in such cases, a client's direct





interest in its holding or investment vehicle(s) and its rights to distributions from them would be subject to similar risks as described above.

**Currency Risks.** The clients' investments that are denominated in a currency other than U.S. dollars are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Centerbridge sometimes will try to hedge these risks by investing directly in foreign currencies, buying and selling forward foreign currency exchange contracts and buying and selling options on foreign currencies, but there can be no assurance such strategies will be effective. The occurrence of a fundamental change with respect to the currency in which one or more investments, or hedging transactions thereof, is denominated could adversely impact a client's performance. There can be no assurance that such an event, which is outside the control of the clients and could arise due to factors such as political instability, sovereign distress or extreme inflation, will not occur.

To the extent unhedged, the value of the clients' positions in non-U.S. investments will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies. In such cases, an increase in the value of the U.S. dollar compared to the other currencies in which the clients make investments will reduce the effect of any increases and magnify the effect of any decreases in the prices of the clients' Instruments in their local markets and may result in a loss to the clients. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the clients' non-U.S. dollar investments.

**Interest Rate Risk.** The value of the fixed rate Instruments in which the clients invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise the value of such Instruments would be likely to decline. In addition, to the extent that the receivables or loans underlying specific Instruments are pre-payable without penalty or premium, the value of such Instruments likely would be negatively affected by increasing prepayments, which generally occur when interest rates decline. Factors that can affect market interest rates include, without limitation, inflation, deflation, slow or stagnant economic growth or recession, unemployment, money supply, governmental monetary policies, international disorders, instability in domestic and foreign financial markets and stimulus measures intended to counteract other events (*e.g.*, a public health crisis, including, for example, the COVID-19 Pandemic). The timing of and extent to which central banks implement any measures, including adjustments of interest rates, is outside Centerbridge's control, and there can be no assurance regarding the extent to which any changes in interest rates will or will not occur. In a changing interest rate environment, it is possible that the clients will not be able to manage this risk effectively. If the clients are unable to manage interest rate risk effectively, the clients' performance could be adversely affected. While the clients are permitted to seek to do so, they are not required to hedge their interest rate risk.





**Hedging Transactions.** The clients utilize Instruments both for investment and risk management purposes: (i) to protect against possible changes in the market value of a client's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates, foreign currency and prices of reference Instruments; (ii) to protect a client's unrealized gains in the value of the client's investment portfolio; (iii) to limit losses; (iv) to facilitate the sale of any such investments; (v) to enhance or preserve returns, spreads or gains on any investment in a client's portfolio; (vi) to hedge the interest rate or currency exchange rate on any of a client's liabilities or assets; (vii) to protect against any increase in the price of any Instruments a client anticipates purchasing at a later date; or (viii) for any other reason that Centerbridge deems appropriate.

The success of each client's hedging strategy will depend, in part, upon Centerbridge's ability to correctly assess the degree of correlation between the performance of the Instruments used in the hedging strategy and the performance of the investments being hedged. Since the characteristics of many Instruments change as markets change or time passes, the success of each client's hedging strategy will also be subject to Centerbridge's ability to continually recalculate, adjust and execute hedges in an efficient and timely manner. While each client may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for each client than if it had not engaged in such hedging transactions. For a variety of reasons, Centerbridge may not seek to establish a direct or exact correlation between the hedging Instruments utilized and the investments being hedged. Such an imperfect correlation may prevent the clients from achieving the intended hedge or expose the clients to risk of loss. There is a possibility that additional regulatory requirements could be triggered by virtue of clients entering into hedging transactions, and in such an event the clients could bear additional costs for compliance with such requirements and would be subject to additional regulatory risk that they would be unlikely to face absent their participation in hedging transactions. Centerbridge at times does not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of each client's investments.

**Short-Selling.** Short-selling involves selling Instruments that are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed Instruments at a later date. Short-selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the Instruments. The extent to which a client engages in short sales will depend upon Centerbridge's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying Instruments could theoretically increase without limit, thus increasing the cost to a client of buying those Instruments to cover the short position. There can be no assurance that a client will be able to maintain the ability to borrow Instruments sold short. In such cases, a client can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no



assurance that the Instruments necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing Instruments to close out a short position can itself cause the price of the Instruments to rise further, thereby exacerbating the loss.

Various governmental entities, both in the U.S. and outside of the U.S., have placed limitations and conditions on the ability to enter into or utilize short sales and other similar transactions. There can be no assurance that there will not be any further regulation or similar governmental initiatives regarding short sales in the future.

**Capital Structure Arbitrage.** In certain circumstances, the execution of a distressed investing strategy will depend on the ability of Centerbridge to identify and successfully execute the relationships between movements in different Instruments within an issuer's capital structure (*e.g.*, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identifying and successfully executing on these opportunities involves uncertainty. In the event that the perceived pricing inefficiencies underlying an issuer's Instruments were to fail to materialize as expected by Centerbridge, the clients could incur a loss.

**Underlying Default Risks.** To the extent underlying default rates with respect to the debt Instruments in which the clients invest occur or otherwise increase, the performance of the clients' investments would be adversely affected and the risk of loss and foreclosure would be expected to increase. For example, the rate of defaults and losses on real estate-related debt Instruments will be affected by a number of factors, including global, regional and / or local economic conditions in the area where the underlying properties are located, the commercial real estate market in general, the borrower's equity and the financial circumstances of the borrower as well as general market conditions. A decline in the global or U.S. real estate markets (or any particular sub-market thereof) may result in higher delinquencies, defaults and / or foreclosures as borrowers may not be able to repay or refinance their outstanding debt obligations when due for a variety of reasons, which may adversely affect the performance of the clients' investments.

**Highly Volatile Markets.** The prices of Instruments in which the clients invest can, at times, be highly volatile. Price movements of forward and other derivative contracts in which a client's capital is at times invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. Any governmental intervention in an applicable jurisdiction often is intended to directly influence prices and at times, together with other factors, causes all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The public markets at times experience significant volatility, and a global economic downturn or recession during a client's term is possible. The extent and duration of such environment, to the private funds industry and global markets as a whole, is unknown. For this reason, valuations in such an environment are subject to heightened uncertainty and numerous



subjective judgments, any or all of which could turn out to be incorrect with the benefit of hindsight. Furthermore, traditional valuation approaches that have been used historically may need to be modified in order to effectively capture the fair value of private investments in the midst of significant volatility or a market dislocation. The clients are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses.

**Global Developments in Trade.** There is often a high degree of government regulation of economies, including in the financial markets. The level of government action has increased recently as governments and their agencies are implementing measures to seek to stabilize and encourage growth in their relevant markets in response to the COVID-19 Pandemic, exacerbating many of the risks related to government action.

Recent developments in the United States and certain European nations have fueled doubts about the future of global free trade. Additionally, the United States has begun to use tariffs and, in some cases, to renegotiate or terminate certain existing bilateral or multi-lateral trade agreements and treaties with foreign countries in order to seek to achieve its political aims. For example, in May 2018, the United States announced sweeping tariffs on aluminum and steel. Later that year, the U.S. administration imposed additional tariffs targeting Chinese imports. Related to such actions, certain foreign governments, including Canada, China and Mexico instituted retaliatory tariffs on certain U.S. goods and have indicated a willingness to impose additional tariffs on U.S. products. Although certain tariffs have subsequently been eased or withdrawn, tensions around trade continue and future tariffs could have an adverse impact on the clients' investments.

Global trade disruption, together with future downturns in the global economy, significant introductions of trade barriers and trade frictions between United States and many of its trade partners could adversely affect the financial performance of the clients. As political uncertainty and global developments continue, there is a greater risk that trade tensions could have a negative impact on the clients and their investments.

In addition, trade disputes may develop between other countries, which may have similar or more pronounced risks and consequences for the clients or their investments.

**Benchmark Rates.** It is expected that the U.S. dollar London Interbank Offered Rate ("LIBOR"), which is commonly used as a reference rate within various financial contracts (any such rate, a "Reference Rate"), will not be published after June 30, 2023 (other than the one-week and two-month tenors, which ceased to be published after December 31, 2021). In anticipation of the end of LIBOR, the United States and other countries have worked to replace LIBOR with alternative Reference Rates. The Secured Overnight Financing Rate ("SOFR") is the Reference Rate recommended by the Alternative Reference Rates Committee (the "ARRC") convened by the U.S. Federal Reserve Board and the Federal Reserve Bank of New York. The ARRC and regulators



have stated that any party choosing another Reference Rate should do so carefully. As a general matter, the expected discontinuation of LIBOR may significantly impact financial markets; specifically, discontinuation may impact financial contracts to which clients are a party. Generally, the transition to alternative Reference Rates may (i) cause the value of a Reference Rate to be uncertain or to be lower or more volatile than it would otherwise be; (ii) result in uncertainty as to the functioning, liquidity or value of certain financial contracts; (iii) involve actions of regulators or rate administrators that adversely affect certain markets or specific financial contracts; and (iv) impact the strategy, products, processes, legal positions and information systems of market participants, including clients and their counterparties. With respect to financial contracts to which clients are a party, including corporate and municipal bonds and loans, consumer loans, bank loans, floating rate debt, certain asset-backed securities, and interest rate swaps and other derivatives, any such contract that has a maturity that extends beyond June 2023 and uses LIBOR as a Reference Rate (other than contracts that include curative fallback language or which have other curative mechanisms available, such as safe harbor legislation adopted in the State of New York to permit the replacement of LIBOR with the rates recommended by the ARRC in contracts governed by New York law and the Adjustable Interest Rate (LIBOR) Act included in the Consolidated Appropriations Act, 2022) may need to be renegotiated, the process of which will consume resources of clients and may result in disputes among counterparties, the result of which may be adverse to the clients. Regulators encouraged market participants to cease (and in the case of entities they regulate, have required entities to cease) entering new contracts that use U.S. Dollar LIBOR as a reference rate by December 31, 2021. As a result, U.S. Dollar LIBOR's liquidity and usefulness will likely diminish. Investors should expect that clients will be a party to SOFR-based contracts, or contracts utilizing other alternative reference rates, in the near-future. Considered in their entirety, the impacts of the discontinuation of LIBOR on financial markets generally and on the specific financial contracts to which clients are a party may adversely affect the performance of such clients. It is difficult to predict all potential effects of these changes on U.S. and global credit markets or the clients or their ability to obtain favorable financing terms.

**Uncertain Geopolitical Events.** International and / or local geopolitical events are likely to influence the issuers of, and markets for, Instruments traded by the clients. Geopolitical events, including, without limitation, national referenda, political elections, international violent and non-violent conflicts, political movements and reactions to national and international emergencies, can affect monetary policy, fiscal policy, international relations, currency valuations, legal systems and regulatory regimes, among numerous other things, in ways that could impact the clients and / or their ability to operate and / or pursue their investment strategies.

**U.K. Exit from the European Union (Brexit).** As part of the process of the U.K. leaving the E.U., the E.U. and the U.K. entered into an E.U.-U.K. Trade and Cooperation Agreement ("TCA") that governs the trading relationship between the U.K. and the member states of the E.U. from and after January 1, 2021. Broadly, the TCA provides for zero tariffs and zero quotas on all goods that comply with the appropriate rules of origin, but is subject to both parties maintaining a level playing field in areas



such as environmental protection, social and labor rights, investment, competition, state aid and tax transparency.

The TCA does not provide for continued access by U.K. firms to the E.U. single market, or for E.U. firms access to the U.K. market, thus adversely affecting financial services firms such as Centerbridge, although there is the possibility that, in time, the U.K. may obtain a recognition of equivalence from the E.U. in certain financial sectors which would enable varying degrees of access to the E.U. market. Similarly, notwithstanding zero tariffs and zero quotas on goods, market access for those firms that conduct cross-border trade in goods will fall below what the single market previously allowed. Non-tariff barriers, customs declarations, customs checks, restrictions on movements of employees, withdrawal of recognition of previously recognized professional qualifications, changes in the status of the U.K. vis-à-vis the E.U. for tax and value added tax (VAT) purposes, and other sources of friction have the potential to impair the profitability of a business, require it to adapt, or even relocate to operate through an establishment in the E.U. Understanding and preparing for these new arrangements could result in increased operational and compliance burdens for the clients and Centerbridge.

It will take some time to observe the many and varied effects on U.K. and EEA businesses and asset value in those regions of the consequences of the U.K. leaving the single market and customs union (taking into account the flow of goods and services in both directions). Given the size and global significance of the U.K.'s economy, uncertainty, at least in the near term, about the effect of the TCA on the day-to-day operations of those businesses that engage in the cross-border trade of goods or services between member states of the E.U. and the U.K. may be a continued source of currency fluctuations or have other adverse effects on international markets, international trade and other cross-border cooperation arrangements. The present uncertainty could therefore adversely affect the clients, the performance of their investments and their ability to fulfill their investment objectives (especially if their investments include, or expose them to, businesses that have historically relied on access to the single market for their custom, or E.U. businesses that have historically relied on access to the U.K. market, or that, in either case, have historically relied on sourcing goods, materials or labor from the single market).

The withdrawal of the U.K. from the E.U. may also increase the compliance and regulatory burden of the clients. The U.K. legal and regulatory framework may, with time, increasingly differ from the E.U. laws and regulations, and Centerbridge will need to consider both systems to ensure compliance with applicable laws and regulations.

Investors should also be aware of the ongoing disagreements between the U.K. government and the E.U. regarding the Northern Ireland Protocol ("NIP"). The NIP is part of the arrangements put in place as part of the TCA to address cross-border trade in goods between Great Britain, Northern Ireland and the E.U. The U.K. government has subsequently raised concerns as to the manner in which the NIP has been interpreted and





implemented and has indicated it may take action to suspend and / or override aspects of the NIP. The European Commission has stated it reserves the right to take retaliatory measures in response to actions taken by the U.K. government.

Any prolonged dispute regarding the TCA and / or the NIP may have a material adverse effect on cross-border trade between the U.K. and the EEA which could prove disruptive to their respective economies. Negative impacts on the clients' investments that are exposed to the economies of the U.K. and / or EEA may therefore arise which could cause a material adverse effect on the business, financial condition, results of operations and cash flows of the clients and their investments.

**Risks Associated with the European Union.** The clients may make investments in European companies and companies that have operations that may be affected by the risks associated with the economy or changes to the structure or rules of the E.U.

There is a risk that, in addition to the U.K., other member states of the E.U. may decide to leave the E.U. following a national referendum or otherwise. Any decision by such member states of the E.U. to leave the E.U. may create uncertainty, instability and / or result in significant currency fluctuations, and / or adversely affect international trade agreements and other existing cross-border cooperation (whether economic, tax, fiscal, legal, regulatory or otherwise) which could have adverse consequences on the clients, the performance of their investments and their ability to fulfill their investment objectives.

The long-term financial stability of the E.U. and the Eurozone remains uncertain and difficult to predict. The risk of a sovereign default, having diminished since the years immediately following the Global Financial Crisis, may rise again in countries where gross government debt, as a percentage of gross domestic product, is currently high and where it is, or will be, increased in order to stimulate or preserve economic activity during and after the COVID-19 Pandemic. A particularly high level of government debt may be unsustainable for a country that has, and continues to endure, vulnerabilities such as weak fundamentals, weak or even negative economic growth and / or high unemployment, corporate defaults and social measures that, by their nature, reduce or are incompatible with, economic growth. While the valuation of a nation's currency might be expected to stimulate competitiveness, reduce unemployment, increase GDP and ultimately raise taxes to reduce a budget deficit, for a country within the Eurozone, devaluation is not within its control and would not provide any advantage vis-à-vis other countries in the Eurozone. Without the means to stimulate economic growth, and especially at or following a time of national crisis, the single currency could have an adverse effect on one or more Eurozone countries. A default on sovereign debt, although a seemingly remote risk at present, could have a material impact on economic conditions and market activity in the E.U. For example, default by a participating member state could contribute to the collapse of the E.U. or the Eurozone as it is constituted today, or possibly result in the defaulting member state ceasing to use the Euro as its national currency, or even provide a stimulus for one or more member states to withdraw from



E.U. membership—any of which would likely have an adverse impact on the clients. Moreover, any structural instability of the Eurozone would likely have negative implications for the European financial industry and the global economy as a whole because of counterparty risks, exposures and other “systemic” risks. A potential effect would be an immediate reduction of liquidity for particular investments in economically connected countries, thereby impairing the value of such investments. Uncertain economic conditions generally affect markets adversely. Volatility in the global credit markets typically makes it more difficult for issuers and borrowers to obtain favorable financing or refinancing arrangements that may be needed to execute the clients’ investment strategy. Uncertainty in the E.U. or the Eurozone could have an adverse effect on the clients by affecting the performance of their investments (whether made in a country that is at greater risk of default or in a country that is economically connected) and their ability to fulfill their investment objectives.

**European Commission Action Plan on Financing Sustainable Growth.**

The European regulatory environment for alternative fund managers and financial services firms continues to evolve and increase in complexity, making compliance more costly and time-consuming. In March 2018, the European Commission published the “E.U. Action Plan” to set out an E.U. strategy for sustainable finance to transform the entire financial system and reorient capital flows toward sustainable investment. The reorientation of capital flows toward sustainable investment is to be achieved through the selection of appropriate investments by well-informed, or suitably advised, investors who may themselves be under an obligation to disclose to their own stakeholders how they integrate sustainability into their own decision-making. The E.U. Action Plan was updated in August 2020 and, in July 2021, the European Commission published a strategy for financing the transition to a sustainable economy. It is difficult to predict whether the E.U. Action Plan will succeed in reorienting capital flows and, if it is successful, the impact it will have on the returns to investors. There is a risk that the value of investments made by the clients in pursuing their investment strategy could be adversely affected over the life of the clients by changes to economic conditions brought about by the E.U. Action Plan initiatives.

As part of the original E.U. Action Plan, the European legislators adopted the SFDR, which took effect from March 10, 2021, and the E.U. Regulation on the establishment of a framework to facilitate sustainable investment (2020/852) (the “Taxonomy Regulation”) which took effect from January 2022. Both the SFDR and the Taxonomy Regulation have since been supplemented by delegated legislation specifying detailed implementing and regulatory technical standards, including Commission Delegated Regulation (EU) 2022/1288 (commonly referred to as the “RTS”). The SFDR introduced measures that clarify asset managers’ duties to integrate ESG factors and risks into investment decision making, and standardizes transparency duties and ESG reporting requirements.

In addition, the Taxonomy Regulation contains criteria for determining whether economic activities qualify as environmentally sustainable for the purpose of establishing the degree to which an investment is environmentally sustainable. For that



purpose, asset managers are, under the transparency requirements of the Taxonomy Regulation, among other things, required to disclose the degree to which financial products, such as a client, invests in environmentally sustainable investments. Centerbridge may also be subject to remuneration requirements under the SFDR. Any required changes to compensation structures and practices could make it harder for Centerbridge to recruit and retain key personnel, thereby potentially affecting certain clients. The SFDR could expose Centerbridge to conflicting regulatory requirements in the United States.

As of the date hereof, the full impact of the SFDR and the Taxonomy Regulation on Centerbridge and the clients remains unclear as there is still uncertainty as to how requirements must be applied in practice, and further detailed guidance and clarifications are expected from the European Commission and the European Supervisory Authorities. There also could be divergent interpretations of the requirements at the E.U. Member State level, and national guidance has already emerged in certain Member States. Centerbridge will therefore have to continue to monitor any developments relating to these regulations. Without legal certainty regarding the application of the above regulations, it is also difficult to assess the costs of compliance with the SFDR and the Taxonomy Regulation by the clients, Centerbridge or other Centerbridge entities. Resources will need to be allocated to determine how such entities may be impacted by the new regulatory framework and, to the extent applicable, creating an additional compliance burden and reporting costs.

There is also a risk that the clients' SFDR classification will affect the pool of investors that the clients will be able to target.

The clients or their investments may also be impacted by developments to the U.K. legislative framework. The U.K. has announced that it will not implement the SFDR into national law following the U.K.'s withdrawal from the E.U. and will introduce instead a new legislative framework focused on implementing the recommendations of the Financial Stability Board Taskforce on Climate-related Financial Disclosures ("TCFD"), in particular by introducing mandatory TCFD-aligned disclosure requirements for firms based in the U.K. Reporting requirements under this framework have yet to be implemented and there is still uncertainty as to the potential indirect impact of this new regime on the clients or their investments. In addition, the U.K.'s Financial Conduct Authority is developing its own rules on sustainability disclosures and investment labels for consumer focused funds. Final rules are expected to come into force during 2023 and into 2024. It is as yet unclear whether and, if so how, these rules, when finalized, will impact the clients. The clients could incur additional regulatory-related costs in complying with any such rules.

Compliance with the SFDR, the Taxonomy Regulation and other ESG related rules is expected to result in increased legal, compliance, reporting and other associated costs and expenses. Certain clients will bear the costs and expenses of compliance with the SFDR, the Taxonomy Regulation and any other applicable legislation or regulations related to the E.U. Action Plan, including costs and expenses of



collecting and calculating data and the preparation of policies, disclosures and reports, in addition to other matters that relate solely to marketing and regulatory matters. It is difficult to predict the full extent of the impact of the SFDR, the Taxonomy Regulation, the RTS and, more broadly, the E.U. Action Plan on the clients and Centerbridge. Centerbridge will reserve the right to adopt such arrangements as it deems necessary or desirable to comply with any applicable requirements of the SFDR, the Taxonomy Regulation and any other applicable legislation or regulations related to the E.U. Action Plan or other sustainable finance initiatives inside or outside the E.U.

**Environmental, Social and Governance Matters.** Within the context of the overall risk management of a client, Centerbridge applies its environmental, social and governance (“ESG”) principles, seeking to identify an appropriate balance of risk and reward to achieve attractive risk adjusted returns for the client. Financially relevant ESG factors are only some of the many factors Centerbridge will consider in making an investment. There is no guarantee that Centerbridge will successfully make investments in companies that create positive ESG impacts, and it only will seek to make such investments to the extent it believes doing so would help to discharge its duty to maximize risk-adjusted returns by securing additional value or reducing ESG risk and otherwise consistent with the clients’ terms. To the extent that Centerbridge engages with companies on ESG-related practices and potential enhancements thereto, such engagements are generally ultimately intended to optimize value but may not achieve the desired financial and social results, or the market or society may not view any such changes as desirable. Successful engagement efforts on the part of Centerbridge will depend on Centerbridge’s skill in properly identifying and analyzing material ESG and other factors and their impact-related value, and there can be no assurance that the strategy or techniques employed will be successful. Furthermore, in many cases, Centerbridge’s ability to engage with companies on ESG-related matters is expected to be limited, for example, as a result of the nature of the clients’ investment. Considering ESG factors when evaluating an investment may result in the selection or exclusion of certain investments based on Centerbridge’s view of the significance of those ESG-related and other factors, which view could ultimately prove to be incorrect for a multitude of reasons. There is the risk that, due to imperfect assessment of ESG factors or engagement with companies on such matters, the clients may underperform other funds that do not take ESG-related factors into account or, conversely, underperform specialized funds that are largely or exclusively focused on sustainable investing principles or ESG factors. The clients are not necessarily required to and do not necessarily take into account the E.U. or other external criteria for environmentally sustainable economic activities. We further note that stakeholders’ perspectives and requirements relating to ESG can and do vary and as Centerbridge executes on managing the investment programs of clients and particular investments, Centerbridge may face challenging circumstances in relation to its ability to effectively address the varying perspectives of stakeholders. In addition, the legal and regulatory landscape relating to ESG is evolving quickly and there is expected to be a heightened focus on ESG practices and disclosures at the client level as well as at a company level, which is expected to include new regulations. Such increased scrutiny and new regulations in conjunction with an evolving regulatory landscape are likely to impose additional expenses related to compliance and a number of risks such as the



difficulty of compliance or reputational harm as to any of these relevant constituents, which may be borne by the clients.

**Force Majeure and Expropriation Risk.** Companies or assets may be affected by force majeure events (*i.e.*, events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of infectious disease, public health crises, pandemics or any other serious public health concern, war, terrorism and labor strikes). Some force majeure events may adversely affect the ability of a party (including a company or a counterparty to a client or a company) to perform its obligations until it is able to remedy the force majeure event. In addition, the cost to a company or a client of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Certain force majeure events (such as war or an outbreak of infectious disease) could have a broader negative impact on the world economy and international business activity generally, or in any of the countries in which the clients invest specifically. Additionally, a major governmental intervention into industry, including the nationalization of an industry or the assertion of control over one or more companies or assets, could result in a loss to the clients, including if their respective investments in such company or asset are canceled, unwound or acquired (which could be without what the applicable client considers to be adequate compensation). Such governmental intervention can lead to additional consequences from regulators in other jurisdictions that could similarly have a material adverse impact on a client. Any of the foregoing may therefore adversely affect the performance of a client and its investments.

In some cases, transaction or other agreements may provide for termination of the agreement if the force majeure event is so catastrophic as to render it incapable of remedy within a reasonable, pre-agreed period. During the COVID-19 Pandemic, these provisions have resulted in costly litigation in certain industries and in future disruption scenarios such costly litigation may be expected to occur. Force majeure clauses may be drafted or construed narrowly in a manner that would not cover a particular event that might occur, such as a pandemic or global public health crisis. If this were to occur, there could be an adverse impact on the clients and / or could result in protracted and costly litigation to resolve.

**Public Health Risk.** Public health risks can affect the broader local, national and international economy, along with Centerbridge and the companies in which the clients invest, and could give rise to force majeure conditions, the effects of which could be significant. For example, the World Health Organization had declared COVID-19 to constitute a “Public Health Emergency of International Concern” and a pandemic. The outbreak of COVID-19 (and the emergence of several variants thereof) resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility and liquidity concerns in certain equity, debt, derivatives and commodities markets. The extent and duration of such negative impact to the private equity industry and global markets as a whole is currently unknown. The global ramifications of the outbreak have been evolving over the course of the pandemic, and at different points in time many countries, states, local and provincial governments have



reacted by declaring states of emergency and by instituting (or strongly encouraging) quarantines, prohibitions on travel and movement, the closure of offices, businesses, schools, retail stores, restaurants, hotels, courts and other public venues, and other restrictive measures designed to help slow the spread of COVID-19. Many businesses have also implemented at different times and to different degrees similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of the COVID-19 Pandemic, created and may continue to create significant disruption in the global public and private markets, supply chains and economic activity and are especially impactful on transportation, hospitality, tourism, sports and entertainment, industries related to natural resources production and development and other industries. Moreover, throughout the continued spread of COVID-19, governments and businesses have taken and may continue to take increasingly aggressive measures to help slow its spread. For this reason, among others, as COVID-19 continued to spread, and could, in the future, continue to spread, the potential impacts, including a global, regional or other economic recession, or adverse market impacts have already occurred and the likelihood of ongoing or exacerbated impact is uncertain and difficult to assess.

While the U.S. Food and Drug Administration and other similar regulators globally have approved COVID-19 vaccines and these vaccines are currently available to the general public in the United States and in many non-U.S. jurisdictions, a substantial proportion of the population in the United States and other jurisdictions has, despite the availability of vaccines, not been vaccinated, and a portion of vaccinated individuals may not be fully protected against the disease. Furthermore, such vaccines have shown reduced efficacy within an extended period of time following inoculation and against certain existing or emerging variants of COVID-19, and emerging variants may continue to be more transmissible or deadly than existing variants of COVID-19. In addition, the operations of the clients, their investments and Centerbridge may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, voluntary and precautionary restrictions on travel or meetings and other factors related to a public health emergency, including its potential adverse impact on the health of the personnel of any such entity or the personnel of any such entity's key service providers. In this regard, views and other forward-looking statements expressed by Centerbridge in this Brochure or elsewhere (including in relation to valuation, performance, market information or otherwise) are based upon assumptions that are susceptible to becoming stale and which may not have been updated in each case due to remaining uncertainty and therefore should be considered in light of such qualifications. Accordingly, correspondingly qualified considerations should be attached to the valuation, performance and other market information included herein.

Any public health emergency, including any new or variant outbreaks of COVID-19, SARS, H1N1/09 flu, respiratory syncytial virus (RSV), avian flu, other coronaviruses, monkeypox, Ebola or other existing or new epidemic diseases, or the threat thereof, could have a significant adverse impact on Centerbridge a client and its investments and could adversely affect a client's ability to fulfill its investment objectives.





The extent of the impact of any public health emergency on a client or the operational and financial performance of the companies in which it invests will depend on many factors, including, but not limited to, the duration and scope of such public health emergency (as well as the availability of effective treatment and / or vaccination), the extent of any related travel advisories and voluntary or mandatory government or private restrictions implemented, in addition to restrictions implemented to protect borrowers in the real estate and other industries, the impact of such public health emergency on overall supply and demand, goods (including component parts and raw materials) and services, investor liquidity, consumer confidence and spending levels, the extent of government support and levels of economic activity and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. In addition, health crises caused by a pandemic could exacerbate other pre-existing political, social, economic, market and financial risk. For this reason, valuations in such environment are subject to heightened uncertainty and subject to numerous subjective judgments even beyond what is traditionally the case, any or all of which could turn out to be incorrect with the benefit of hindsight. Furthermore, traditional valuation approaches that have been used historically may need to be modified in order to effectively capture fair value in the midst of significant volatility or market dislocation. For example, the shortage of workers and lack of key components and raw materials that has come as a result of the COVID-19 Pandemic, among other factors, has contributed, and may continue to contribute, to manufacturers and distributors being unable to produce or supply enough goods to meet increasing demands. The impact of these global supply chain constraints may not fully be reflected until future periods and may have an adverse impact on the clients and their investments in the future even if COVID-19 is not as prevalent in the public. The effects of a public health emergency have the potential to materially and adversely impact the value and performance of a client's investments, a client's ability to source, manage and divest investments (including, but not limited, to circumstances where potential transactions are already signed but not closed), and a client's ability to achieve its investment objectives, all of which could result in significant losses to a client and, in the case of an open-ended fund, impair a client's ability to meet withdrawal requests. Any such disruptions may continue for an extended and uncertain period of time. In particular, a public health emergency may have a greater impact on leveraged assets. For example, the COVID-19 Pandemic impacted investments made by the clients to varying degrees, in some cases significantly negatively; in certain other instances, the impact has been positive. Furthermore, such circumstances can have a negative impact on a counterparty's ability to meet or willingness to honor its financial obligations (including, without limitation, its ability to extend credit or otherwise to transact with a particular client or portfolio company). Current conditions may affect how counterparties interpret their obligations (and an applicable client's obligations) pursuant to counterparty arrangements such that the applicability, or lack thereof, of force majeure or similar provisions could also come into question and ultimately could work to the detriment of a client. In addition, the operations of a client, its portfolio companies, and Centerbridge may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, voluntary and precautionary restrictions on travel and movement,





remote working requirements and other social, political, financial, legal and regulatory or other factors related to an actual or threatened public health emergency (such as the COVID-19 Pandemic), including its potential short-term and / or long-term adverse impact on the health of the personnel of any such entity or the personnel of any such entity's key service providers and the volatility in the labor, transport, energy and other markets resulting from or otherwise linked to the relaxation of related quarantine measures, meeting and travel restrictions. An extended period of remote work arrangements could strain the clients or their investments' business continuity plans, introduce operational risk, including but not limited to cybersecurity risks, and impair the clients' or their investments' ability to manage their businesses. These circumstances also may hinder Centerbridge's, a client's and / or its portfolio companies' ability to conduct their affairs and activities as they normally would, including by impairing usual communication channels and methods, hampering the performance of administrative functions such as processing payments and invoices, and diminishing their ability to make accurate and timely projections of financial performance. No previous success by Centerbridge or its affiliates in dislocated markets is any guarantee of a particular client's success in respect of investing and managing any investment during and after the COVID-19 Pandemic.

In connection with the impacts of any public health crisis, the clients are expected to incur heightened legal expenses which could similarly have an adverse impact to the clients' returns. For example, but not by limitation, the clients or their investments may be subject to heightened litigation and its resulting costs, which may be significant and are expected to be borne by the clients and / or their investments. There is also a heightened risk of cyber and other security vulnerabilities during the current public health emergency and any future one, which could result in adverse effects to the clients or their investments in the form of economic harm, data loss or other negative outcomes.

As a result of a public health emergency like the COVID-19 Pandemic, Centerbridge may in the future determine, in its discretion, that it is most effective and / or efficient to use private air and / or charter travel due to travel restrictions and / or health and safety considerations, including to and from locations where Centerbridge personnel are currently living (even if different than where Centerbridge has historically had offices). The cost of such private air or charter travel will be an expense of the clients. Centerbridge also may determine to use alternative methods, including the use of technology, when sourcing and conducting diligence on potential investments and monitoring of existing investments.

**Terrorist Action.** There is a risk of terrorist attacks on the U.S. and elsewhere causing significant loss of life and property damage and disruptions in the global market, including due to increasing economic and political volatility and social unrest. Economic and diplomatic sanctions may be in place or imposed on certain states and military action may be commenced. The impact of such events is unclear but could have a material effect on general economic conditions and market liquidity.



The clients' investments could involve assets with a significant national or regional profile. The nature of these assets could expose them to a greater risk of being the subject of a terrorist attack than other assets or businesses. Any terrorist attacks that occur at or near these assets would likely cause significant harm to employees, property, and, potentially, the surrounding community, and could result in liability with respect to an investment far in excess of available insurance coverage. A terrorist attack on an asset also could have adverse consequences for assets of that type or in the same vicinity, including those owned by a portfolio company or other issuer, and could result in a company being forced to increase preventative security measures or expand its insurance coverage (if available), adversely affecting the profitability of such investment. Terrorist attacks could reduce the availability of insurance coverage going forward for losses arising from similar events. A terrorist attack could cause reduced patronage, usage, and demand for an entire class of assets or for assets in the region of the terrorist attack, either of which could adversely affect an investment's profitability. In addition, hostile cyber intrusions, including those targeting information systems as well as electronic control systems used by portfolio entities or other issuers could severely disrupt business operations and result in the loss of service to customers, and therefore of revenues, as well as create significant expense to repair security breaches or system damage.

**Assumption of Catastrophe Risks.** Clients may be subject to the risk of loss arising from direct or indirect exposure to various catastrophic events, including the following: hurricanes, earthquakes and other natural disasters (which may be caused, or enhanced in frequency and severity, by climate change factors); war, terrorism and other armed conflicts; cyberterrorism; major or prolonged power outages or network interruptions; and public health crises, including infectious disease outbreaks, epidemics and pandemics. To the extent that any such event occurs and has a material effect on global financial markets or specific markets or issuers in which clients invest (or has a material negative impact on the operations of Centerbridge or service providers), the risks of loss can be substantial and could have a material adverse effect on clients and investors' investments therein. Furthermore, any such event may also adversely impact one or more individual investors' financial condition, which could result in substantial withdrawal requests by such investors as a result of their individual liquidity situations and irrespective of performance.

**Availability of Insurance for Certain Catastrophic Losses.** Companies may obtain liability, fire, flood, extended coverage and rental loss insurance. However, certain losses of a catastrophic nature, such as wars, natural disasters, terrorist attacks, ransomware attacks or other similar events, may be either uninsurable or, insurable at such high rates that to maintain such coverage would cause an adverse impact on the related investments. In general, losses related to terrorism and ransomware are becoming harder and more expensive to insure against. Most insurers have significantly reduced the amount of insurance coverage for claims resulting from acts of terrorism from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts for additional premiums which can greatly increase the total costs of casualty insurance for a company, if decided to be obtained. A similar dynamic has been unfolding with respect to certain weather events and cyber security breaches. As a result,



not all investments may be insured against all risks. Furthermore, even when insurance is available and has been procured, formalities must be followed to obtain the benefit of the insurance in the case of a loss event, such as timely delivery of a notice of claim; a failure to follow these formalities could result in avoidance of coverage. If a major uninsured loss occurs, the clients could lose both invested capital in, and anticipated profits from, the affected investments. In general, Centerbridge will have discretion as to the type and level of coverage to obtain, or whether to obtain insurance at all.

*Set forth below are some of the factors that could be a consideration in Centerbridge's determination to participate in or its ability to successfully execute a particular investment type or strategy, or otherwise may relate to and cause the other risks described herein to be exacerbated. The below discussion does not represent an exclusive list of such factors.*

**Systemic Risk.** Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the clients or a portfolio company interacts.

**Counterparty Default.** The clients expect to establish relationships to obtain financing, derivative intermediation, prime brokerage and fund administration services that facilitate the operation of the clients and permit the clients to trade in any variety of markets or asset classes over time. However, there can be no assurance that the clients will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the clients' reporting capabilities and trading activities, create losses, preclude the clients from engaging in certain transactions or prevent the clients from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the clients' business due to the clients' reliance on such counterparties.

Some of the markets in which the clients effect transactions are not “exchange-based,” including over-the-counter (“OTC”) derivative markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. The participants in such markets typically are not subject to the credit evaluation and regulatory oversight to which members of exchange-based markets are subject. In the OTC markets, a client enters into a contract directly with dealer counterparties, which may expose such client to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement also at times result from disputes over the terms of the contract (whether or not bona fide). It is to be expected that the clients at times will have concentrated risk in a particular counterparty, meaning that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the clients' investments had been dispersed among a larger



number of counterparties. Certain OTC derivative contracts require that the clients post collateral.

Such “counterparty risk” is accentuated for contracts with longer maturities where events could intervene to prevent settlement, or where a client has concentrated its transactions with a single or small group of counterparties. Generally, a client will not be restricted from dealing with any particular counterparties. Centerbridge’s evaluation of the creditworthiness of counterparties may not prove sufficient. The lack of a complete and “foolproof” evaluation of the financial capabilities of each client’s counterparties and the limited availability of a regulated market to facilitate settlement increase the potential for losses by the clients.

If there is a default by a counterparty, the relevant client typically will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights often involves delays or costs that could result in the net asset value of the relevant client being less than if such client had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and / or the subject of insolvency proceedings. In such case, the recovery of the relevant client’s Instruments from such counterparty or the payment of claims therefor likely would be significantly delayed and such client could recover substantially less than the full value of the Instruments entrusted to such counterparty. For example, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction typically would be terminated at its fair value. If the relevant client’s claim is unsecured, such client will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying Instrument. Additionally, recent derivatives legislation and the related rules alter the laws that apply to an insolvency proceeding and in certain circumstances impact whether a client has the authority to terminate its agreement with an insolvent counterparty. These “QFC Stay Rules” were designed to protect U.S. global systemically important banking organizations (“GSIBs”) and their subsidiaries worldwide, as well as the U.S. subsidiaries, branches and agencies of foreign GSIBs, from the destabilizing effects of bankruptcy. The QFC Stay Rules require certain covered entities to include contractual stay language in certain of their qualified financial contracts (“QFCs”) to mitigate the risk of destabilizing closeouts of such covered entities’ QFCs, which is a perceived impediment to the orderly resolution of a GSIB in the event of bankruptcy. In addition, a number of non-U.S. jurisdictions have adopted or are considering legislation that affects early termination rights with respect to certain counterparties.

Collateral that a client posts to its counterparties that is not segregated with a third-party custodian typically will not have the benefit of customer-protected “segregation” of such funds. In the event that a counterparty were to become insolvent, the relevant client would become subject to the risk that it may not receive the return of its collateral or that the collateral would take some time to return.

In addition, the clients have the authority to use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to



laws and regulations in foreign jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to each client's assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that are likely to be involved, it is impossible to generalize about the effect of such an insolvency on each client and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering a client's Instruments from or the payment of claims therefor by such counterparty and could cause a negative impact on that client.

**Banking Relationships.** Centerbridge and / or its clients will hold cash and other assets in accounts with one or more banks, custodians or depository or credit institutions (collectively, "Banking Institutions"), which may include both U.S. and non-U.S. Banking Institutions from time to time. Clients may also enter into credit facilities and have other relationships with Banking Institutions. The distress, impairment, or failure of, or a lack of investor or customer confidence in, any of such Banking Institutions may limit the ability of Centerbridge or its clients to access, transfer or otherwise deal with its assets, draw upon a credit facility, or rely upon any of such other relationships, in a timely manner or at all, and may result in other market volatility and disruption, including by affecting other Banking Institutions. All of the foregoing could have a negative impact on clients. For example, in such a scenario, a client could be forced to delay or forgo an investment or a distribution, including in connection with a withdrawal, or generate cash to fund such investment or distribution from other sources (including by disposing of other investments or making other borrowings) in a manner that it would not have otherwise considered desirable. Furthermore, in the event of the failure of a Banking Institution, access to a depository account with that institution could be restricted and U.S. Federal Deposit Insurance Corporation ("FDIC") protection may not be available for balances in excess of amounts insured by the FDIC (and similar considerations may apply to Banking Institutions in other jurisdictions not subject to FDIC protection). In such a case, Centerbridge or its clients may not recover all or a portion of such excess uninsured amounts and could instead have an unsecured or other type of impaired claim against the Banking Institution (alongside other unsecured or impaired creditors). Centerbridge does not expect to be in a position to reliably identify in advance all potential solvency or stress concerns with respect to its or its clients' banking relationships, and there can be no assurance that Centerbridge or its clients will be able to easily establish alternative relationships with, and transfer assets to, other Banking Institutions in the event a Banking Institution comes under stress or fails.

**Systems and Operational Risks.** Execution of the clients' strategies is dependent in part on certain systems. The clients depend on Centerbridge to develop and implement appropriate systems for each client's activities. These systems and procedures are unlikely to account for every actual or potential disruption of the clients' operations. The clients' business is dynamic and complex. As a result, certain operational risks are intrinsic to the clients' operations, especially given the diversity and complexity of transactions that the clients are expected to enter into. A client's business is highly dependent on its ability to process, on a daily basis, investment activity across numerous





and diverse markets. Consequently, the clients rely heavily and on a daily basis on financial, accounting and other data-processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain Instruments, to monitor their respective portfolios and capital, and to generate risk management and other reports that are critical to oversight of a client's activities. Certain of the clients' and Centerbridge's activities will be dependent upon systems operated by third parties, including prime brokers, the applicable client's administrator, counterparties and other service providers, and Centerbridge often is not in a position to thoroughly vet the risks or reliability associated with certain third-party systems, based on a number of factors such as, but not limited to, limitations of access to vendor data who have been unwilling to provide such access, or, in some circumstances, time constraints in vetting vendors to the optimal extent, and in each case, may have limited recourse against vendors. Failures or vulnerabilities in the systems employed by Centerbridge, prime brokers, the applicable client's administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for or other adverse consequences. Disruption to critical third-party service providers, such as the clients' auditors, external counsel, administrators and custodians, may result in other disruptions in the clients' operations. Operational risks may also be the result of inadequate procedures and controls, employee fraud, recordkeeping errors, human errors and / or other mistakes or failures by Centerbridge or a service provider. Disruptions in a client's operations could cause such client to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a negative impact on the clients and the investors' investments therein. While Centerbridge has a business continuity plan in place in the event of an operational or other significant incident, there is no guarantee that the plan will specifically contemplate a scenario that may occur, will be capable of implementation under the circumstances that may occur, or that once implemented, would adequately address the challenges presented by the situation.

**Execution Risk.** The clients' trading strategies depend on their ability to establish and maintain an overall market position in a combination of Instruments selected by Centerbridge. Certain investment opportunities require the rapid and efficient execution of transactions. The clients' trading orders may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, systems failures or human error attributable to Centerbridge or the clients' brokers, agents or other Service Providers. In such event, the clients might only be able to acquire some, but not all, of the components of such position, or if the overall position were to need adjustment, the clients might not be able to make such adjustment. As a result, a client would not be able to achieve the market position intended by Centerbridge, and might incur a loss in liquidating its position.

**Trade Error Risk.** The clients (and not Centerbridge) will be responsible for any gains or losses resulting from trade errors and similar human errors absent fraud, bad faith, willful misconduct or gross negligence of Centerbridge. Trading errors might





include, for example, keystroke errors that occur when entering trades into an electronic trading system or typographical or drafting errors. Investors should assume that trading errors (and similar errors) from time to time will occur and that a client will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of Centerbridge. This determination is subjective in nature, and this determination involves the evaluation of Centerbridge's conduct (often as well as the conduct of third parties) and the allocation of losses between Centerbridge and the applicable client. If a third party causes a trade error that has a negative impact on a client, Centerbridge will determine whether to attempt to recover the amount of loss from such third party for such client, but Centerbridge does not assume responsibility for compensating such client, or making any third party compensate such client, in such cases. From time to time, Centerbridge may elect to voluntarily reimburse the client for losses suffered as a result of certain trade errors identified by Centerbridge. Nevertheless, investors should not expect that a reimbursement will ever take place, and, in evaluating a client, no decisions should be made in reliance on Centerbridge making any reimbursements to the clients for losses suffered as a result of such trade errors. Any decision to reimburse is not precedential and should not create the expectation of any reimbursement in the future.

**Cybersecurity Breaches, Identity Theft, Denial of Service Attacks, Ransomware Attacks and Social Engineering Attempts.** Cyber security incidents, cyber-attacks, denial of service attacks, ransomware attacks and social engineering attempts (including business email compromise attacks) are increasing in frequency, scope and severity at a global level and will likely continue to increase in the future. There have been a number of highly publicized cases involving financial services companies reporting the unauthorized disclosure of client or customer information and the unauthorized transfer of client or customer funds, as well as cyber-attacks involving the dissemination, theft and destruction of corporate information or other assets, whether as a result of a failure to follow procedures by employees or contractors or as a result of actions by a variety of third parties, including nation state actors and terrorist or criminal organizations. Centerbridge, the clients, their investments, their service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions, and their operations rely on the secure processing, storage and transmission of confidential and other information in their systems and those of their respective third-party service providers. These information, technology and communications systems are subject to a number of different threats or risks that could adversely affect the clients, their investors and the investments, despite the efforts of Centerbridge and any service providers engaged by the investments and / or the clients to adopt technologies, policies and practices intended to mitigate these risks and protect the security of their information technology and communications systems and related assets, as well as the confidentiality, integrity and availability of information belonging to the clients, their investors and the investments.

The clients depend on Centerbridge to develop or procure and utilize appropriate systems for the clients' activities, and Centerbridge and the clients depend heavily upon computer systems to perform necessary business functions. Centerbridge's



information and technology systems and those of companies on which the clients rely and in which the clients invest are, just as with other companies, vulnerable to potential damage or interruption from cyber-attacks (such as computer viruses, malicious software, infiltration or tampering by unauthorized persons, ransomware demands and denial of service attacks), security breaches (such as physical and electronic break-ins), network failures, computer and telecommunication failures, ransomware demands, denial of service attacks, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of Centerbridge's, the portfolio companies', or their respective service providers' systems to disclose sensitive information to gain access to Centerbridge's or the portfolio companies' data or that of the clients' investors. There also have been several publicized cases where hackers have requested ransom payments in exchange for not disclosing client or customer information or restoring access to information technology or communications systems. Although Centerbridge has implemented, and portfolio companies likely will have implemented, various policies, procedures and measures designed to manage risks relating to these types of events, if important systems are compromised, become inoperable for extended periods of time or cease to function properly, it likely would be necessary for Centerbridge, a client and / or a company in which such client has an investment to make a significant investment to fix or replace them. In addition, due to interconnectivity with third-party service providers (and their respective subcontractors), the clients would be adversely affected if any service provider or subcontractor of Centerbridge or any portfolio company is subject to a successful cyber-attack or other information security event. Investments of the clients have involved and may in the future involve companies that have experienced cybersecurity events and that, given the rise of cybersecurity incidents, may become involved in future cybersecurity events. Cybersecurity events also could affect other Centerbridge entities. The failure or inadequacy of these systems and / or of disaster recovery plans for any reason could cause significant interruptions in Centerbridge's, a client's and / or a portfolio company's operations and result in a failure to maintain capabilities essential to the clients' operations and / or the security, confidentiality and privacy of proprietary or sensitive data and information processed and stored in, and transmitted through, Centerbridge's, the clients', any third party's on which the clients rely or their downstream vendors' computer systems and networks, including investors' personal information relating to investors (and the beneficial owners of investors), material non-public information in possession of Centerbridge and / or portfolio companies and the intellectual property and trade secrets and other sensitive information in the possession of Centerbridge and / or portfolio companies. Successful penetration or circumvention of these systems could have additional consequences such as the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system, and costs associated with system repairs. Such a failure could result in reputational harm to Centerbridge, the affected clients and / or the affected portfolio company, result in loss of business, increased costs and / or regulatory penalties, subject any such entity and its affiliates to legal claims and otherwise affect its business and financial performance (including effects on their



liquidity and financial condition). In addition, Centerbridge may incur substantial costs related to forensic analysis of the origin and scope of a cybersecurity breach, increased and upgraded cybersecurity tools, identity theft, social engineering attacks, unauthorized use of proprietary information, attempted extortion, system disruptions, adverse investor reaction, or litigation, which costs, where permitted under the governing documents, are expected to be borne by the clients. These threats in the aggregate continue to be meaningfully magnified as the sophistication and complexity of cyber threats, and expansion of cyber resources and threat actors (including those who may be supported by nation states with extensive resources), have evolved over time, and they have continued to become increasingly advanced over time. Despite Centerbridge's efforts to foster the security, integrity and availability of their information technology and communications systems, Centerbridge is likely not going to be able to anticipate, detect or prevent all cyber threats, especially because the techniques used are increasingly sophisticated, change frequently and are often not recognized until initiated. If a significant number of Centerbridge's personnel were to be unavailable in the event of a disaster, Centerbridge's ability to effectively conduct the clients' businesses could be severely compromised. In addition, there are increased risks relating to Centerbridge's reliance on its computer programs and systems if Centerbridge's personnel are required to work remotely for extended periods of time as a result of events such as an outbreak of infectious disease or other adverse public health developments (such as have persisted during the COVID-19 Pandemic) or natural disasters, including an increased risk of cyber-attacks and unauthorized access to Centerbridge's computer systems.

Centerbridge's Service Providers are subject to the same electronic information security threats as Centerbridge. If a Service Provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the clients, including information normally made available to investors, may become inaccessible and personally identifiable information of the clients' investors may be lost or improperly accessed, used or disclosed. Notwithstanding the diligence that Centerbridge performs on its Service Providers, Centerbridge often is not in a position to verify the risks or reliability of their respective information technology systems.

The loss or improper access, use or disclosure of Centerbridge's or the clients' proprietary information may cause Centerbridge or the clients to suffer, among other things, financial loss, the disruption of their business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a negative effect on the clients.

Data taken in such breaches may be used by criminals in identity theft, to commit insider trading, in obtaining loans or payments under false identities, in attempting extortion and other crimes that could affect the investors directly as well as affect the value of assets in which the clients invest. These risks can disrupt the ability to engage in transactional business, cause direct financial loss and reputational damage, lead to violations by Centerbridge or the clients of applicable securities laws and other laws, such as those related to data and privacy protection and consumer protection, or incur regulatory penalties, all or part of which may not be covered by insurance. Cybersecurity



risks also result in ongoing prevention and compliance costs, the preponderance of which will be borne by the clients, such as any costs pertaining to reviewing and monitoring a portfolio company's cybersecurity program on an ongoing basis.

**Data Protection Risk.** The clients, Centerbridge and / or service providers and, in due course, certain of the companies in which the clients invest may each receive, store, process and use personal data, including through the use of third-party processors and cloud-based and other service providers. Legal requirements relating to the collection, storage, handling and transfer of personal data continue to develop in different countries. The application, interpretation, and enforcement of these developing legal obligations are often inconsistent and uncertain, and may require Centerbridge, the clients and their investments to further modify certain of their respective information practices and could subject them to additional compliance costs and regulatory scrutiny. Certain activities of Centerbridge and the clients and / or their respective affiliates, as well as those of investments and related companies, may, for example, be subject to the E.U.'s General Data Protection Regulation (the "GDPR") (which has been retained and transposed into the domestic law of the U.K. by virtue of the European Union (Withdrawal) Act 2018), the United Kingdom Data Protection Act 2018 (as amended), the California Consumer Privacy Act ("CCPA"), the U.S. Gramm-Leach-Bliley Act ("GLB") and regulations implemented thereunder by the SEC (Regulation S-P) and the Consumer Financial Protection Bureau, Section 5 of the U.S. Federal Trade Commission Act governing unfair or deceptive acts or practices in or affecting commerce, and emerging U.S. state privacy laws, including in California, Colorado and Virginia. While Centerbridge and the clients and their respective affiliates intend to comply with their privacy and data protection obligations under the Privacy and Data Protection Laws (where applicable), a breach of such laws could result in negative publicity and penalties to any party subject to them (including those related to investments), and may subject the clients to significant costs (whether borne directly or indirectly) associated with such penalties which could include regulatory sanctions, civil liability for claims in damages from data subjects or third parties, significant administrative fines and other penalties. Under some Privacy and Data Protection Laws, it is an offense not to notify the appropriate regulator of a security breach of personal data, or to notify the data subjects affected by the breach. Compliance with Privacy and Data Protection Laws requires implementing effective policies and procedures that reflect the applicable law, and maintaining an ongoing and active monitoring program. Further evolution in the field of data privacy is contemplated, for example, in the expected implementation of the E.U. Commission Regulation on Privacy and Electronic Communications to replace its current Privacy Directive within the next few years, and possible divergence between U.K. and E.U. data privacy laws, further increasing monitoring and compliance costs. In addition, Virginia and Colorado recently enacted comprehensive privacy laws, with effect in 2023, and there currently are a number of proposals for comprehensive privacy and data protection legislation pending before U.S. federal and state, and non-U.S. legislative and regulatory bodies that could impose new obligations in areas affecting the business of Centerbridge, the clients and their investments. Further, Centerbridge may not be able to accurately anticipate the ways in which regulators and courts will apply or interpret the Privacy and Data Protection Laws and if such laws are implemented, interpreted or



applied in a manner inconsistent with Centerbridge's expectations, that may result in Centerbridge's business practices changing in a manner that adversely impacts the clients. The resources required for day-to-day operations and for dealing with exceptional circumstances may divert Centerbridge's time and effort from other activities relating to the management of the clients and entail substantial expense.

**Alternative Data.** The investment research and monitoring process at times incorporates, as a means of potentially understanding broad trends and themes, information that could be considered "big data" or "alternative data," (terms that generally refer to large datasets culled from a variety of sources). Among the risks presented by "big data" or "alternative data" are the following: developing or licensing such datasets can be resource intensive, generating research expense allocable to a client; special legal considerations may come into play, including data privacy law requirements (as described above under "*Data Protection Risk*") and other legal requirements associated with the collection, retention and use of such information, which can be a source of various legal and regulatory risks; it may be difficult to draw any reliable conclusions from such datasets; conflicts of interest can arise (as described in Item 11.D); and changes in legal and regulatory standards relating to such information (including a continuing climate of stringency and scrutiny, focused in part on market participants that may have incorporated material non-public information into such datasets) could give rise to new implications of and limitations on its receipt and use. There can be no assurance that Centerbridge will be able to successfully incorporate such datasets into its investment research and monitoring process or avoid experiencing risks associated with such information, the impact of which could be material.

**Financial Market Fluctuations.** The prices of Instruments in which the clients may invest can be highly volatile and are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic, public health and other events and policies. The clients are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses. In addition, general fluctuations in the market prices of Instruments may affect the value of the investments held by the clients. Instability in the securities markets also may increase the risks inherent in the clients' investments. The ability of the companies whose Instruments are held by a client to refinance debt Instruments may depend on their ability to sell new Instruments or incur additional borrowings in the public high-yield debt market or otherwise.

**General Economic and Market Conditions.** The success of the clients' activities will be affected by general economic and market conditions in the relevant economy (whether within or outside the U.S.), such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in applicable laws and regulations (including laws relating to taxation of the clients' investments), trade barriers, currency exchange controls, continued technology disruption, tax reform or other significant policy changes, as well as national and international political, environmental and socioeconomic circumstances (including wars, terrorist acts, security operations or





public health considerations) in respect of the countries in which a client may invest. These factors may affect the level and volatility of prices and the liquidity of the clients' investments. Volatility or illiquidity could impair the clients' profitability or result in losses in the event the clients are unable to maintain their positions through such periods. Moreover, a sustained downturn in the U.S. or global economy (or any particular segment thereof) which have already been significantly impacted by the COVID-19 Pandemic and the current conflict involving Russia and Ukraine, could adversely affect the clients' profitability or impede the ability of the companies in which the clients invest to perform. In addition, rapid changes in inflation could have a negative effect on the performance of the clients. Any of the foregoing events could result in substantial or total losses to the clients in respect of certain investments, which losses will likely be exacerbated by the presence of leverage applied by the clients or at the investment level. The factors that could cause an investment to decline in value or otherwise perform poorly can affect the fair value of the clients' investments, possibly adversely. The investment performance of one or more investments may not be uncorrelated or unrelated to the investment performance of other investments generally. In the event of a broad market downturn or developments within one or more portions of the global economy, whether caused by COVID-19, the current conflict involving Russia and Ukraine or some other factor(s) in the future, a large portion of a client's investments may together be adversely affected. Prospective investors and investors should not expect that any particular investment or a client's portfolio as a whole will be isolated from the potential negative effects of market events or general economic trends. The clients have the authority to maintain certain substantial trading positions that can be adversely affected by the level of volatility in the financial markets – the larger the positions, the greater the potential for loss. The financial condition of a company in which a client invests, the clients or Centerbridge may be adversely affected by a significant general economic downturn and such company, the clients or Centerbridge may be subject to legal, regulatory, reputational and other unforeseen risks that could have a negative effect on their business and operations and thereby could impact the clients. Additionally, adverse market conditions increase the likelihood of default on payment of capital contributions by investors. In the case of default, the non-defaulting investors will be adversely impacted by virtue of bearing additional contributions.

**Current Market Conditions and Governmental Actions.** As a result of the global financial crisis in 2008 and in its aftermath, regulators in the U.S. and several other countries undertook unprecedented regulatory actions. At other points in time, such regulators have considered and implemented measures to stabilize and encourage growth in their relevant markets (including, for example, in response to the COVID-19 Pandemic). It is uncertain whether the regulatory actions taken by regulators or any other regulatory actions will, in the future, prevent similar or additional losses and volatility in securities markets, or further stimulate the credit markets.

The markets also have been materially affected by uncertainty surrounding actions by many governments around the world to guarantee the debts of or invest in their respective local banks and similar financial institutions. In certain cases, these decisions are ongoing and the success or failure of any such governmental program has yet to be





determined. It is not clear how such programs will impact the global economy or the clients but the impact could be negative.

In the long term, there may be significant new regulations that could limit the clients' activities and investment opportunities or change the functioning of capital markets, and there is the possibility that a severe worldwide economic downturn could continue for an extended period. Consequently, the clients may not be capable of, or successful at, preserving the value of their assets, generating positive investment returns or effectively managing their risks.

**Russian Invasion in Ukraine.** On February 24, 2022, the Russian Federation ("Russia") launched a large-scale invasion of Ukraine, and the ensuing conflict is ongoing. While the long-term effects of this conflict remain to be seen, it has caused, and is likely to continue to cause, significant economic disruption. In response to the conflict, the U.S., the E.U., the U.K. and other countries have enacted and continue to enact severe sanctions regimes and / or export controls against Russia, which seek to further isolate Russia from the world economy and include the imposition of sanctions against Russia's Central Bank and other large financial institutions and others, including those that provide political or economic support for Russia's actions. A number of businesses with a significant historical presence in Russia have curtailed or suspended activities in Russia or dealings with Russian counterparts for reputational or practical reasons, even if such activities are not subject to formal sanctions. While current sanctions may not target Centerbridge, the clients or their investments (or their industries more generally), such sanctions could adversely impact the global economy generally, and the Russian economy specifically by, among other things, creating instability in the energy sector, reducing trade, and increasing volatility and uncertainty. Any new or expanded sanctions that may be imposed by the U.S., the E.U., the U.K. or other countries could materially adversely affect Centerbridge's operations, including those of the clients and their investments. The situation in Russia and Ukraine remains uncertain and is changing rapidly. Any impacts on the clients' business or results of operations cannot be predicted.

**Real Estate Market Conditions.** A client's strategy in some real estate investments will be based, in part, upon the premise that real estate businesses and assets will be available for purchase by such client at prices that Centerbridge considers favorable. Further, a client's strategy relies, in part, upon market conditions existing during the term of the client. For instance, any downturn in the global economy may adversely affect the financial condition of residential owners and tenants, making it more difficult for them to meet their periodic repayment obligations relating to certain residential, multi-family real estate properties, which could adversely impact the clients' investment performance with respect to real estate-related investments, and potentially overall. Local real estate markets can decline for any number of reasons, including but not limited to population decline, natural disasters, poor regional economic performance, excess development leading to oversupply, local government policies and heightened taxes. No assurance can be given that real estate businesses and assets can be acquired at favorable prices or that the market for such assets will recover, continue to improve or



not deteriorate, as the case may be, since this will depend, in part, upon events and factors outside the control of Centerbridge. Actual or perceived trends in real estate markets do not guarantee, predict or forecast future events, which may differ significantly from those implied by such trends. In addition, current trends in the real estate market and broader market generally have been toward disrupting a traditional approach to an industry with technological innovation, and multiple young companies have been successful where this trend toward disruption in markets and market practices has been critical to their success. In this period of rapid technological and commercial innovation, new businesses and approaches are likely to be created that will compete with a client and / or its investments or alter the market practices a client's strategy has been designed to function within and depend on for investment return. Any of these new approaches could damage a client's investments, significantly disrupt the market in which it operates and subject it to increased competition, which could negatively affect its business, financial condition and results of investments.

**Financial Market Fluctuations.** Turmoil such as that experienced by the U.S. and global financial markets as a result of the ongoing COVID-19 Pandemic, the current conflict involving Russia and Ukraine, and such as markets endured during the global financial crisis of 2008, illustrates the risk that the financial markets can experience uncertainty, volatility and instability, potentially for protracted periods of time. Lending and the global credit markets may experience substantial volatility, disruption, liquidity shortages and to some extent financial instability. Global financial markets in the past have experienced considerable and prolonged declines in the valuations of equity and debt securities and periodic acute contraction in the availability of credit. There can be no assurances that conditions in the global financial markets will not worsen and / or adversely affect one or more of the clients' investments (including with respect to performing under or refinancing their existing obligations), their access to capital or leverage, their ability to effectively deploy their capital or realize investments on favorable terms, or their overall performance. Please see "*—Public Health Risk*" for additional important considerations regarding global economic conditions.

General fluctuations in the market prices of securities and interest rates may adversely affect the value of the clients' investments and / or increase the risks associated with the clients' investments. In particular, conditions in the credit markets may have a significant impact on the business of the clients. Among other things, the ability of companies, businesses, projects or assets to refinance debt depends on their ability to obtain financing, including by selling new debt in the high-yield debt or bank financing markets. At times during the life of a client, the state of global credit markets, when coupled with uncertainty of the global financial system generally, may make it significantly more difficult for a client to obtain favorable financing terms for its investments. There can be no assurances that any downturn in the global financial market conditions or any market fluctuations will not adversely affect one or more of the clients' investments, including with respect to performing under or refinancing their existing obligations, their access to capital or leverage, their ability to effectively deploy capital or realize investments on favorable terms or their overall performance.



Similarly, there can be no assurance that the clients will not suffer material adverse effects from broad and / or rapid changes in market conditions in the future. The level of investment opportunities may decline from Centerbridge's current expectations, making fewer investment opportunities available to the clients (although, during a time of challenging market conditions, it is possible there could be opportunities to take larger positions in the transactions that do occur). Another possible consequence of a constrained credit market is that the clients may take a longer than anticipated period to invest capital, as a result of which, at least for some period of time, the clients may be more concentrated in a limited number of investments than expected. Consequently, during this period, the returns realized by the clients (and thus the investors) may be substantially adversely affected by the unfavorable performance of a small number of these investments.

Furthermore, market conditions may unfavorably impact the clients' ability to secure leverage on terms as favorable as more established borrowers in the market, or to obtain any leverage on commercially feasible terms. To the extent the clients are able to secure financing for investments, increases in interest rates or in the risk spread demanded by financing sources would make the partial financing of investments with indebtedness more expensive and could limit the clients' ability to structure and consummate their investments. Although Centerbridge believes at this time that the continued unfolding of the credit cycle will result in attractive investment opportunities, it may not be able to manage the timing of the clients' investments in the most advantageous manner, which could result in further depreciation in values. The clients' investment strategy and the availability of opportunities satisfying the clients' risk-adjusted return parameters rely in part on the continuation of certain trends and conditions observed in the financial markets and in some cases the improvement of such conditions. Trends and historical events do not imply, forecast, or predict future events, and, in any event, past performance is not indicative of future results. There can be no assurance that the assumptions made or the beliefs and expectations currently held by Centerbridge will prove correct and actual events and circumstances may vary significantly.

**Inflation.** Inflation and rapid fluctuations in inflation rates have had in the past, and may in the future have, negative effects on economies and financial markets, particularly in emerging economies. For example, if a portfolio company is unable to increase its revenue in times of higher inflation, its profitability may be adversely affected. Portfolio companies may have revenues linked to some extent to inflation, including, without limitation, by government regulations and contractual arrangement. As inflation declines, a portfolio company may not be able to reduce expenses commensurate with any resulting reduction in revenue. Furthermore, wages and prices of inputs increase during periods of inflation, which can negatively impact returns on investments. In an attempt to stabilize inflation, countries may impose wage and price controls or otherwise intervene in the economy, and central banks could raise interest rates. Governmental efforts to curb inflation often have negative effects on the level of economic activity. There can be no assurance that inflation will not have an adverse



impact on the clients and their portfolio companies and could meaningfully adversely affect the clients' returns and their ability to fulfill their investment objectives.

**Disruptions in Supply Chains.** Many businesses are currently experiencing significant disruptions to operations or other difficulties with their supply chains or internalized supply processes due to, among other factors, the COVID-19 Pandemic, exchange rate fluctuations, volatility in regional or international markets from where materials are obtained, particularly Southeast Asia, changes in the general macroeconomic outlook, political instability, expropriation or nationalization of property, climate change, civil strife, strikes, insurrections, acts of terrorism, acts of war or natural disasters. The failure by a portfolio company to obtain components in a timely manner, or to obtain raw materials or components that meet its quantity and cost requirements, could increase its costs, result in project delays and / or jeopardize its activities, which could reduce returns to the clients.

**Legal and Regulatory Risks.** Any significant changes in, among other things, economic policy (including with respect to interest rates and foreign trade), the regulation of the asset management industry, tax law, immigration policy and / or government entitlement programs could have a material adverse impact on the clients and their investments. As further described herein, legal, regulatory and tax changes could occur during the term of the clients that may adversely affect the clients. For example, from time to time, the markets for private equity, real estate opportunities and real estate debt transactions have been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, partly in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. Securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other regulators and self-regulatory organizations and exchanges authorized to take extraordinary actions in the event of market emergencies. The regulatory environment for private funds and capital markets also is evolving, and changes in the regulation of private funds, their managers and their trading activities and capital markets could negatively affect the ability of the clients to pursue their investment strategies, their ability to obtain leverage and financing and the value of investments held by them. The clients also may invest in companies that operate in a highly regulated environment and are subject to extensive legal and regulatory restrictions and limitations and to supervision, licensing, examination and enforcement by regulatory authorities. New and existing regulations and burdens of regulatory compliance may directly impact the business and results of the operations of, or otherwise have a negative effect on, companies that are subject to regulation. Failure to comply with any of these laws, rules and regulations, some of which are subject to interpretation and may be subject to change, could result in a variety of adverse consequences, including civil and administrative penalties and fines, which may have negative effects. There has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. It is impossible to predict what, if any, changes in regulations will occur, but any regulations that restrict the ability of the clients to trade in securities or engage in investments or the ability of the clients to employ, or brokers and other counterparties to extend, credit in their trading (as well as



other regulatory changes that result) could have a negative effect on the clients' performance and, consequently, on the clients' portfolio.

On January 20, 2021, Joseph R. Biden, Jr. became President of the United States. The full scope of President Biden's legislative and regulatory agenda is not yet fully known, but it may include certain regulatory measures for the U.S. financial services industry, changes to tax policies and other aspects of a more progressive platform, any of which could adversely affect the alternative investments industry, the market for debt investments and / or the business of the clients. In addition, uncertainty around future legislation could adversely affect the clients. The Biden administration has proposed certain tax and other legislative or regulatory reforms that, if adopted into law, will likely have an adverse effect on the private funds industry (and, therefore, Centerbridge and the clients) and, potentially, the U.S. economy at large, but it remains uncertain to what extent such reforms will ultimately be adopted into law and, if adopted, what kind of impact such reforms will have on the industry. The uncertainty of future legislation could adversely impact the clients and their ability to achieve their investment objectives. Any significant changes in governmental policies, laws, rules, regulations, regulatory interpretations, enforcement activity levels or administrative agency procedures, including those relating to, among other things, economic policy (including with respect to interest rates, foreign trade and inflation), the regulation of the financial services industry in general and the asset management industry in particular, tax laws, immigration policy, public health policy, healthcare laws, infrastructure spending, consumer protection laws, environmental protection and / or climate change policies or regulations, unemployment benefit programs and / or other government entitlement programs could have a material adverse impact on the clients and their investments, and thereby returns to investor.

The Biden administration has led to leadership changes at a number of U.S. federal regulatory agencies with oversight over the U.S. financial services industry. This poses uncertainty with respect to such agencies' policy priorities and may lead to increased regulatory enforcement activity in the financial services industry. Leadership and policy changes could also affect various industries in which Centerbridge's portfolio companies operate, including technology, technology-enabled and growth industries. Although there is a substantial lack of clarity regarding the likelihood, timing and details of potential changes or reforms by the Biden administration and Democratically controlled U.S. Congress, such changes or reforms may impose additional costs and burdens on the companies in which Centerbridge has invested or choose to invest in the future, require the attention of senior management or result in limitations on the manner in which the companies in which Centerbridge has invested or chooses to invest in the future conduct business.

**In addition, the SEC** recently has pursued various regulatory changes, some of which have been adopted and become effective or are scheduled to become effective, and others of which are proposed, including changes related to Form PF reporting, the private placement offering framework (including Form D reporting), disclosures regarding ESG matters and diversity, equity and inclusion matters, and





reporting regarding proxy votes with respect to executive compensation matters. Such regulatory changes will affect Centerbridge's and its clients' current and potential future compliance costs and burdens.

Additionally, foreign investment in securities of companies in certain of the countries in which the clients may invest is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment above certain ownership levels or in certain sectors of the country's economy and increase the costs and expenses of the clients. While regulation of non-U.S. investment has liberalized in recent years throughout much of the world, there can be no assurance that more restrictive regulations will not be adopted in the future. Some countries require governmental approval for the repatriation of investment income, capital or the proceeds of sales by foreign investors and foreign currency. The clients could be negatively impacted by delays in, or a refusal to grant, any required governmental approval for repatriation of capital interests and dividends paid on Instruments held by the clients, and income on such Instruments or gains from the disposition of such Instruments may be subject to withholding taxes or other taxes imposed by certain countries where the clients invest or in other jurisdictions.

Investors should understand that the business of Centerbridge and its affiliates, including the clients, is dynamic and expected to change over time. Therefore, the clients could be subject to new or additional regulatory constraints in the future, including by virtue of legal and regulatory matters affecting Centerbridge. This Brochure cannot address or anticipate every possible current or future regulation that may negatively affect Centerbridge, the clients, their respective affiliates or their respective businesses. Such regulations could have a negative effect on the investors or the operations of the clients, including restricting the types of investments a client makes, preventing the exercise of its voting rights with regard to certain financial instruments, requiring the clients to disclose the identity of their respective investors or otherwise. In addition, in order to comply (or to facilitate compliance) with regulations and policies to which the clients, Centerbridge or service providers (including financial institutions) are or may become subject, or to satisfy regulatory or other requirements in connection with the consummation of investments or with respect to any lender, the clients, Centerbridge, their respective affiliates and their respective consultants, attorneys or other advisors could be required to disclose information about the investors, including their identities and the identities of their beneficial owners, as well as information reasonably required in connection with any tax audit involving the clients or any investor. Centerbridge has the authority, in its discretion, to cause the clients to be subject to laws and regulations and associated legal obligations if it believes that doing so would be in the clients' interest generally, even in circumstances where such laws or regulations may have a different, and possibly less favorable, impact on one or more investors. The application of laws and regulations and associated legal obligations (relating to competition, for example) also can have a sweeping and also a potentially varying impact with respect to Centerbridge and its affiliates, including the clients and their investments. Prospective investors are encouraged to consult their own advisors regarding an investment in the clients.





**Owner-Operator Risks Under ERISA or Other Laws.** Under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and the Internal Revenue Code of 1986, as amended (the “Code”), all members of a group of commonly controlled trades or businesses would under certain circumstances be jointly and severally liable for each other’s obligations to any defined benefit pension plans maintained by an entity in the controlled group or to which such entity is obligated to contribute. These obligations include the obligation to make required pension contributions, the obligation to fund any deficit amount upon pension plan termination and the obligation to pay withdrawal liability owed to a multi-employer (union) plan to which such entity makes contributions if the entity withdraws from an underfunded multi-employer pension plan. A 2013 U.S. Federal Appeals court decision found that certain supervisory and portfolio management activities of a private equity fund could cause a fund to be considered a trade or business for these purposes, and thus, liable for withdrawal liability owed by a client’s portfolio company to an underfunded multi-employer plan which covered the employees of the portfolio company. Accordingly, if a client invested in a control-type investment and if such client were found to be engaged in a “trade or business” for ERISA purposes, such client and the various entities in which such client had a control-type investment could be held liable for the defined benefit pension obligations of one or more of such investments.

In addition, other circumstances could arise pursuant to which a finding of owner-operator status could result in a client becoming responsible for liabilities of a company in which such client invests. There have been instances of courts and / or regulatory authorities holding funds responsible for actions of companies owned by such funds in circumstances where the fund was determined to have influence over the underlying company (*e.g.*, through voting rights and / or board representation), an example being imposition by the European Commission of an antitrust fine on a fund that owned a European company that was determined to have participated in a cartel. The risk of owner-operator liability may be of lesser significance to certain of the clients; however, it remains among those risks to which the clients are subject.

**OFAC and AML Considerations.** Economic sanctions and anti-money laundering (“AML”) laws in the United States and other jurisdictions from time to time prohibit Centerbridge and the clients from transacting with or in certain countries and governments, as well as with certain individuals and companies. These sanctions, including sanctions imposed on Russia and certain Ukraine territories in response to the crisis in Ukraine are complex, frequently changing, and increasing in number, and they may impose additional prohibitions or compliance obligations on Centerbridge. In the United States, the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”) administers and enforces laws, regulations and Executive Orders establishing U.S. economic and trade sanctions. Such sanctions prohibit, among other things, transactions with, and the provision of services to, certain foreign countries, regions, territories, entities and individuals. These entities and individuals include specially designated nationals, sanction evaders, specially designated narcotics traffickers and other parties subject to OFAC sanctions and embargo programs. The lists of OFAC prohibited countries, regions, territories, governments, persons and entities, including the



List of Specially Designated Nationals and Blocked Persons, as such list may be amended from time to time (as has recently been the case with respect to Russia and certain Russian entities and individuals), can be found on the OFAC website at [www.treas.gov/ofac](http://www.treas.gov/ofac). In addition, certain programs administered by OFAC prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on the lists maintained by OFAC. The clients generally will not be permitted to invest in or trade with any individual or entity appearing on such lists.

Centerbridge undertakes various due diligence measures and applies certain procedures (together with the applicable client's administrator, where applicable) designed to determine whether entering into a relationship with an investor or prospective counterparty or investment would give rise to OFAC, AML or corruption-related risks and to prevent such risks. As a result of such measures, Centerbridge from time to time determines that Centerbridge or a client should forgo certain relationships and associated opportunities that Centerbridge believes may present such risks. In addition, the possibility exists that Centerbridge's or the clients' ongoing relationships will be affected by activity that has potential implications under OFAC sanctions lists (which can be subject to rapid change, including as a result of geopolitical circumstances), AML laws or anti-corruption and anti-bribery laws, which could necessitate discontinuing an existing relationship or activity, or the imposition of other legally required or advisable measures.

In December 2020, the U.S. Congress voted to enact the Corporate Transparency Act ("CTA"), which will significantly alter AML obligations within the United States by creating a beneficial ownership registry within the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN"), requiring certain reporting companies to report information on their beneficial owners to FinCEN. Pursuant to the CTA, the U.S. Department of the Treasury is required to amend the customer due diligence requirements for financial institutions. It is difficult to determine the full extent of the impact on Centerbridge of any new AML laws, regulations or initiatives that may be proposed or whether any of the proposals will become law.

Although Centerbridge has adopted and will maintain policies and procedures reasonably designed to ensure compliance by the clients with applicable economic sanctions laws and regulations, there can be no guarantee that the clients, their portfolio companies, or their respective officers, directors and employees, will comply with those policies and procedures or applicable economic sanctions laws and regulations, particularly as sanction lists evolve in real time, as has recently been the case with respect to Russia. Centerbridge is dedicated to complying with the economic sanctions laws to which it is subject.

**Compliance with the Commodity Exchange Act.** In managing the clients, Centerbridge intends to rely on an exemption from registration with the CFTC as a CPO under the Commodity Exchange Act that is available because the clients' transactions in regulated Instruments (including commodity futures, security futures, options thereon and certain derivatives) are below the applicable *de minimis* threshold above which registration applies. Reliance on the *de minimis* exemption operates as a



limit on the extent to which the clients can utilize derivatives and other regulated Instruments to execute its investment program. Should the clients' future investment activity exceed the threshold for eligibility for the *de minimis* exemption, registration with the CFTC would be necessary, subjecting Centerbridge and / or the clients to certain additional costs and expenses and regulatory and administrative burdens. Furthermore, any determination by Centerbridge to cease or to limit holding or investing in interests that may be treated as "commodity interests" in order to comply with the regulations of the CFTC is likely to have a negative effect on the clients' ability to implement their investment objectives and to hedge risks associated with their operations.

**The Securitization Regulation.** Regulation (E.U.) 2017/2402 (the "Securitization Regulation") seeks to bring together current E.U. securitization rules into a single European regulation. The Securitization Regulation has applied in the EEA since January 1, 2019 and has been retained and transposed in the laws of the U.K. following its departure from the EEA pursuant to the European Union (Withdrawal) Act 2018 (the "EUWA"). The Securitization Regulation harmonizes detailed due diligence requirements applicable to certain institutional investors and restricts them from becoming exposed to the risks of securitization unless certain prescribed types of person associated with the securitization (such as its sponsor) retain, broadly, a 5% net economic interest in the securitization special purpose vehicle. It is possible that the Securitization Regulation could be applied to non-EEA/non-U.K. AIFMs that market non-EEA AIFs in the EEA or the U.K. pursuant to national private placement regimes. Accordingly, these requirements could restrict the ability of the clients or a portfolio company to invest or otherwise be involved (directly or indirectly through a portfolio company) in certain opportunities which are or are deemed to be securitizations. Prospective investors should be aware that the range of investment strategies and investments that the clients are able to pursue may be limited by the Securitization Regulation, and that there may be other adverse consequences for investors and their capital investments in the clients as a result of changes to the E.U. risk retention and due diligence requirements that have been introduced through the Securitization Regulation.

**CFIUS and Global Foreign Investment Regimes.** The actions of the Committee on Foreign Investment in the United States ("CFIUS"), an inter-agency committee authorized to review transactions that could result in control of a U.S. business by a foreign person and certain other non-controlling investments, may adversely impact the prospects of an issuer or portfolio company in the context of mergers with, or acquisitions by, a foreign person. In most cases, filing with CFIUS is voluntary. But if a party chooses not to file, CFIUS may decide to review a transaction on its own initiative, even after the transaction has closed. In certain cases, filing is mandatory, and failure to file could result in CFIUS imposing penalties. CFIUS clears the majority of transactions that it reviews without conditions. But in cases that present serious national security concerns, CFIUS may recommend that the President block a transaction, and, if closing has already occurred, order the parties to unwind the deal. A presidential action such as this would be made public and could inflict severe financial and reputational damage on the parties to the transaction. Alternatively, if CFIUS has national security concerns, it may clear a transaction to proceed subject to certain conditions. In some cases, these



conditions may be extensive and costly, and if applied to a investment can materially and adversely affect the clients' ability to execute their investment strategy. In addition, the CFIUS process continues to evolve in ways that may be difficult to predict. In particular, the Foreign Investment Risk Review Modernization Act of 2018 (the "FIRRMA") and accompanying regulations broadened the jurisdiction of CFIUS in several ways, such as allowing CFIUS to review certain non-controlling investments in U.S. businesses involved in critical technology, sensitive personal data, and critical infrastructure. In certain circumstances, this review may include indirect investments in such businesses by foreign investors. Such legislation could impact the ability of non-U.S. investors to participate in the clients' investments, which may impair the clients' ability to execute their investment strategy. FIRRMA has increased the number of transactions that will be subject to CFIUS review and investigation and the timing and substantive risks described above. In addition, the clients' investors can be expected to include certain non-U.S. investors, and such investors may comprise a substantial portion of the clients' aggregate capital commitments. These factors, together with any non-U.S. investment partners in specific transactions, can increase the risk that investments would be subject to review by CFIUS, and the risk that limitations or restrictions will be imposed by CFIUS or other non-U.S. regulators on the clients' investments.

As the clients' non-U.S. investors are expected to comprise collectively a substantial portion of the clients' aggregate commitments, this increases both the risk that investments may be subject to review by CFIUS, and the risk that CFIUS may impose limitations or restrictions on the clients' investments. In the event that restrictions are imposed on any investment by the clients due to the non-U.S. status of an investor or other related CFIUS or national security considerations, subject to the terms of the clients' governing documents, Centerbridge may take such actions as Centerbridge, in its sole discretion, deems necessary to comply with any CFIUS directive or order. However, there can be no assurance that any restrictions implemented on any such investors will allow the clients to maintain, or proceed with, any investment in or sale of a company. The outcome of the CFIUS process may be difficult to predict, and, if applicable to a company, the decisions of CFIUS may adversely impact the clients' proposed or actual investments in such company.

Similar foreign direct investment ("FDI") rules or regulations exist in many jurisdictions outside the United States and could operate in ways that adversely affect the clients' performance. Some of these non-U.S. national security investment clearance rules and regulations have recently been made more rigorous.

Other jurisdictions, such as the Netherlands, are in the midst of ongoing reform that may establish further restrictions and increase risk by enhancing governments' powers to scrutinize, impose conditions on, and potentially block mergers, acquisitions, and other transactions. These requirements and the disclosure process may delay or otherwise impact the clients' acceptance and drawdown of capital commitments from certain investors and approval of transfers by or to certain investors. Delays in the clients' ability to accept or draw down capital commitments may adversely impact the ability of the clients to make investments in countries such as Australia, New Zealand,



China, India, and the U.K., as well as the timing of such investments. The foregoing requirements may also result in circumstances in which the clients determine not to pursue certain potential investment opportunities in these countries.

The clients' governing documents contain certain provisions that may require certain limited partners to be excluded from participating in an investment, for example where their participation is at risk of jeopardizing the clients' ability to successfully acquire, hold, operate, sell, transfer, exchange, pledge or dispose of a prospective investment in light of legal, regulatory or other similar considerations.

The CFIUS and FDI regulatory risks described herein are not limited to the clients and would similarly apply depending upon the ownership interest of Centerbridge, which ownership could change over time.

### C. Risks Associated with Particular Types of Investments.

**Distressed Investments and Other Instruments.** Each client's investment program includes making distressed investments, including, for example, investments in defaulted, out-of-favor or distressed Instruments and other assets (which could include, among other things, hard assets such as aircraft, ships, timber, real property, etc., and intangible assets such as litigation claims and intellectual property claims or rights). Certain of a client's investments will therefore include specific Instruments (including loans and other forms of indebtedness) of companies that typically are highly leveraged, with significant burdens on cash flow, and therefore involve a high degree of financial risk. A client also will make investments in companies that are experiencing financial or operational difficulties or are otherwise out-of-favor. Some or all of these companies may operate at a loss or with substantial variation in operating profits and losses from period to period, and may have a need for substantial additional capital to support expansion or to achieve or maintain a stable operating position. Such companies may not have ready access to the traditional capital markets. Such investments may be premised on a turnaround strategy. If turnarounds are not achieved, these companies could experience failures or substantial declines in value, and a client may not be able to divest itself of such unprofitable investments in a timely fashion or at all. Additionally, turnarounds may not be achieved within the contemplated investment horizons. Investments in companies operating in workout or bankruptcy modes also present additional legal risks, including fraudulent conveyance, voidable preference and equitable subordination risks.

Each client can be expected to invest in Instruments of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These Instruments are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Such investments carry the risk that information regarding the true condition of such issuers can be difficult to obtain. Such investments also may be adversely affected by laws relating to, among





other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' equity or debt Instruments are considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to a client's investment in any Instrument, and a significant portion of the obligations and Instruments in which a client invests from time to time be considered less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Centerbridge will correctly evaluate the value of the assets underlying a client's investments or the prospects for a successful reorganization or similar action.

In addition, companies in which a client invests could deteriorate as a result of, among other factors, an adverse development in their business, a change in the competitive environment or the onset, continuation or worsening of an economic or financial market downturn or dislocation (including, for example, as a result of the COVID-19 Pandemic). As a result, companies or Instruments that a client had expected to be stable or improve may operate, or expect to operate, at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or maintain their competitive position, or may otherwise have a weak financial condition or be experiencing financial distress. In addition, exogenous factors such as fluctuations of the equity markets also could result in warrants and other equity-related Instruments owned by a client becoming worthless. Even "higher-quality" issuers in which a client invests could still present a high degree of business and / or credit risk. During an economic downturn or recession, Instruments of financially troubled or operationally troubled issuers are more likely to go into default than Instruments of other issuers. Instruments of financially troubled issuers and operationally troubled issuers often are less liquid and more volatile than Instruments of issuers not experiencing financial difficulties. The market prices of such Instruments are subject to erratic and abrupt market movements, and the spread between bid and ask prices tends to be greater than under more "normal" circumstances. In addition, many of a client's investments may not be widely traded, and a client's investment in such Instruments will from time to time be substantial relative to the market for such Instruments. As a result, a client may experience delays and incur losses and other costs in connection with the exit from, or sale of, its investments.

The possibility exists that Centerbridge would determine to commence bankruptcy or similar proceedings, or that involuntary proceedings could be commenced, involving an issuer in which a client is invested. In any reorganization or liquidation proceeding relating to an issuer in which a client invests, such client may lose its entire investment, may be required to accept cash or Instruments with a value less than such client's original investment and / or may be required to accept payment over an extended



period of time. Under such circumstances, the returns generated from the relevant client's investments may not compensate such client adequately for the risks assumed.

The clients make investments in restructurings which could involve issuers that are experiencing or are expected to experience financial difficulties which may never be overcome. The return on any investment in an issuer undergoing a restructuring depends in part upon such restructuring progressing as Centerbridge expects (including with respect to any conversion or repayment of the relevant client's investments in such issuer). There can be no assurance that any particular outcome of such restructuring will occur or be successful and, as a result, the premise underlying such client's investment may never come to fruition and in such case such client's returns would likely be adversely affected. Additionally, investments in issuers undergoing restructurings could, in certain circumstances, subject the clients to additional potential liabilities, which may exceed the value of a client's original investment therein.

In restructurings, including liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the restructuring either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or new Instruments, the value of which may be less than the purchase price to the relevant client of the Instruments with respect to which such distribution was made.

The clients may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the issuer being liquidated, which, in either case, could result in losses, even if the proposed restructuring is consummated.

**High-Yield Instruments.** The clients' investments include high-yield securities, which generally are not exchange-traded and, as a result, trade in the OTC marketplace, which is less transparent than the exchange-traded marketplace. In addition, the clients invest in debt Instruments of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield Instruments face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt Instruments tend to reflect individual corporate developments to a greater extent than do higher-rated Instruments which react primarily to fluctuations in the general level of interest rates and tend to be more sensitive to economic conditions than are higher-rated Instruments. Issuers of high-yield Instruments often are highly leveraged and lack access to more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such high-yield Instruments and have an adverse impact on the value of high-yield Instruments. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such Instruments to repay principal and pay interest thereon and increase the incidence of default of such high-yield Instruments.



**Convertible Instruments.** From time to time, the clients will execute their strategies through investments in convertible Instruments or other similar equity-related Instruments as a means of limiting downside risk and providing the opportunity to capture upside potential. Convertible Instruments include bonds, debentures, notes, preferred stocks or other Instruments that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or a price determined using an agreed formula. A convertible Instrument entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible Instrument matures or is redeemed, converted or exchanged. Convertible Instruments have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible Instruments; (ii) are potentially less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics; and (iii) provide the potential for capital appreciation if the underlying value of the issuer increases.

The value of a convertible Instrument depends on its “investment value” (determined by its yield in comparison with the yields of other Instruments of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (such Instrument’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible Instrument is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also typically have an effect on the convertible Instrument’s investment value. The conversion value of a convertible Instrument is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible Instrument is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible Instrument will be increasingly influenced by its conversion value. A convertible Instrument generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income Instrument. Generally, the amount of the premium decreases as the convertible Instrument approaches maturity.

A convertible Instrument may be subject to redemption at the option of the issuer at a price established in the convertible Instrument’s governing documents. If a convertible Instrument held by a client is called for redemption, that client will be required to permit the issuer to redeem the Instrument, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on that client’s ability to achieve its investment objective.

**Preferred Equity.** The clients also sometimes invest in preferred equity Instruments, which generally rank junior to all existing and future indebtedness, including commercial mezzanine and mortgage loans. In the event of a bankruptcy, liquidation, reorganization or other winding-up with respect to an issuer in which the



clients hold a preferred equity Instruments, the clients will bear a risk of lost principal, in whole or in part, as such Instruments are generally not secured.

**Equity Instruments.** Each client's portfolio includes exposure to equities or equity-related Instruments, including Instruments convertible or exercisable into equities and equity derivatives. Such Instruments (or their underlying reference asset) may be listed or publicly traded, trade in the OTC market or have a limited or no active secondary market. Such Instruments may be acquired in conjunction with or concurrently with debt investments, received through the equitization of the relevant client's debt investments in reorganizations or similar processes, in privately negotiated transactions or acquired in the open market. In addition, a client may receive Instruments issued by publicly held companies including by virtue of such client's exit strategies (*e.g.*, an initial public offering).

At times, a client's equity investments may be substantial as a percentage of such client's overall investments or the total outstanding shares of the relevant issuer. In the event of a bankruptcy or insolvency of the issuer, investments in equity generally lack the downside protection afforded to creditors. Listed equities or equities with an active secondary market, or Instruments linked to such equities, are subject to the risk of fluctuations in market value, which may be substantial and sudden, in response to numerous factors (including, without limitation, the business, operations, financial condition and prospects of the issuer, competition, market sentiment and market conditions, industry conditions, regulatory conditions and the general political and economic environment), increased obligations to disclose information regarding such issuers, limitations on the ability of the relevant client to dispose of such Instruments at certain times and at a preferred price, increased likelihood of shareholder or other stakeholder opposition or litigation against such issuers' board members and increased costs associated with each of the aforementioned risks. Equity interests in private issuers are subject to additional risks that include, without limitation, limited liquidity and resale limitations under contracts governing such Instruments and / or under applicable securities laws, limited availability of financial and other information (for example, unlisted issuers are not required to make information publicly available) and a lack of observable pricing for purposes of determining the fair value of such investments. In both cases, in the event of a bankruptcy or insolvency of the issuer, investments in equity generally lack the downside protection afforded to creditors. The holders of an equity position, which generally represents the most junior position in an issuer's capital structure, will be entitled to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. In addition, if a client or Centerbridge is deemed an affiliate of a company, the securities of such company held by the clients may become restricted securities, which are not freely tradable.

**Private Investments in Public Entities.** The clients may invest in private investments in public entities, or "PIPEs." PIPEs present certain risks in addition to the risks that would otherwise be associated with an investment in the underlying public entity, including (i) limited liquidity due to legal or contractual restrictions on resales of PIPEs; (ii) lack of a public market for PIPEs; (iii) dependence on an exit strategy, such as



an initial public offering or sale of a business, the successful completion of which cannot be assured, to fully realize the anticipated value of the investment; and (iv) dependence on managerial assistance provided by other investors and the willingness of other investors or third parties to provide additional financial support to the underlying public entity.

**Special Purpose Acquisition Companies.** A special purpose acquisition company (a “SPAC”) is a publicly traded company formed for the purpose of raising capital through an initial public offering (“IPO”) to fund the acquisition, through a merger, capital stock exchange, asset acquisition, or other similar business combination, of one or more undervalued operating businesses. Following the acquisition of a target company, a SPAC typically would exercise control over the management of such target company in an effort to increase the value of such target company. Capital raised through the IPO of securities of a SPAC is typically placed into a trust until the target company is acquired or a pre-determined period of time elapses. Investors in a SPAC would receive a return on their investment in the event that a target company is acquired and such target company’s value increased. In the event that a SPAC is unable to locate and acquire target companies by the deadline, the SPAC would be forced to liquidate its assets, which may result in losses due to the expenses and liabilities of the SPAC. Investors in a SPAC are subject to the risk that, among other things, (i) such SPAC may not be able to locate or acquire a target company by the deadline, (ii) assets in the trust may be subject to third-party claims against such SPAC, which may reduce the per share liquidation price received by the investors in the SPAC, (iii) such SPAC may be exempt from the rules promulgated by the SEC to protect investors in “blank check” companies, such as Rule 419 promulgated under the Securities Act, so that investors in such SPAC may not be afforded the benefits or protections of those rules, (iv) such SPAC may only be able to complete one business combination, which may cause it to be solely dependent on a single business, (v) the value of any target company may decrease following its acquisition by such SPAC, (vi) the value of the funds invested and held in the trust decline, (vii) the inability to redeem due to the failure to hold the securities in the SPAC on the record date or the failure to vote against the acquisition and (viii) if the SPAC is unable to consummate a business combination, public stockholders will be forced to wait until the deadline before liquidating distributions are made. In addition, most SPACs are illiquid and have a concentrated shareholder base that tends to be composed of private investment funds (at least at inception).

To date, Centerbridge has not sponsored a SPAC. Pursuant to the investment programs of Centerbridge’s funds, such clients would be permitted to make SPAC investments, including by making an investment in the sponsor of a SPAC. Because such investment would likely be made prior to the SPAC selecting or approaching any prospective target businesses with respect to a business combination, there is limited basis for the clients to evaluate the possible merits or risks of such SPAC’s investment. To the extent that a SPAC completes a business combination, it may be affected by numerous risks inherent in the business operations of the acquired company or companies. For these and additional reasons, investments in SPACs are speculative and involve a high degree of risk.





In addition, because a client could invest in a SPAC controlled by third parties that have not selected or approached any prospective target businesses with respect to a business combination at the time of the investment by such client, such SPAC may ultimately combine with a portfolio company in which a different client is invested. In such an event, Centerbridge does not expect that such SPAC would necessarily be obligated to allocate any of the interests in such SPAC (or in the underlying investment made by such SPAC) or the resulting combined business to such other client.

**Engaged Investors.** Activist investors may seek certain changes at an issuer, such as selling assets or subsidiaries, increasing dividends or share buy-backs, changing management and / or executives, changing business practices and / or other matters. If an activist investor tries to effect significant change at an issuer, successfully or unsuccessfully, such activism may have an adverse effect on the issuer or a client's equity or other investments therein or otherwise impact such client's investment objectives with respect to such issuer.

**Investments in New Instruments.** Investments in primary issuances of Instruments (or in secondary purchases of recently-issued Instruments) may involve higher risks than investments in more established Instruments due to a variety of factors, including the limited universe of Instruments available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some such issuers are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these issuers may be undercapitalized or otherwise less mature than other issuers. These factors may contribute to substantial price volatility for such Instruments and, thus, for the clients.

**Non-U.S. Investments Generally.** The clients expect to invest a portion of their aggregate capital outside of the U.S., focusing in Europe, but also including other countries in North America, Australia, Latin America and other jurisdictions, with a preference for those jurisdictions with a clear, well-developed and respected legal framework. Non-U.S. Instruments involve certain risk factors not typically associated with investing in U.S. Instruments, including risks relating to the following: (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which a client's foreign Instruments are denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) exposure to fluctuations in interest rates payable with respect to the Instruments in which a client invests; (iii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights and other matters; (iv) differences between the U.S. and foreign securities markets or real estate markets, including potential price volatility in and relative liquidity of some foreign securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (v) differences in the legal, compliance and regulatory environment; (vi) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, political hostility to investments by foreign or private equity investors, the risks of political,

economic or social instability, including the risk of sovereign defaults, regulatory change, and the possibility of expropriation or confiscatory taxation or the imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds (which are difficult to predict, particularly in light of the significant uncertainty regarding the application of non-U.S. tax law and income tax treaties to any U.S. or non-U.S. structures the clients use to hold certain investments, including due to a lack of judicial or administrative authority, interpretation or guidance); (vii) the possible imposition of foreign taxes on income, gains and gross sale or other proceeds relating to such Instruments; (viii) differing and potentially less well-developed or well-tested corporate laws regarding the rights of creditors and other stakeholders (including the rights of secured parties), fiduciary duties and the protection of investors; and (ix) less publicly available information. Additionally, political and social instability in the countries in which the clients invest could adversely affect the clients' investments in such countries. Such instability could result from, among other things, popular unrest associated with demands for improved political, economic or social conditions, or government policies. Governments of certain of these countries have exercised and continue to exercise substantial influence over many aspects of the private sector.

Many of the laws that govern private and foreign investment, Instruments transactions, creditors' rights and other contractual relationships in non-U.S. countries, particularly in developing countries, are new and largely untested. As a result, the clients will be subject to a number of unusual risks, including inadequate investor protection (for example, certain markets do not have well-developed stakeholder rights, which could adversely affect the clients' minority investments), contradictory legislation, incomplete, unclear and changing laws, laws and regulations subject to inconsistent or arbitrary interpretation, ignorance, disregard or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets and lack of enforcement of existing regulations. For example, clients may not enjoy rights comparable to those of shareholders of companies organized in the United States, Europe, or other developed countries, and remedies available for any violation of those rights (and any additional shareholder rights that might be created in such company's constitution or by-laws or by contract) may not be as favorable as those available under the laws of other jurisdictions, and if the clients obtain a judgment in a court outside such country, it may be difficult to enforce such judgment in the country where the company is located. In addition, in certain non-U.S. countries, there is less government supervision and regulation of business and industry practices, stock exchanges, over-the-counter markets, brokers, dealers, counterparties and issuers than in other more established markets. There can be no assurance that these risks will not have a negative effect on the clients and their operations.

The clients generally do not intend to obtain political risk insurance. Accordingly, government actions in the future could have a significant effect on economic conditions in such countries, which could affect private sector companies and the return from investments. Exchange control regulations, expropriation, confiscatory taxation, nationalization, restrictions on repatriation of capital, renunciation of foreign



debt, political, economic or social instability, or other economic or political developments could adversely affect the assets of the clients held in a particular country. In particular, emerging market countries may be disproportionately impacted by the COVID-19 Pandemic and the related consequences thereof, and are expected to be similarly vulnerable to other global phenomena, including future epidemics or pandemics.

The availability of attractive investment opportunities for the clients is expected to depend in part on governments in certain countries maintaining, or continuing to liberalize, their policies regarding foreign investment and, in some cases, to further encourage private sector initiatives. Prior government approval for foreign investments is required under certain circumstances in certain markets in Europe and other non-U.S. jurisdictions, and the process of obtaining these approvals often requires a significant expenditure of time and / or other resources. Furthermore, certain investments in Instruments in certain markets in Europe and other non-U.S. jurisdictions require significant government approvals under corporate, securities, exchange control, foreign investment and other similar laws, and at times require financing and structuring alternatives that differ significantly from those customarily used in more well-developed countries. In addition, in certain countries, certain laws and regulations have been subject to frequent and unforeseen change, potentially exposing the clients to restrictions, taxes and other obligations that were not anticipated at the time an investment was initially made. The clients are likely to be less influential than other market participants in jurisdictions where they do not have a significant presence.

Certain countries are in the initial stages of their economic development and have a lower per capita gross national product or a lower income economy as compared to more developed economies. Markets for investments in such countries are not as developed and may be less liquid than markets in more developed countries. Investments in companies domiciled in emerging market countries may be subject to potentially higher risks as compared with the average risks among investments in more developed countries. For example, in emerging and developing markets, there is often less government supervision and regulation of business and industry practices, stock exchanges, real estate markets and other over-the-counter markets, brokers, dealers, counterparties and issuers than in other, more established markets. Any regulatory supervision that is in place may be subject to manipulation or control. Some emerging and developing market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of legal and regulatory reform often does not proceed at the same pace as market developments, which could result in investment risk. Legislation to safeguard the rights of private ownership is not yet in place in certain areas, which increases the risk of conflict among local, regional and national requirements. In certain cases, the laws and regulations governing investments do not exist or are subject to inconsistent or arbitrary appreciation or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries.

The clients also may encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts, including because the integrity



and independence of the judicial systems in some of the countries in which the clients invest varies. For example, it is more difficult to enforce contracts in some countries, especially against governmental entities, which could materially and adversely affect revenues and earnings of the clients or their portfolio companies. If counterparties repudiate contracts or default on their obligations, there may not be adequate remedies available. Furthermore, to the extent the clients or a portfolio company obtains a judgment in a country with a strong judiciary but is required to seek its enforcement in the courts of a country with a weaker judiciary, there can be no assurance that the clients or such portfolio company will be able to enforce the judgment. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. Due to the foregoing risks and complications, the costs associated with investments located in emerging markets generally are higher than for investments located in developed countries.

Existing and new laws and regulations in non-U.S. jurisdictions in which a client invests may affect that client's investments in such jurisdictions in a manner that differs adversely from the results that would occur under U.S. laws and regulations applied to similar facts. The implementation or interpretation of such laws and regulations as they relate to a client's activities are largely outside that client's control. For example, a client's investments in the debt of companies located in certain non-U.S. jurisdictions may be adversely affected as a result of the ownership or control of an equity stake in such companies by Centerbridge and / or its affiliates. For example, in certain circumstances, a client could be subject to German "equity substitution rules" (similar to equitable subordination in the U.S.) if a company in which that client holds a debt investment and in which Centerbridge and / or its affiliates holds an equity investment were to become insolvent. In such case, among other things, (i) a client may not be able to enforce its rights with respect to collateral, if any, (ii) the debt held by that client may be subordinated and (iii) the receiver may be entitled to reclaim amounts paid to that client within one year of the filing for commencement of insolvency proceedings or thereafter. The laws of other non-U.S. jurisdictions in which a client seeks to invest may have rules similar to Germany's "equity substitution" rules discussed above or other unique rules (Spain, for example, has adopted an equitable subordination rule), and the consequences to that client with respect to such rules may be more or less severe.

In particular, foreign investments in certain countries, through certain investment routes, are subject to regulations that set out valuation guidelines for the sale and purchase of shares and other securities which could restrict the foreign investor's ability to earn agreed investment returns. Acquisition of voting rights, equity shares, or control of certain listed companies beyond certain specified thresholds could require the acquirer to make an open offer to purchase the shares of other existing shareholders subject to and in accordance with applicable regulations. Certain types of mergers and amalgamations of companies may require sanction of the appropriate courts / tribunals thus causing delays and uncertainty to completing transactions. The restricted ability on foreign investors to directly hold assets in such jurisdictions could decrease the clients' flexibility in structuring transactions, increase costs, and foreclose otherwise advantageous investment opportunities.



Loan origination to borrowers domiciled or established in the European Economic Area (the “EEA”) is subject to a patchwork of local laws. Some member states do not allow funds to originate loans; other member states apply restrictions or conditions such as requiring compliance with the AIFMD, or require other or similar registration. Since the clients currently do not intend to voluntarily comply with the parts of the AIFMD not binding on them, they may be precluded from participating in certain investments.

The Organisation for Economic Co-operation and Development together with the G20 countries have committed to reduce perceived abusive global tax avoidance, referred to as base erosion and profit shifting (“BEPS”). As part of this commitment, an action plan has been developed by tax regulatory authorities to address BEPS with the aim of securing revenue by realigning taxation with economic activities and value creation by creating a single set of consensus-based international tax rules. As part of the BEPS project, new rules are being introduced that deal with the operation of double tax treaties, the definition of permanent establishments, interest deductibility and how hybrid instruments are taxed. In addition to national implementation of BEPS, the European Council has adopted two Anti-Tax Avoidance Directives (the “ATAD”) that address many of the same issues. The measures included in the ATAD currently are expected to be implemented into the national law of each E.U. Member State, with the effective date of the new laws being either: January 1, 2019, January 1, 2020 or January 1, 2022 depending on the member state. Depending on if and how these proposals are implemented, they may have a material impact on how returns to the clients and their investors are taxed. Such implementation also may give rise to additional reporting and disclosure obligations for the clients and their investors.

Additionally, on May 25, 2018, the European Council adopted a directive (2018/822 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation) (the “DAC 6”) that imposes mandatory disclosure requirements for certain European cross-border tax arrangements which satisfy certain “hallmarks” provided for in DAC 6 and which may have a tax advantage as the main or expected benefit (the “Reportable Arrangements”). DAC 6 is in the process of being implemented in all E.U. member states, and in those member states Reportable Arrangements must be reported generally within 30 days. In the case of a Reportable Arrangement, the information that must be reported includes the name of all relevant taxpayers and intermediaries as well as an outline of the Reportable Arrangement, the value of the Reportable Arrangement and identification of any member states likely to be concerned by the Reportable Arrangement. The reporting obligation in principle rests with persons that design, market or organize the Reportable Arrangement and professional advisors (intermediaries). However, in certain cases, the taxpayer itself can be subject to the reporting obligation. The information reported will be automatically exchanged between the tax authorities of all E.U. member states. The U.K. has retained DAC 6 following its withdrawal from the E.U. but in a limited fashion, with restricted hallmarks.





In light of the broad scope of DAC 6, transactions carried out by the clients may fall within the scope of DAC 6 and thus be reportable (subject however to the way DAC 6 will effectively be implemented into national laws).

Moreover, while Centerbridge intends to exercise caution in relation to the foregoing risks where known, there can be no assurance that these and other risks of investing in non-U.S. markets will not adversely affect the assets of a client that are held in certain countries and that client's performance.

**Regional Risk; Interdependence of Markets.** Economic problems in a single country are increasingly affecting other markets and economies. A continuation of this trend could lead to local economic problems increasingly having an adverse effect on regional and even global economic conditions and markets. The market and the economy of a particular country in which the clients invest is influenced by economic and market conditions in other countries in the same region or elsewhere in the world. Similarly, concerns about the fiscal stability and growth prospects of certain European countries in the last economic downturn had a negative impact on most economies of the Eurozone and global markets. A repeat of either of these crises or the occurrence of similar crises in the future could cause increased volatility in the economies and financial markets of countries throughout a region, or even globally.

**Foreign Investment Controls.** Foreign investment in certain of the countries in which the clients invest is restricted or controlled to varying degrees. Some of the securities may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investments and reducing the realized gain or increasing the realized loss on such securities at the time of sale. These restrictions or controls may at times limit or preclude foreign investment above certain ownership levels or in certain sectors of the country's economy and increase the costs and expenses of the clients. While regulation of foreign investment has liberalized in many countries in recent years, there can be no assurance that more restrictive regulations will not be adopted in the future. Moreover, while Centerbridge believes its investment structures will not subject the clients' investments to the most prohibitive of foreign investment and repatriation restrictions, there can be no assurances that authorities will agree that such investment structures do not trigger such restrictions, or that the law will not change such that additional governmental approvals are required, the clients' investments are restricted or prohibited or repatriation of proceeds are taxed, restricted or otherwise prohibited. Some countries require governmental approval for the repatriation of investment income, capital or the proceeds of sales by foreign investors and foreign currency. For example, some governments have in the past, and may in the future, impose controls and / or procedural requirements on the convertibility of their currencies into foreign currencies and the remittance of currency from such countries to other jurisdictions in certain circumstances (including controls based on the category of remittance to be made, *e.g.*, current account items such as payments to suppliers for imports, labor, services and payments of interest on foreign exchange loans and capital account-related payments, such as the repayment of bank loans denominated in foreign currencies or direct investment). Accordingly, deteriorations in a country's balance of

payments or a number of other circumstances, could cause governments to impose temporary restrictions on capital remittances abroad. The clients could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital interests and dividends paid on securities or other assets held by the clients, and income on such securities or other assets or gains from the disposition of such securities or other assets may be subject to withholding taxes imposed by certain jurisdictions.

**Commodities and Derivative Investments.** Generally, derivatives are financial contracts the value of which depends on, or is derived from, the value of an underlying asset, reference rate or index, such as individual debt or equity Instruments, interest rates, currencies or currency exchange rates, commodities, related indexes and other assets. The clients sometimes use, directly or indirectly, various derivative instruments for hedging purposes including, but not limited to, options contracts, futures contracts, forward contracts, options on futures contracts, indexed Instruments, credit default swaps, interest rate swaps and other swap agreements primarily for hedging and risk management purposes. The clients have, and in the future can be expected to, from time to time, use derivative instruments for investment purposes and / or to approximate or achieve the economic equivalent of an otherwise permitted investment (as if such client directly invested in the Instruments of the subject company) or if such derivatives are related to an otherwise permitted investment. A client's use of derivative instruments involves investment risks and transaction costs to which such client would not be subject absent the use of these derivative instruments and, accordingly, may result in losses greater than if they had not been used. The use of derivative instruments has risks including, among others, leverage risk, volatility risk, duration-mismatch risk, correlation risk and counterparty risk. For example, when used for hedging or synthetic investment purposes, an imperfect or variable degree of correlation between price movements of the derivative instruments and the underlying investment sought to be hedged or tracked would likely prevent a client from achieving the intended hedging effect or expose a client to a heightened risk of loss.

Derivative instruments, especially when traded in large amounts, are not liquid in all circumstances, so that in volatile markets a client may not be able to close out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative position limits on exchanges or OTC markets in which a client may conduct its transactions in derivative instruments may prevent prompt liquidation of positions, subjecting such client to the potential of greater losses. Derivative instruments that are purchased or sold by a client may include derivatives that are purchased or sold OTC as bilateral transactions and not traded on an exchange. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange-traded Instruments, and many of the protections afforded to participants in a regulated environment are not available in connection with such transactions. In addition, significant disparities often exist between "bid" and "asked" prices for derivative instruments that are not traded on an exchange. Additionally, when a debtor defaults or files for protection from creditors (*e.g.*, U.S. Chapter 11 proceedings), the use of derivative instruments presents special risks associated with the potential imbalance



between the derivatives market and the underlying securities market. In such a situation, physical certificates representing such securities often are required to be delivered to settle trades, and the potential shortage of such actual certificates relative to the number of derivative instruments may cause the price of the actual certificated debt securities to rise, which may adversely affect the holder of such derivative instruments. In addition, any such OTC derivatives also are subject to types and levels of investor protections or governmental regulations that may differ from exchange-traded Instruments. Derivative instruments traded OTC also are subject to the risk of non-performance by the relevant counterparty. In general, the risk of non-performance by the counterparty on such an Instrument may be greater and the ease with which a client can dispose of or enter into closing transactions with respect to such an Instrument may be less than in the case of an exchange-traded Instrument. The stability and liquidity of derivative Instruments depend in large part on the creditworthiness of the parties to the transactions. If there is a default by the counterparty to such a transaction, the relevant client will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in a loss to the relevant client. Furthermore, there is a risk that any of such counterparties could become insolvent.

It should be noted that in purchasing derivative Instruments, the relevant client typically will not have the right to vote on matters requiring a vote of holders of the underlying Instrument. Moreover, derivative Instruments, and the terms relating to the purchase, sale or financing thereof, are also typically governed by complex legal agreements. As a result, there is a higher risk of dispute over interpretation or enforceability of the agreements. It should also be noted that the regulation of derivatives is evolving and subject to further rule-making in the United States and in other jurisdictions and is expected to increase, which could impact the clients' ability to transact in such Instrument and the liquidity of such Instrument. Regulatory requirements with respect to derivatives, including eligibility of counterparties, reporting, position limits, exchange of margin, financial responsibility or segregation of customer funds and positions are subject to further development or implementation and could impact how a client and its counterparties must manage transactions, including hedging transactions.

The prices of commodities contracts and derivative instruments, including options, are highly volatile. Payments made pursuant to swap agreements also may be highly volatile. Price movements of commodities, options contracts, reference assets and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies and other factors. The value of options and swap agreements also depends on the price of the commodities, assets or rates underlying them. In addition, the Instruments in which the clients invest are subject to the risk of the failure of any of the exchanges on which such Instruments or the investments underlying such Instruments trade or of any applicable clearinghouses or counterparties.



A client could participate in investment opportunities with respect to derivatives that are neither presently contemplated nor currently available, but which may be developed in the future, to the extent such opportunities are both consistent with such client's investment objectives and legally permissible. Any such investments may expose the relevant client to unique and presently indeterminate risks, the impact of which may not be capable of determination until such Instruments are developed and / or Centerbridge determines to make such an investment, and potentially, not until well after the client has made such investment.

*Option Contracts.* The clients sometimes buy or sell (write) both call options and put options, and when a client writes options, it is permitted to do so on either a "covered" or an "uncovered" basis, subject to applicable legal requirements. A call option is "covered" when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. A client's option transactions may be part of a hedging strategy (*i.e.*, offsetting the risk involved in another Instrument's position) or a form of leverage, in which a client has the potential to benefit from price movements in a large number of Instruments with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, without taking into account other positions or transactions the clients may enter into, the principal risks involved in options trading can be described as follows: When a client buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of that client's investment in the option (including commissions and fees, if applicable). A client could mitigate those losses by selling short, or buying puts on, the securities for which it holds call options, or by taking a long position (*e.g.*, by buying the Instruments or buying calls on them) in Instruments for which it holds put options.

When a client sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." If it is covered, the client would forgo the opportunity for profit on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the client might suffer as a result of owning the security.

*Futures Contracts.* The value of futures contracts depends upon the price of the underlying Instrument. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and



economic events and policies. In addition, investments in futures contracts also are subject to the risk of the failure of any of the exchanges on which the clients' positions trade or of its clearinghouses or counterparties.

Futures positions are often illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day, no trades may be executed at prices beyond such daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Such daily limits could prevent the clients from promptly liquidating unfavorable positions and subject the clients to substantial losses or prevent it from entering into desired trades. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such futures contract.

*Forward Contracts.* Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges or standardized; rather, banks and dealers act as principals in these markets, negotiating transactions on an individual basis. Forward contracts and "cash" trading are generally subject to reduced regulation. There is no limitation of daily price movements and speculative position limits are not applicable. The principals who deal in the forward contracts markets are not required to continue to make markets in the currencies or commodities they trade and forward contracts markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in forward contracts markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually widespread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any forward contracts market traded by the clients due to unusual trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward contracts trading to less than that which Centerbridge would otherwise recommend, to the possible detriment of the clients. Market illiquidity or disruption could result in major losses to the clients.

*Swaps.* Swaps and certain options and other customized Instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

*Credit Default Swaps.* The clients sometimes invest in credit default swaps. A credit default swap is a contract between two parties that transfers the risk of loss if an issuer fails to pay principal or interest on time or files for bankruptcy. In essence, an investor that owns corporate debt Instruments can purchase a limited form of default protection by entering into a credit default swap with either a bank, broker-dealer or financial intermediary. Upon an event of default, the purchaser of credit protection





may deliver the referenced instrument to the swap counterparty and receive a payment of par value. When a debtor defaults or files for protection from creditors (*e.g.*, U.S. Chapter 11 proceedings), the use of credit default swaps presents special risks associated with the potential imbalance between the amount of credit default swap protection outstanding and the actual amount of reference instruments.

As described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. Credit default swaps can be used to implement Centerbridge's view that a particular credit, or group of credits, will experience credit decline or improvement. In the case of expected credit improvement, a client may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of that client to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the reference entity. A client may "purchase" credit default protection even if it does not own the reference Instrument if, in the judgment of Centerbridge, there is a high likelihood of credit deterioration.

The credit default swap market in high-yield Instruments is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment-grade Instruments. Swap transactions dependent upon credit events are priced using many variables, including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. Because market participants, including Centerbridge (on behalf of the clients) may have views regarding the appropriate price of such swaps that diverge from other participants in the marketplace, the clients may enter into credit default swap transactions, even if the credit outlook is positive, if Centerbridge believes that other participants in the marketplace have incorrectly valued the components that determine the value of such swap.

Credit default swaps have been an area of regulatory focus and litigation both inside and outside the U.S. Rulemaking efforts and other proceedings have, to a large extent, centered on the potential use of such Instruments for speculative purposes, the impact on companies and markets associated with the entry into credit default swaps in relation to which the buyer of protection does not own the underlying reference asset or assets, credit default swaps relating to sovereign debt and also the use of centralized clearing facilities for credit default swaps. Many jurisdictions have enacted permanent or temporary bans or restrictions on certain credit default swaps. Under the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), for example, swaps, including credit default swaps, are now regulated by the CFTC and / or the SEC. It is difficult to predict the outcome of these regulatory and legislative efforts and their impact on the use of credit default swaps and the resulting impact on the marketplace if credit default swaps become unavailable as an investing or hedging technique.

**Enhanced Regulation of Short Sales and Credit Default Swaps.** Since November 2012, short sales and credit default swaps are subject to the provisions of the



E.U. Regulation on Short Selling and certain aspects of credit default swaps (the “Short Selling Regulation”), which was published in the Official Journal of the European Union on March 24, 2012. The Short Selling Regulation introduces restrictions and disclosure requirements for persons taking short positions in certain E.U. Instruments, including certain sovereign bonds, and prohibits entering into uncovered credit default swaps in relation to E.U. sovereign debt (*i.e.*, where the investor does not have an exposure that it is seeking to hedge either to the sovereign debt itself or to assets or liabilities whose value is correlated to the sovereign debt). In addition, the Short Selling Regulation permits certain governmental authorities of E.U. member states to prohibit or restrict short sales, limit sovereign credit default swaps and impose emergency disclosure requirements, among other things, during times of stressed markets. Certain applicable governmental authorities also may restrict short sales of individual Instruments that have suffered a significant fall in price in a single day.

In addition, the SEC’s “Circuit Breaker Uptick Rule,” which generally triggers a ban on short selling a stock when its price drops a certain level, and the emergency powers granted under the Short Selling Regulation to certain governmental authorities during times of stressed markets and with respect to individual Instruments, may adversely affect the clients by preventing them from taking hedging positions or other positions that Centerbridge considers to be in the clients’ best interests.

The provisions of the Short Selling Regulation or the Circuit Breaker Uptick Rule may, therefore, hinder a client’s investment program by preventing it from taking positions that Centerbridge considers favorable and also may result in overvaluations of certain Instruments due to restrictions on market efficiency, either of which could detract from the clients’ returns.

**Effects of Speculative Position Limits.** The CFTC and the U.S. commodities exchanges impose limits, referred to as “speculative position limits,” on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on U.S. commodities exchanges. Title VII of the Dodd-Frank Act significantly expands the CFTC’s authority to impose position limits with respect to futures contracts, options on futures contracts, swaps that are economically equivalent to futures or options on futures, swaps that are traded on a regulated exchange and certain swaps that perform a significant price discovery function. In addition, the Dodd-Frank Act requires the SEC to set position limits on Instrument-based swaps. If the clients’ positions were subjected to such a limit, Centerbridge could be required to liquidate the clients’ positions, or may not be able to fully implement trading ideas, in order to comply with such limits. Any such liquidation or limited implementation could result in substantial costs to the clients.

**Stock Index and Market Options.** The clients have the ability to purchase and sell call and put options on stock indices and exchange-traded funds (“ETFs”) listed on national securities exchanges or traded in the over-the-counter market for the purpose of realizing its investment objective or for hedging purposes. A stock index or ETF fluctuates with changes in the market values of the Instruments included in



the index or ETF. The effectiveness of purchasing or writing stock index or ETF options for hedging purposes will depend upon the extent to which price movements in the applicable client's portfolio correlate with price movements of the stock indices or ETFs selected. Because the value of an index or ETF option depends upon movements in the level of the index or ETF rather than the price of a particular Instrument, whether the client will realize gains or losses from the purchase or writing of options on indices or ETFs depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices or ETFs, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the clients of options on stock indices or ETFs will be subject to the ability of Centerbridge to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual Instruments.

**Securitized Vehicles.** It is contemplated that one or more clients will hold certain CDO Instruments, primarily in the form of equity or residual CDO Instruments issued in connection with CDO transactions managed by Centerbridge, and it is possible that the clients would hold junior or senior debt and / or equity interests in trading vehicles or special purpose vehicles in structured products that are formed, sponsored or managed by the clients or Centerbridge. The holders of the senior interests will generally have priority over the holders of the residual interests with respect to the related cash flows other than in certain circumstances (for example, where principal and interest are distributed separately and the residual interests are entitled to interest payments) and the holders of the equity or residual interests generally will be entitled to receive any amounts in excess of the fixed amount that the holders of the senior interests are entitled to receive.

**ABS and MBS – General.** The investment characteristics of ABS and MBS differ from traditional debt Instruments. Among the major differences are that ABS is non-recourse and the returns are contingent on a pool of non-recourse assets instead of the operations of an operating company, interest and principal payments are made more frequently, usually monthly, and principal often may be prepaid at any time (sometimes with a prepayment penalty) because the underlying loans or other assets generally may be prepaid at any time.

**ABS and MBS Subordinated Instruments.** Investments in subordinated classes of ABS and MBS involve greater credit risk of default than the senior classes of such MBS or ABS. Default risks may be further pronounced in the case of ABS and MBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying assets. Subordinated Instruments typically absorb all losses from default before any other class of Instruments is at risk, and such losses can be exacerbated if such Instruments have been issued with little or no credit enhancement or equity. Such Instruments, therefore, possess some of the risks and attributes typically associated with equity investments without certain of the benefits.



**Commercial MBS.** Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and / or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property is subject to various risks, including changes in general or local economic conditions and / or specific industry segments; the solvency of the related tenants; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; terrorist threats and attacks and social unrest and civil disturbances. Most commercial mortgage loans underlying MBS are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and / or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

**ABS.** Through the use of trusts and special purpose corporations, various types of assets (including, for example, automobile and credit card receivables) are securitized in pass-through structures. The clients may invest either directly or indirectly, through CDO Instruments (as defined below), in these and other types of ABS that may be developed in the future.

ABS present certain risks that are not presented by MBS. Primarily, ABS often are backed by unsecured receivables. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. If the servicer were



to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, in the case of ABS backed by automobile receivables, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the vehicles backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these Instruments. The risk of investing in ABS is ultimately dependent upon payment of the underlying obligations by the obligors thereof.

The underlying obligations supporting ABS typically are of shorter maturity than mortgage loans. As with MBS, ABS often are backed by pools of any variety of assets, including, for example, auto leases, auto loans, mobile home loans and aircraft leases, which represent the obligations of a number of different obligors and use credit enhancement techniques such as overcollateralizations, letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the Instrument and, in some cases, the creditworthiness of the servicing agent for the pool, the originator of the assets or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement. Structural and legal risks of ABS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), a court having jurisdiction over the proceeding could determine that, because of the degree to which cash flows on the assets of the issuing vehicle may have been commingled with cash flows on the originator's other assets (or similar reasons), (i) the assets of the issuing vehicle could be treated as never having been truly sold by the originator to the issuing vehicle and could be substantively consolidated with those of the originator or (ii) the transfer of such assets to the issuer could be voided as a fraudulent transfer. The time and expense related to a challenge of such determinations also could result in losses and / or delayed cash flows.

**RMBS.** Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the related mortgaged property is located, the terms of the loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Structural features of RMBS may contribute to the impact of increased delinquencies and defaults and lower recoveries on the underlying mortgage pool. In particular, there may be a decline in the interest rate payable under those RMBS structured to limit interest payable to investors based on a weighted average coupon cap.





Mortgage loans bearing interest at a higher rate will have a greater tendency to default than those with lower interest rates. Such defaults will reduce the weighted average coupon of the underlying mortgage loans and accordingly the interest rate payable to investors in the related RMBS, including the clients.

From late 2006 to 2012, delinquencies, defaults and foreclosures on residential mortgage loans increased and, although the real estate market in the United States stabilized after 2012, there can be no assurance that delinquencies, defaults and foreclosures will not again increase in the future. The increases in the late 2006 to 2012 period were not limited to “subprime” mortgage loans, which are made to borrowers with impaired credit. Also affected were “Alt A” mortgage loans, which are made to borrowers often with limited documentation, and “prime” mortgage loans, which are made to borrowers with better credit who frequently provide full documentation. In addition to higher delinquency, default and foreclosure rates, loss severities on all types of residential mortgage loans increased due to declines in residential real estate values, resulting in reduced home equity. Nationwide home price appreciation rates were generally negative from 2007 to 2012, and it is possible that they will become negative again in the future. Higher loan-to-value ratios generally result in lower recoveries on foreclosure and an increase in loss severities above those that would have been realized had property values remained the same or continued to appreciate.

Another factor that most likely contributed to higher delinquency rates since late 2006 was an increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate to the rate computed in accordance with the applicable index and margin. Mortgage loans that provide for the payment of interest, but not principal, for a certain period also may result in higher delinquency rates when, following the interest-only period, the monthly payment with respect to each of these mortgage loans is increased in order to amortize the principal balance of the mortgage loan over the remaining term and to pay interest at the applicable mortgage interest rate. Market conditions from 2006 to 2012 impaired the ability of some borrowers to refinance or sell their residential properties, which also contributed to higher delinquency and default rates. In response to increased delinquencies and losses with respect to mortgage loans, many mortgage loan originators implemented more restrictive underwriting criteria for mortgage loans, resulting in reduced availability of refinancing alternatives for borrowers. The risk of reduced refinancing options will be exacerbated if prevailing mortgage interest rates increase from current levels. Home price depreciation experienced to date, and any further price depreciation, also may leave borrowers with insufficient equity in their homes to enable them to refinance. Borrowers who intend to sell their homes on or before the maturity of their mortgage loans often find that they cannot sell their property for an amount equal to or greater than the unpaid principal balance of their mortgage loans. While some mortgage loan originators and servicers have created or otherwise are participating in modification programs in order to assist borrowers with refinancing or otherwise meeting their payment obligations, not all borrowers will qualify for or will take advantage of these opportunities.



In response to these circumstances, federal, state and local authorities have enacted and continue to propose new legislation, rules and regulations relating to the origination, servicing and treatment of mortgage loans in default or in bankruptcy. These initiatives could result in delayed or reduced collections from mortgagors, limitations on the foreclosure process and generally increased servicing costs. Certain of these initiatives could also permit the servicer to take actions, such as with respect to the modification of mortgage loans, which might adversely affect the related RMBS, without any remedy or compensation to the holders of the RMBS.

The Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") are each government-sponsored entities ("GSEs") that participate in the U.S. housing market with the public mission of supporting liquidity and stability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold. During the 2008 credit crisis, Fannie Mae and Freddie Mac experienced increasing financial pressure, as loan losses increased and the value of fixed income assets, and ultimately their share prices, dropped significantly. Historically, RMBS issued by Fannie Mae were guaranteed as to timely payment of principal and interest by Fannie Mae, and RMBS issued by Freddie Mac were guaranteed as to timely payment of interest and ultimate collection of principal by Freddie Mac. However, the agency RMBS guaranteed by Fannie Mae and Freddie Mac were not backed by the full faith and credit of the United States. On September 7, 2008 the companies were placed under the conservatorship of the Federal Housing Finance Agency ("FHFA") and, in return for significant credit support, the U.S. government obtained preferred shares and common stock warrants for 79.9% of each entity. The conservatorship is a statutory process designed to preserve and conserve the GSEs' assets and property and put them in a sound and solvent condition. As the conservator, the FHFA succeeded to all rights, titles, powers and privileges of Fannie Mae and Freddie Mac and of any stockholder, officer or director of Fannie Mae and Freddie Mac with respect to Fannie Mae and Freddie Mac and the assets of Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac are continuing to operate as going concerns and each remains liable for its obligations, including guarantee obligations, associated with its RMBS. The conservatorships have no specified termination dates. Congress has considered proposals to reduce the United States government's role in the mortgage market of both Fannie Mae and Freddie Mac, including proposals as to whether Fannie Mae and Freddie Mac should be nationalized, privatized, restructured or eliminated altogether. Should the federal government adopt any such proposal, the value of the RMBS issued by Fannie Mae and Freddie Mac would be impacted. Under the Federal Housing Finance Regulatory Reform Act of 2008 ("Reform Act"), the FHFA has the power in its capacity as conservator or receiver to repudiate any contract entered into by Fannie Mae or Freddie Mac prior to the appointment of FHFA as conservator or receiver. Although the FHFA indicated it has no intention to repudiate the guaranty obligations of Fannie Mae or Freddie Mac, if it did, the conservatorship or receivership estate, as applicable, would be liable for actual direct compensatory damages in accordance with the provisions of the Reform Act. Any such liability could be satisfied only to the extent of Fannie Mae's or Freddie Mac's assets available for such purpose. In the event of repudiation, the payments of interest to holders of Fannie Mae or Freddie Mac RMBS



would be reduced if payments on the mortgage loans represented in the mortgage loan groups related to such RMBS are not made by the borrowers or advanced by the servicer. Any actual direct compensatory damages for repudiating these guaranty obligations may not be sufficient to offset any shortfalls experienced by such RMBS holders. Further, in its capacity as conservator or receiver, the FHFA has the right to transfer or sell any asset or liability of Fannie Mae or Freddie Mac without any approval, assignment or consent. Although the FHFA has stated that it has no present intention to do so, if the FHFA, as conservator or receiver, were to transfer any such guaranty obligation to another party, holders of Fannie Mae or Freddie Mac RMBS would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party. If any of the foregoing were to occur, the value of RMBS issued by Fannie Mae and Freddie Mac would be affected, and any decline in the value of RMBS issued by Fannie Mae and Freddie Mac may affect the value of RMBS in general. These adverse changes in market and credit conditions have in the past had, and may in the future have, the effect of depressing the market values of RMBS generally, impairing the cash flow performance of RMBS, and substantially reducing the liquidity of RMBS generally. If these conditions were to occur or be exacerbated at the time that the clients had investments in RMBS or CDO Instruments backed by a significant portion of RMBS, then the performance, marketability and overall market value of these investments (or synthetic securities of a client that reference such RMBS or CDO Instruments backed by a significant portion of RMBS) and, therefore, the performance of the clients as a whole, could be adversely affected.

**Financial Regulatory Reforms and Proposed Regulations.** In response to the Global Financial Crisis, the United States Congress passed the Dodd-Frank Act, which was signed into law on July 21, 2010. A discussion of various implications of the Dodd-Frank Act and associated regulations follows. In general, such regulations have had an adverse impact on liquidity, as various financial and other institutions have adjusted their businesses and will continue to make further adjustments in order to achieve compliance with existing and expected future regulatory changes. While such changes may create opportunities, the reduction in liquidity can give rise to associated risks, including volatility. The Dodd-Frank Act required the creation of new federal regulatory agencies, and granted additional authorities and responsibilities to existing regulatory agencies to identify and address emerging systemic risks posed by the activities of financial services firms. The Dodd-Frank Act also provides for enhanced regulation of derivatives and offerings of ABS, MBS and CDO Instruments, and enhanced oversight of credit rating agencies. Additionally, the Dodd-Frank Act includes extensive changes to the laws regulating financial services firms, such as the creation of (i) the Consumer Financial Protection Bureau (the “CFPB”) to regulate consumer financial products and services and (ii) the Financial Stability Oversight Council (the “FSOC”) to identify, monitor and address emerging systemic risks posed by the activities of financial services firms and make recommendations to the Federal Reserve to alleviate those risks. The CFPB has sole rulemaking and interpretive authority under existing and future consumer financial services laws and supervisory, examination and enforcement authority over institutions subject to its jurisdiction. The FSOC has the authority to recommend heightened prudential standards for large, interconnected financial institutions and subject



non-bank financial institutions that it deems to be “systemically important” to regulation by the Federal Reserve Board. The law also provides for enhanced regulation of derivatives and securitization transactions (including the addition of risk retention requirements, third-party due diligence disclosure requirements, expanded asset-level data requirements and new standards relating to eligibility of Instruments as “mortgage-related securities” under the Exchange Act), restrictions on executive compensation and enhanced oversight of credit rating agencies. In addition, the law provides for the elimination of prepayment penalties for mortgage loans and expanded consumer protection with respect to high-cost loans.

The CFPB, the U.S. Treasury Department, several regulatory bodies and state attorneys general have increased scrutiny of mortgage servicers and have imposed, or are seeking to impose, requirements on servicers to substantially revise their servicing practices, including the establishment of national servicing standards that would be applicable to all residential mortgage servicers. For example, such regulatory action may require servicers to make several enhancements to their servicing operations, including implementation of a single point of contact model for borrowers throughout the loss mitigation and foreclosure processes; adoption of measures designed to ensure that foreclosure activity is halted once a borrower has been approved for a modification unless the borrower fails to make payments under the modified loan; implementation of enhanced controls over third-party vendors that provide default servicing support services; and retention of an independent consultant to conduct a review of all foreclosure actions pending, or that have occurred within a specified period.

The Dodd-Frank Act also imposes a number of additional requirements on servicers of residential mortgage loans by amending certain existing provisions, adding new sections to existing legislation and increasing penalties for non-compliance therewith. Servicers of residential mortgage loans are subject to certain regulatory requirements that could result in increased servicing costs.

No assurance can be given that any new or proposed regulations, under the Dodd-Frank Act or elsewhere, will not have an adverse impact on the value of ABS, MBS or CDO Instruments or other Instruments held by the clients. The current regulatory environment in the United States may be impacted by future legislative developments, such as amendments to key provisions of the Dodd-Frank Act including the Consumer Protection Act and its implementing regulations. Investors should note that any significant changes in, among other things, banking and financial services regulation, including the regulation of the asset management industry, could have a negative impact (possibly material) on the clients and their activities.

The federal government, state and local governments, consumer advocacy groups and others have urged mortgage loan servicers to be aggressive in modifying mortgage loans to avoid foreclosure, and federal, state and local governmental authorities have enacted and proposed numerous laws, regulations and rules relating to mortgage loans generally, and foreclosure actions particularly. New laws, regulations and rules may provide new defenses to foreclosure, insulate the servicers from liability for modification



of loans without regard to the terms of the pooling and servicing agreement or other servicing agreements underlying an RMBS, or result in limitations on upward adjustment of mortgage interest rates, reduced payments by borrowers, permanent forgiveness of debt, increased prepayments due to the availability of government-sponsored refinancing initiatives and / or increased reimbursable servicing expenses, all of which could result in delays and may result in reductions in the distributions to be made on RMBS.

Several courts and state and local governments and their elected or appointed officials also have taken unprecedented steps to slow the foreclosure process or prevent foreclosure altogether (including proposals to use eminent domain powers). New laws and regulations also have been enacted from time to time to the same effect. These laws, regulations and rules result in delays in the foreclosure process, and may lead to reduced payments by borrowers or increased reimbursable servicing expenses. Investors bear the risk that future regulatory and legal developments could result in losses on their RMBS. Such changes also could impact the clients' investments in real estate-owned assets by limiting the options available for the ongoing management and disposition of such assets.

**Collateralized Debt Obligations.** The clients sometimes invest in interests consisting of senior or subordinated debt interests or equity or residual interests issued pursuant to collateralized debt obligation, collateralized loan obligation or similar transactions or other structured products (collectively, "CDO Instruments" and, the related transactions, "CDOs"), including CDO Instruments that are issued in transactions (including warehouse transactions) that are structured, managed and / or advised by Centerbridge. CDO Instruments in which a client invests are expected to be backed by certain fixed income Instruments, such as corporate bonds, corporate leveraged loans or other corporate debt, ABS, credit default swaps and other derivatives. CDO Instruments are instruments representing interests in pools, the underlying asset classes of which include bonds, debentures, syndicated loans and private placement debt and are limited-recourse obligations of the issuer thereof payable solely from the underlying Instruments in the portfolio of such issuer. CDO Instruments are subject to various risks including the following credit, liquidity, interest rate and other risks:

CDO Instruments may invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the holder of the related CDO Instruments to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry or region would subject the holder of the related CDO Instruments to a greater degree of risk with respect to economic downturns relating to such industry or region.

A client's investment in CDO Instruments involves significant leverage. Leverage is embedded in all classes of a CDO Instrument other than the most senior tranche, and increases as the classes become more subordinated. While the leverage presents opportunities for increasing a client's total return, it has the effect of potentially increasing losses as well.





The value of the CDO Instruments owned by the clients generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO (“CDO Collateral”), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

CDO Instruments are subject to significant interest rate risk. Some of the CDO Collateral of an issuer of a CDO Instrument bears interest at a fixed rate, while such CDO Instrument typically bears interest at a floating rate, or vice versa. As a result, there could be a floating / fixed rate mismatch between such CDO Instrument and the CDO Collateral.

There are no restrictions on the credit quality of the investments of the clients. CDO Instruments in which the clients are permitted to invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and / or principal. In general, the ratings of nationally recognized rating organizations represent the opinions of such agencies as to the quality of Instruments that they rate. Such ratings are relative and subjective; they are not guarantees of performance or absolute standards of credit quality and do not evaluate the market value risk of the Instruments. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

At times, the fixed income markets have in the past experienced significant declines in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, the ability of a CDO to sell assets in its portfolio or to do so at favorable prices is likely to be impaired. Such “liquidity risk” could adversely impact the value of a client’s portfolio, and may be difficult or impossible to hedge against.

**Valuation of Investments.** There is no established market for the interests in the clients and there are not likely to be any comparable companies for which public market valuations exist. Each client’s investments will include Instruments or obligations that are very thinly traded or for which no market exists and which may be extremely difficult to value accurately. Although Centerbridge will determine the fair value of such investments in good faith in accordance with the terms of the relevant client’s governing documents and has the authority to engage one or more independent third parties to review such valuations, the valuation of such investments is inherently subjective and subject to increased risk that the information utilized to value the investment or to create price models is inaccurate or subject to other errors. In addition, Instruments that Centerbridge believes are fundamentally undervalued or overvalued may not ultimately be valued in the capital markets at prices and / or within the time frame Centerbridge anticipates. In particular, purchasing Instruments at prices that Centerbridge believes to be distressed or below fair value, even meaningfully so, is no guarantee that the price of such Instruments will not decline even further. Because of this significant uncertainty as to the valuation of illiquid investments, the values of such investments will not necessarily reflect the values that could actually be realized by the clients or that would,



in fact, be realized upon an immediate disposition of the investment. The COVID-19 Pandemic and its effects, which are evolving and are further discussed herein, contribute to the above-described valuation risks. Under certain conditions a client would be forced to sell its investments at lower prices than Centerbridge had expected to realize or defer – potentially for a considerable period of time – sales that Centerbridge had planned to make. In addition, under limited circumstances, Centerbridge may not have access to all information potentially relevant to a valuation analysis with respect to an investment. As a result, the valuation of an investment (and as a result the valuation of the interests held by investors in the client) will at times be based on imperfect information and is subject to inherent uncertainties. The valuation of investments will affect the amount and timing of Centerbridge’s carried interest and the compensation payable to Centerbridge. As a result, there may be circumstances where Centerbridge is incentivized to make determinations regarding valuations of investments, including in connection with a refinancing or a recapitalization, which may be higher than the actual fair value of investments.



**ITEM 9**  
**DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Centerbridge's advisory business or the integrity of Centerbridge's management.



## **ITEM 10**

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

#### **A. Broker-Dealer Registration Status.**

Centerbridge and its management persons are not currently registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

For purposes of the EU's AIFMD, Centerbridge would be deemed an Alternative Investment Fund Manager. As of the date of this filing, Centerbridge has registered under the National Private Placement Regime in the U.K., and certain E.U. jurisdictions on behalf of certain Funds.<sup>16</sup> In addition, Centerbridge responds to reverse solicitation requests.

#### **B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.**

Centerbridge and its management persons are not registered as, and do not have any application pending to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities. Centerbridge currently relies on exemptions from registration as a commodity pool operator and / or commodity trading advisor.

#### **C. Material Relationships or Arrangements with Industry Participants.**

Centerbridge or its affiliates have received compensation and expect that in the future they will receive similar compensation in connection with financial transactions structured by Centerbridge or its affiliates (which does not include fees received by portfolio companies). Such compensation includes, for example, break-up and topping fees, monitoring and directors' fees, organization fees, set-up fees, consulting fees, management fees, closing and transaction fees and other similar fees. Such fees, generally (but with some exceptions as specified in a Fund's governing documents or other arrangements with a client) reduce all or a portion of the Management Fees paid by the Funds, as discussed in Item 5.

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<sup>16</sup> We further note that the effectiveness of Brexit on December 31, 2020 creates some limitations on the ability of marketing activities directed from the U.K. into other European jurisdictions. Accordingly, marketing into EU-member jurisdictions presently is being undertaken from the U.S. unless Centerbridge has received a reverse inquiry.



D. Material Conflicts of Interest.

Centerbridge does not recommend or select any third-party investment advisers for its clients. Please refer to Item 16 regarding Barings LLC, which also advises a Centerbridge client, and The Vistria Group, LP, which provides sub-advisory services relating to a different Centerbridge client.

The clients and Centerbridge are dependent upon counterparties or their affiliates (including, without limitation, any administrators, lenders, brokers, attorneys, consultants and investment or commercial banking firms) and certain other businesses, in each case, including their respective affiliates (collectively, the “Service Providers”). From time to time, Centerbridge and / or the clients (or their respective portfolio companies) receive products or services from third parties, the costs and expense of which are re-allocable (in whole or in part) between or among Centerbridge and the clients (or portfolio companies).

Various of the Service Providers, including financial counterparties, engaged by Centerbridge to perform services for the clients operate large and diversified businesses and accordingly, in the ordinary course of business, those Service Providers will have, or will have had, numerous relationships with Centerbridge, its personnel, the clients and other Centerbridge entities and their affiliates. While it is not necessarily the case that such relationships presumptively give rise to conflicts of interest, the potential for conflicts of interest does exist. Accordingly, Centerbridge’s policies and procedures are designed with a view to both identifying and affording an opportunity to analyze and mitigate potential conflicts of interest that could arise from such relationships.

Certain conflicts of interest in connection with the clients arise if Service Providers that are affiliated with Centerbridge or are owned by Centerbridge or any client (or portfolio company) are engaged. Portfolio companies of a client, such as corporate platforms, may act as Service Providers in agreements, transactions or other arrangements with portfolio companies of another client or other Centerbridge affiliates that, although Centerbridge determines to be consistent with the requirements of such clients’ governing documents, may not otherwise have been entered into but for the affiliation with Centerbridge, and which may involve fees and / or servicing payments to Centerbridge-affiliated entities that are not subject to the Management Fee reduction provisions. For example, portfolio companies held by one or more clients have from time to time been selected by Centerbridge to perform certain services and functions, including, but not limited to, due diligence, loan servicing and other functions, on behalf of one or more clients and / or Centerbridge, and Centerbridge anticipates that similar arrangements sometimes will occur in the future. Such selections will be made on an arm’s-length basis on terms that Centerbridge determines to be within customary market norms for Service Providers of appropriate caliber (or on such other basis described in the relevant client’s governing documents). Investors do not have contractual privity with Service Providers by virtue of their investment in the clients. Rather, each Investor’s relationship is with the applicable client only. Accordingly, absent a direct contractual





relationship between an investor and the relevant Service Provider, an investor generally will not have standing to bring contract-based claims against a client's Service Providers.

In connection therewith, a portfolio company may spend a disproportionate amount of time providing services to a client (or another portfolio company thereof) that is not commensurate with such client's *pro rata* interest in the portfolio company or provide services to a client (or another portfolio company thereof) that has no interest in such portfolio company. For example, Centerbridge, like other private equity firms, has the authority, and may cause companies, to enter into agreements regarding group procurement, benefits management, data aggregation and management, technology development, purchase of title and / or other insurance policies (which, where applicable, may be pooled across portfolio companies and discounted due to scale) and other similar operational initiatives that at times result in fees, commissions or similar payments and / or discounts being paid to Centerbridge, or a portfolio company, including related to a portion of the savings achieved by the portfolio company.

With respect to transactions or agreements with portfolio companies, at times, including if unrelated officers of a portfolio company have not yet been appointed, Centerbridge will be negotiating and executing agreements between Centerbridge and a client on the one hand and the portfolio company or its affiliates on the other hand, including management services agreements or similar agreements, which would entail a conflict of interest in relation to efforts to enter into terms that are arm's length. Among the measures Centerbridge uses to mitigate such conflicts is involving outside counsel to review and advise on such agreements and provide insights into commercially reasonable terms.

Additionally, a client from time to time may hold equity or other investments in companies or businesses (even if they are not "affiliates" of Centerbridge) that provide services to or otherwise contract with portfolio companies in which a client invests or portfolio companies of other clients. In connection with such relationships, Centerbridge also may make referrals and / or introductions to portfolio companies (which can at times result in financial incentives (including additional equity ownership) and / or milestones benefitting Centerbridge or the relevant client that are tied or related to participation by portfolio companies). In the case of opportunities that Centerbridge has determined are not suitable for the clients, Centerbridge from time to time identifies corporate platforms in which certain clients invest and at times have control, potential investors who could be contacted by such corporate platforms if it is believed that the opportunity is of interest to such potential investors, which could result in such person making an investment with or through, or contracting for the services of, such corporate platforms on such terms as they determine to agree. The clients and their investors will not share in any fees or economics accruing to Centerbridge as a result of these relationships and / or participation by a client's portfolio companies or portfolio companies of other clients, but could bear an allocable share of the expenses of such corporate platforms, including any overhead expenses, employee compensation, diligence expenses or other related expenses in connection with backing or building out such



corporate platforms. Such expenses may be borne directly by the relevant client as client expenses (including, broken deal expenses, if applicable) or indirectly as allocable to the client in accordance with Centerbridge's expense allocation policies. In certain cases, the services provided by a corporate platform may overlap with the services provided by Centerbridge although Centerbridge would typically not exercise day-to-day management of or control over the platform. The compensation of the management team of such platform could include interests in the profits of the investments sourced and / or serviced, including profits realized in connection with the disposition of such investments; members of such management team will not be treated as affiliates of Centerbridge and accordingly, none of the expenses described above will offset the Management Fee.

To date, certain investment theses have involved forming a small "platform," whereby Centerbridge has been or will be shown an opportunity by a team unaffiliated with Centerbridge, and then diligenced and underwritten such opportunity, and where the success of such opportunity requires the ongoing skills of such team (such as patents and other recoveries that benefit from dedicated managers with legal skills, for example, or properties or loan pools that benefit from dedicated managers with operating and / or servicing skills, for example). The platform involves (i) a company that employs or otherwise compensates those individuals and (ii) one or more portfolios of assets that are sourced and serviced by such company. The platform would be owned by one or more clients (the "Original Clients") that invested when the platform originally was formed. However, as new ideas are generated, subsequent clients that become active (the "New Clients"), which could include an Original Client, could pursue such new ideas, which would each be a separate series in which only the New Clients participate. In the event that a platform company owned by an Original Client were to present a new investment to a New Client and /or third parties, it is expected that such New Client and / or third parties would reimburse such platform company for expenses relating to continued diligence of such investment, and that any services agreement with such platform company would take into account the time spent by the company's management team on such investment (which could include a profits interest in relation to that particular investment, which, for the avoidance of doubt, would be borne by such New Client and not the Original Client, and which could accrue to the benefit of the Original Client in its capacity as an investor in such platform company). Any goodwill earned by sourcing and managing the investment on behalf of such New Client would accrue to the company portion of the platform investment, and accordingly to the Original Clients.

In considering a potential loan from one client to a portfolio company of another client, Centerbridge will consider the interests of both the client and the portfolio company and this may result in a situation where such a loan is not made even though it would have been in the interests of either the client or the portfolio company, but not both, to do so. Among the factors that Centerbridge would consider in determining whether to have one or more clients provide financing to a portfolio company of another client are the conflicts in such arrangement. Certain of the companies owned by the clients are, or may become, during the course of the clients' investment, involved in financial services and / or investment advisory activities, which may include status as



broker-dealers, investment companies or other pooled investment vehicles or investment advisers, among other things.

Investors in the Funds sometimes seek a written agreement when subscribing for an interest in such Fund to clarify certain matters that arise from the particular facts and circumstances applicable to such investor. In such cases, it is not uncommon for a Fund or Centerbridge to enter into side letters or other similar agreements with a particular investor of a Fund with respect to such Fund without the approval or vote of any other investors of such Fund, which may have the effect of establishing rights under, altering or supplementing the terms of the governing documents of such Fund with respect to such investor in a manner more favorable to such investor than those applicable to other investors. Any rights established, or any such altered or supplemented terms or other similar agreement with a particular investor will govern solely with respect to such investor notwithstanding any other provision of the applicable Fund's governing documents or any subscription agreement related thereto. Each Fund's confidential private placement memorandum notes that such rights or terms in any such side letter or other similar agreement may include, without limitation: (i) reporting obligations of Centerbridge; (ii) waiver of certain confidentiality obligations; (iii) consent of Centerbridge to certain transfers; (iv) additional notification rights, including, but not limited to, key-person notifications; (v) excuse or withdrawal rights due to legal, regulatory or policy matters, including matters related to political contributions, gifts and other such policies; (vi) rights or terms necessary in light of particular legal, tax, regulatory or public policy characteristics of an investor; (vii) any applicable reduction in fees if and to the extent contemplated by such confidential private placement memorandum; or (viii) time limitations on any obligation to return distributions previously made by the Fund. Centerbridge may grant certain terms not subject to "most favored nation" treatment to any person that Centerbridge determines can provide the Funds and Centerbridge with meaningful strategic advice or assistance, including with respect to investing and / or committing capital to the Funds, or access in connection with investments, which terms can be preferential and can include management fees and carried interest rates that are lower or calculated differently than those applicable to the other limited partners or certain co-investment opportunities on a priority basis and / or on preferential terms. Arrangements with investors with respect to co-investment vehicles will not be subject to "most favored nations" provisions. It is also expected that Centerbridge will from time to time confirm factual matters to incoming investors, make statements of intent or expectation to such investors or acknowledge statements by such incoming investors that relate to a Fund and / or Centerbridge's activities pertaining thereto in one or more respects, and side letters or similar arrangements may include undertakings to make certain confirmations. Any such statements, confirmations, acknowledgments, agreements or undertakings are not rights or benefits that are subject to the "most favored nations" process or election by the investors in a Fund, and such investors generally will as a result not typically receive notice thereof or copies of the documentation (if any) in which they are contained. The matters of interest and importance to investors as to which they request disclosure can influence, where considered appropriate, the decisions made by Centerbridge in the management of the Funds. In addition, side letter arrangements with certain investors of the clients impose



additional restrictions on investing in certain types of assets, geographies or industries in order to meet certain legal, tax, regulatory, internal policy or other requirements of such investors. While these restrictions are intended to apply solely to such investors, they may ultimately restrict the investments made by the clients.

The clients are permitted to pool certain or all investments, including with one or more other clients (any such pool, an “Asset Pool”), including for the purposes of obtaining leverage or other financing, or seeking a full or partial exit from one or more investments including through securitization. In such circumstances an Asset Pool may be managed or controlled by Centerbridge and securities or other interests in the Asset Pool will be owned by the clients. For certain clients, as set forth in their respective governing and disclosure documents, the consummation of any such transaction generally will not require the consent of such clients’ respective advisory committees or investors and will involve the exercise of discretion by Centerbridge with respect to a number of material matters, which may give rise to actual or potential conflicts. For example, in connection with such transactions, Centerbridge will have broad discretion to determine whether and to what extent such a transaction constitutes a disposition of the contributed assets under the terms of the respective governing documents of the clients, to determine the proportionate interest of each client in the Asset Pool (or particular classes or tranches of securities or others interests in the Asset Pool), which will require Centerbridge to determine the relative value of assets contributed to the Asset Pool and value of securities or interests (or particular classes or tranches thereof) issued by the Asset Pool, and to determine how interests in or proceeds from the Asset Pool are attributed to those investors that participated in such contributed assets, each of which may have a material impact on such investors’ returns in respect of such investments or the clients more generally. In making these determinations, Centerbridge may, but is not required to, engage or seek the advice of any third-party independent expert; however, even if such advice was sought, valuing such assets and interests and, therefore, the value of the clients’ interests in, or proceeds received from, any Asset Pool, will be subjective. The clients generally will be exposed to the performance of all assets in an Asset Pool and those investments contributed to the Asset Pool by some clients may not perform as well as those investments contributed by the other clients. Accordingly, the returns of the clients in respect of investments contributed by them may be lower than if they had not been contributed to the Asset Pool.



**ITEM 11**  
**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT**  
**TRANSACTIONS AND PERSONAL TRADING**

A. Code of Ethics.

Centerbridge strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, Centerbridge has adopted a Code of Ethics (the “Code of Ethics”). The following set of principles from the Code of Ethics frames the professional and ethical conduct that Centerbridge expects from its personnel:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective investors, employers, employees, colleagues in the investment profession and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients and the interests of Centerbridge above one’s own personal interests;
- Adhere to the fundamental standard that personnel should not take inappropriate advantage of their position;
- Identify and manage conflicts of interest;
- Conduct all personal securities transactions in a manner consistent with the Personal Securities Trading Policy (as defined in the Code of Ethics);
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities;
- Devote sufficient time and attention to the proper execution of one’s professional responsibilities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect favorably on the employee and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve one’s professional competence and strive to maintain and improve the competence of other professionals; and
- Comply with applicable provisions of the federal securities laws.

Clients and prospective clients may request a copy of the Code of Ethics by contacting Centerbridge at the address or telephone number listed on the first page of this document.





**B. Securities in which Centerbridge or a Related Person Has a Material Financial Interest.**

**1. Cross Trades**

Centerbridge generally disfavors cross trades; however, cross trades are not prohibited by the clients' organizational documents. In the exceptional circumstance that Centerbridge were to undertake a cross trade between two clients, such a transaction would be conducted in accordance with, and subject to, any applicable laws, Centerbridge's fiduciary obligations to each client and the terms of each client's governing documents. Situations at times arise where it would be necessary or appropriate to transfer certain assets held by one or more clients, including for the purpose of rebalancing the portfolios of such entities. For example, the governing documents of certain funds could contemplate periodic transactions between a fund and its parallel funds for the purpose of maintaining alignment of such funds, and it should be understood that such permitted transactions may occur as and when warranted, subject to the requirements of the applicable governing documents. In addition, Centerbridge at times will restructure the form of legal ownership of an investment, *e.g.*, from direct ownership to participation or indirect ownership through a shared subsidiary (such as a trading subsidiary or investment vehicle), which restructuring is not intended to result in a change in the level of beneficial ownership. In addition, Centerbridge from time to time has caused and may in the future cause a client to enter into a back-to-back, contribution, indemnification or similar agreement with another client to ensure that each client assumes its *pro rata* share of any obligation, including in circumstances where they may share indirect ownership of an investment through a shared subsidiary or investment vehicle.

However, Centerbridge may be unable to exit an investment during the standard life of a client, or it may believe that it would be suboptimal to exit during that time, for example, because it believes that the investment has not reached an appropriate level of maturity or it still holds potential future upside. This could include, but is not limited to, a company for which a turnaround has not been completed, one that is not in the right part of the curve of a longer industry cycle, or one for which there is still a meaningful amount of value creation that can be done or future growth that is expected to occur. With respect to any investment that Centerbridge does not believe it would be advisable to exit before the end of the life of the relevant client, it is possible that Centerbridge would determine that a compelling approach is to sell an investment from such client to another client. For example, a client could acquire from, or sell to Centerbridge, a Service Provider as an investment or participate alongside Centerbridge or another client in the acquisition of a Service Provider, after determining the appropriate valuation at which such transaction should occur. In addition, before entering into any transaction with respect to any such Service Provider, it is anticipated that Centerbridge will obtain any consents that may be required under the Advisers Act or other applicable laws or regulations. In addition, Centerbridge might also consider other possible solutions, such as the creation of a separate vehicle to hold long-horizon assets, if permitted by, and subject to, any restrictions and requirements set forth in the



applicable client's governing documents, including but not limited to, obtaining any investor consent if required thereby. In addition, in assessing legal, tax, regulatory, accounting and similar considerations that may impact allocation decisions, Centerbridge may determine that, for a client after its investment period, particularly as it approaches the end of its term (including those clients whose terms have been extended) or clients in windup, it would not be appropriate to allocate one or more follow-on investments to such client, even if other clients do make such follow-on investment(s).

Moreover, while Centerbridge seeks to use reasonable efforts to avoid cross-guarantees and other similar arrangements, counterparties, lenders and other unaffiliated participants in a given transaction have in the past required or desired, and it is possible that such parties may in the future require or desire to transact with only one fund entity or group of entities, which would likely result in (i) any of the clients being solely liable with respect to its own and another clients' or vehicles' share of the applicable obligation and / or (ii) any of the clients being jointly and severally liable for the full amount of such applicable obligation. Furthermore, as a result of any incurrence of indebtedness on a joint and several or cross-collateralized basis, a client may be required to contribute amounts in excess of its *pro rata* share, including additional capital to make up for any shortfall if another client is unable to repay its *pro rata* share of such indebtedness. may result in such clients entering into, participating in or applying a back-to-back or other similar reimbursement arrangement (and in most circumstances, especially where there are back-to-back or other similar reimbursement obligations, a client would not be compensated (or provide compensation to the other) for being primarily liable to, contributing amounts in excess of its *pro rata* share to, or otherwise directly contracting with such counterparty, lender or other unaffiliated participant), which also could include provisions intended to mitigate certain impacts that may arise with respect to the client that is the primary obligor (*e.g.*, any reduction in the borrowing base of the client that is the primary obligor attributable to credit support attributable to one or more other clients that are indirect obligors) relating to a reduction in borrowing base under such client's subscription facility. If a client enters into any such arrangements with one or more other clients, such client will be subject to the counterparty risk of such other clients involved, including, without limitation, the risk of a default or delay in the performance of such other clients' obligations. In addition, even where a client incurs primary liability and other clients participate in such obligation by virtue of sharing arrangements, a portion of any guarantee or other similar fees paid to a client would likely be shared with the applicable other clients, despite the incremental risk taken on by such client. The foregoing arrangements will arise in connection with co-investments, in particular where a counterparty will only transact with a single entity resulting in a client having to enter into back-to-back arrangements with co-investors.

## **2. Principal Transactions**

Centerbridge also disfavors principal transactions. To the extent that cross trades or other transactions with a client are viewed as principal transactions due to the ownership interest in a client by Centerbridge or its personnel, Centerbridge would effect such transaction only if Centerbridge were to first determine that such trade is in the best



interests of the affected clients and then only in compliance with the requirements of Section 206(3) of the Advisers Act or similar applicable law, and the governing documents of the affected clients, including obtaining any required informed consents.

It should be noted that Centerbridge has the authority to consent to any transfer of all or a portion of an investor's interest, including a transfer to Centerbridge. Any such transaction would present a conflict in that, by virtue of its role as such, Centerbridge would be expected to possess more information and more detailed information regarding the clients and their investments than the relevant investor. There is no guarantee that Centerbridge would consider (or if it did consider, would consummate) a transfer of all or any portion of an interest from an investor to Centerbridge, or that any such transfer would be available to investors generally. Investors should not expect that any such transfer will be available at any time.

C. Investing in Securities that Centerbridge or a Related Person Recommends to Clients.

The Code of Ethics places restrictions on personal trades by employees, including that employees pre-clear most types of personal securities transactions and that they disclose their personal securities holdings and transactions to Centerbridge on a periodic basis.

Centerbridge, its affiliates and its employees, sometimes are permitted to invest on behalf of themselves or through family investment vehicles or similar accounts that they control or as to which they are the primary beneficiary in securities and other instruments that would be appropriate for, held by, or fall within the investment guidelines of clients, or may give advice or take action for their own accounts or through family investment vehicles or similar accounts that they control or as to which they are the primary beneficiary that may differ from or conflict with advice given or action taken for clients. These activities could adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients. Potential conflicts also could arise due to the fact that Centerbridge and its personnel have investments in some clients but not in others or have different levels of investments in and participation with respect to the various clients.

Centerbridge has established policies and procedures designed to monitor and resolve or mitigate conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code of Ethics, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.



D. Conflicts of Interest Created by Multiple Clients.

Centerbridge manages investments on behalf of a number of clients. Certain clients have investment programs that are similar or overlap and may, therefore, participate with each other in investments. For example, the Real Estate Funds have an overlapping investment program with the Capital Partners Funds, particularly in respect of certain corporate platform real estate-related investments, and will have an overlapping investment program with the Credit Funds, particularly in respect of certain real estate-related investments that involve loans and securities. It is the policy of Centerbridge to allocate investment opportunities on a basis that Centerbridge believes in good faith to be fair and equitable and in accordance with applicable laws, rules and regulations and the provisions of any applicable operating agreements of the clients, as well as disclosures provided to clients, and taking into account the considerations more fully described below. Allocation to a particular client is not based on the amount or structure of fees for such client.

*Investment Opportunities.*

In general, allocations of new investment opportunities will be made primarily on the basis of the following factors:

- The exclusivity, priority and other allocation requirements and lifecycle considerations pursuant to the applicable governing documents;
- The nature or primacy of the investment focus of the clients for which such investment may be appropriate;
- The investment programs and portfolio positions of the clients for which such investment may be appropriate;
- A client's existing position in a particular security or issuer; and
- The net asset value or available capital (or liquidity) of the clients for which such investment may be appropriate.

It is the policy of Centerbridge to allocate investment opportunities (including with respect to acquisitions and dispositions of investments) in a manner it deems to be equitable. This means that such opportunities will be allocated among the clients for which participation in the respective opportunity is considered appropriate, according to the allocation methodology then in effect, which typically will be ratable based on available capital and / or net asset value. Centerbridge, however, will be permitted to allocate such opportunities in a different manner deemed equitable by Centerbridge, taking into account, for each of the clients, among other considerations: (a) whether the risk-return and target profile of the proposed investment is consistent with the account's objectives, whether such objectives are considered (i) solely in light of the specific investment under consideration or (ii) in the context of the portfolio's overall holdings; (b) risk-weighting considerations, including the potential for the proposed investment to create an imbalance in the account's portfolio; (c) liquidity needs and the



timing of capital inflows and outflows of the account (including whether investors have the opportunity to withdraw or redeem some or all of their investment from such account and the capacity to designate opportunities as special investments); (d) tax efficiencies and potential adverse tax consequences to the clients and their limited partners; (e) regulatory restrictions or contractual or similar requirements that would or could limit an account's ability to participate in a proposed investment, including whether a client has been cleared to transact by or with another counterparty; (f) the need to re-size risk in the account's portfolio; (g) redemption/withdrawal requests from the clients and anticipated future contributions in the clients (and fund lifecycle considerations such as a client's "ramp up," harvest or liquidation period and the proximity of a client to the end of its specified term); (h) proximity of a client to the end of its specified investment period or term and the anticipated holding period; (i) the size of the proposed investment (also considering the intended or anticipated future size and considering circumstances where a thesis has ripened to the point that a comparably meaningful position cannot necessarily be created at a later point in time in the clients) and relative amounts of available capital of the clients (which in the context of the clients will reflect varying approaches with respect to the availability and use of leverage); (j) the investment guidelines of the clients; (k) investment strategies involving paired investments (including stapled instruments that may or may not remain paired); (l) rounding considerations and / or the avoidance of odd-lots or cases when a *pro rata* allocation would result in a *de minimis* allocation to one or more of the clients; (m) hedging considerations and the manner in which hedges are applied (whether specific to a particular investment or a sub-set thereof or made on a more holistic or "macro" basis); (n) considerations relating to derivative positions, including the availability of ISDA agreements and the manner in which positions may be unwound or novated with one or more counterparties; and (o) the management of any actual or potential conflict of interest. In addition, certain clients at times get priority allocations in their core strategy if contemplated or not prohibited by the offering documents of the partially overlapping clients.

In some cases, observation of and allocation in accordance with the considerations above may affect adversely the price paid or received by a client, or the size of the position purchased or sold by a client. The above-described clients managed by Centerbridge include closed-ended funds (which in certain cases have one or more successor funds), each with a designated investment period, harvest period and termination date, and funds that are open-ended. As noted above in this Item 11, among the reasons that allocations may not be made ratably among funds that pursue the same or a similar investment strategy are lifecycle and structural differences among the funds, which can impact the ability of a client to transact directly with counterparties. From time to time a fund in its harvest period will not add to a position or will reduce a position at a time when other funds that are actively investing do add to or maintain a position. In addition, for open-ended funds that retain cash, and also are subject to capital activity (whether in the form of subscriptions or redemptions), from time to time an investment opportunity will arise that Centerbridge determines is a suitable investment for such client and not other clients. Managing the ramp-up, investment and harvest process will from time to time result in allocations that are not ratable or arrangements with counterparties that



involve one or more clients (or even Centerbridge if a client is not yet effective) being a direct party to a transaction while others participate in such transaction through other arrangements – for example, participation or other sharing or “back-to-back” arrangements or allocations, or a subsequent transfer of interests to such participants – that are intended to apportion rights and obligations among others that also participate in such transaction in an effort to achieve parity among the participants. Even with such measures, differences can remain – for example, by virtue of each participant’s unique profile (including its credit quality and cost of capital). See also Item 11.B.1.

In the allocation of investments among the clients, Centerbridge seeks to make a threshold determination at the onset of an investment as to whether Centerbridge will move forward with the intent to employ a control or non-control strategy, dependent upon the characteristics of the investment and the potential to acquire ultimate ownership. In certain circumstances, taking into account the investment programs and guidelines of the clients and Centerbridge’s views regarding whether the investment’s characteristics make it appear to be suitable for more than one fund family, Centerbridge will allocate an investment to more than one client in the first instance or over time (*e.g.*, when an investment begins as a non-control investment and then control becomes possible), for example, to the Capital Partners Funds and to the Credit Funds. Such allocations sometimes have occurred. Such determinations, including determinations as to the proportion in which such allocations occur, are made by Centerbridge in its good faith judgment, taking into account the facts and circumstances known to it and expectations, projections or predictions made at the time, all of which then-current assumptions may vary from how the investment ultimately evolves.

In addition, in certain circumstances, taking into account the investment programs and guidelines of the clients, the sourcing of the investment opportunity, fiduciary or other obligations to portfolio companies (which can arise, for example, due to board service) and Centerbridge’s views regarding whether the investment’s characteristics make it potentially suitable for a particular portfolio company, Centerbridge expects in certain circumstances to first offer an investment opportunity to a portfolio company held by a client even if such opportunity would also be (or potentially more) suitable for a client, including a client that does not have an interest in such portfolio company.

#### *Other Collective Investment Vehicles.*

Centerbridge is entitled to different amounts of carried interest, management fees or other performance-based compensation from the clients. In addition, as set forth in the relevant client’s governing documents, while Centerbridge will allocate any Other Fees for the purposes of and consistent with such client’s Management Fee offset provisions, certain clients may have different offset requirements or no management fee offset. As a result, Centerbridge may be incentivized to favor those clients in which they have the potential to receive more carried interest, management fees or performance-based compensation. Additionally, Centerbridge may be incentivized to





allocate more time, effort and resources to a client that is at a different stage in its marketing or investment horizon, or by virtue of obligations under the governing documents of a client, allocate more time to such client. Please also refer to the discussion in Item 6.

At times, a position intended for multiple clients will be allocable solely to one client (which can occur due to minimum lot sizes, minimum transfer requirements, applicable law, the counterparty's unwillingness to contract with multiple entities or otherwise). In such circumstances, Centerbridge has the authority to apply a rotational or other approach to the allocation of de minimis initial investments. Further, in order to properly apportion the economic consequences of investment among the clients, Centerbridge has the authority to, and does from time to time, apply other measures such as the entry by the clients into a participation agreement and / or other contribution or sharing arrangements.

In some instances, one Instrument (for example, equity) is issued together with another (for example, debt); however, it may be the case that receiving both Instruments would be disadvantageous to a client (for example, due to consolidation or ratings-related considerations), in which case, where feasible, a client purchasing such Instruments may elect to receive only one of such Instruments, or a smaller portion of the other such Instrument, and after Centerbridge has determined, for conflicts purposes, that doing so would not prejudice either client, Centerbridge could determine to allocate such other Instrument (in whole or in part, at the outset of such investment or after such investment has been made, based on such client's election) to another client.

In addition, a client may (subject to applicable requirements in its governing documents) determine to sell a particular investment into a separate vehicle, which may be managed by Centerbridge, with different terms than such selling client (e.g., longer duration), and provide limited partners of such selling client with the option to receive a distribution in connection with their investment with such selling client at the time of such sale, or to roll all or a portion of their interest in the investment into the new vehicle. Under such circumstances, Centerbridge may invest in or alongside the new vehicle, or hold the entirety of such investment through or alongside the new vehicle (e.g., in the event that all limited partners elect to monetize their investment at the time of sale to the new vehicle).

See also “—*Non-Control Investments and / or Investments with Third Parties in Joint Ventures and Other Entities; Investments in Platforms*” in Item 8.B.

#### *Conflicting Duties to Other Clients.*

In addition, Centerbridge from time to time structures an investment as a result of which one or more clients primarily investing in senior secured loans, distressed debt, subordinated debt, high-yield securities and other similar debt instruments are offered the opportunity to participate in the debt or equity tranche of an investment allocated to another client. Additionally, a client could purchase investments in which



another client already has an interest, and may do so at different points in time. Centerbridge would owe a fiduciary duty to each such client, and Centerbridge, in certain instances, faces a conflict of interest in respect of decisions made with regard to such clients (*e.g.*, with respect to the terms of an investment, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies).

Centerbridge and its employees (on behalf of themselves or through family investment vehicles or similar accounts that they control or as to which they are the primary beneficiary) may purchase or sell securities on their own behalf, and (with respect to Centerbridge) on behalf of certain clients, which differs from those purchased or sold for other clients, even though their investment objectives may be the same or similar, or may give advice or take action for their own accounts that differs from or conflicts with advice given or action taken for one or more clients.

While Centerbridge has policies regarding these activities, it is possible that these activities could adversely affect the prices and availability of other Instruments held by or potentially considered for the clients. Potential conflicts also could arise due to the fact that Centerbridge and its personnel may have investments in some Centerbridge funds but not in others or have different levels of investment in or participation with respect to the various funds.

Likewise, a client, for example, may make an investment at the same time that one or more of the other clients is disposing of the same or a similar investment. The clients may make an investment in a position which is already held by one or more of the other clients or a position that is subordinated or senior to or otherwise adverse to a position held by one or more of the other clients. Additionally, the clients may have different term lengths and / or investment objectives (including return profiles) and Centerbridge, as a result, may have conflicting goals with respect to the price and timing of disposition opportunities of any such investment. Centerbridge has the authority to take various measures to reduce or otherwise mitigate this potential conflict, such as not initiating votes or abstaining from voting, not sitting on boards of directors and / or other committees (including creditor committees), divesting itself of an investment it might otherwise have continued to hold, potentially resulting in losses or lower profits, or consulting with the client's advisory or independent committee or another third party.

It is possible that the activities or strategies used for some of the clients could conflict with the activities and strategies employed in managing the assets of other clients and affect the prices and availability of the Instruments in which the clients invest. In addition, in the event Centerbridge provides non-discretionary advisory services to a client (as it does for a collective investment vehicle that invests in Martello Re), it is possible that the activities of such non-discretionary account and the activities of other clients differ from or are inconsistent with each other, including due to such non-discretionary account being advised by Centerbridge on a non-discretionary basis with the client having the ability to act contrary to Centerbridge recommendations. For example, in a situation where a client invests in debt Instruments of a company in which other clients hold or are contemporaneously acquiring equity Instruments, questions may



arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise conflicts of interest. If additional capital is necessary as a result of financial or other difficulties, a client may or may not provide such additional capital as Centerbridge determines in its sole discretion. A client at times could be in a position where it has an interest in structuring debt Instruments that have financial terms (such as interest rates, repayment terms, seniority, covenants and events of default) that are more restrictive than the terms that other clients would seek to negotiate. In addition, it is possible that in a bankruptcy proceeding the interest of a client will be subordinated or otherwise adversely affected by virtue of the other clients' involvement and actions relating to their investment. In connection with negotiating loans and bank financings in respect of Centerbridge-sponsored private equity transactions, Centerbridge may obtain the right to participate on its own behalf (or on behalf of vehicles or accounts that it manages) in a portion of the loans or financings with respect to such Centerbridge-sponsored private equity transactions on an agreed-upon set of terms. In addition, certain clients in some cases own a significant or controlling percentage of the common equity of portfolio companies, which, depending upon the amount of equity owned by them, any relevant contractual arrangements between such portfolio company and the participating clients, and other relevant factual circumstances, could result in an extension to one year of the 90-day bankruptcy preference period with respect to payments made to the clients and / or subordination of its claims to other creditors and / or recharacterization of debt claims into equity claims. Centerbridge will seek to resolve such conflicts of interest in a fair and equitable manner. Conflict resolution may result in a client receiving more or less consideration than such client may have otherwise received in the absence of such a conflict of interest.

Centerbridge receives or obtains various kinds of data and information from the clients and their portfolio companies, including data and information relating to business operations, trends, budgets, customers and other metrics, some of which is sometimes referred to as "big data." Centerbridge can look to this information to better anticipate macroeconomic and other trends, and otherwise develop investment themes. See also Item 8.B. Centerbridge may enter into information sharing and use arrangements with the clients and their portfolio companies, related parties and service providers, which may give Centerbridge access to (and rights regarding) data that it would not otherwise obtain in the ordinary course. For example, Centerbridge's ability to trade in Instruments of an issuer in a specific industry may, subject to applicable law, be enhanced by information learned by Centerbridge due to a client's ownership of, or pursuit of, a portfolio company in the same or related industry. In addition, historical investments made by one or more clients may result in future opportunities that are available to one or more other clients, by virtue of, among other things, the nature of such opportunities, the clients' respective investment programs and investment horizons, legal, tax and other similar considerations, regulatory changes and other unique circumstances. The research and diligence process applied to the sourcing and execution of one or more specific investments has benefits that can extend to other investments, while the



associated expenses and other resources often arise or are applied at the time of the original investment. The sharing and use of “big data” and other information presents potential conflicts of interest and any benefits received by Centerbridge or its personnel (including fees (in cash or kind), costs and expenses) will not be subject to the Management Fee offset provisions or otherwise shared with the clients or investors. As a result, Centerbridge may have an incentive to pursue investments that have data and information that can be utilized in a manner that benefits persons other than the clients that originally contemplated such investments. As noted above, Centerbridge applies its discretion to make determinations regarding the allocation of investment opportunities and the expenses and other resources applied to generate investment opportunities in its good faith judgment based on facts and circumstances considered to be relevant at the time such determinations are made.

*Portfolio Company Activities and Relationships.*

It has at times been the case and may in the future be the case that certain clients invest in securities or instruments of publicly traded or private companies that are actual or potential investments of other clients. The trading activities of one client will at times differ from or be inconsistent with activities which are undertaken for the account of another client in such Instruments or related Instruments, including as a result of the facts and circumstances described herein.

In addition, a client will in certain circumstances not pursue an investment as a result of such investing or trading activities by other clients.

Additionally, if Centerbridge personnel serve on the board of directors (or other similar committees or bodies) of any company in which another client has invested, then such Centerbridge personnel can become subject to fiduciary duties or other similar obligations to such companies and / or their other respective constituents. While Centerbridge personnel would generally assume such positions in order to promote the interests of the clients, Centerbridge may not be able to put the interests of the clients ahead of the interests of such companies or constituents and / or it is possible that Centerbridge will be unable to take certain actions in respect of the clients that it otherwise would have taken had such personnel not served in any such capacities. With respect to companies more generally, it is also possible that such companies (or subsidiaries thereof), or portfolio companies (or subsidiaries thereof) of a client engage in investing activities that are similar or related to the investing activities of other clients. In such cases (and even in cases where a company engaged in an operating business is contemplating a strategic transaction), a client or Centerbridge expects at times to come into possession of non-public confidential information or otherwise become bound by confidentiality, standstill or other obligations. While Centerbridge has policies in place to minimize these instances, it is possible that the activities of and information within a company will result in a client being required to forgo certain investment or divestment activity and otherwise restrict the ability of such client to engage in certain activities that would not be prohibited but for such relationships. For example, from time to time, Centerbridge expects to, for a variety of reasons including, without limitation, when



employees of Centerbridge sit on advisory boards of portfolio companies controlled by certain clients, come into possession of material, non-public or price-sensitive information, and such information may limit the ability of other clients to buy and sell investments, even if such information was obtained in the context of the investment activities of other clients or companies in which they are invested. Additionally, from time to time, Centerbridge will decide, for compliance and similar reasons, to restrict its ability to buy and sell Instruments in light of information received or otherwise. Even if disclosure of such information to Centerbridge's personnel responsible for the affairs of a client does not occur, such client as a general matter would not be free to act upon any such information. Due to these restrictions and / or contractual restrictions imposed on Centerbridge in connection with the management of a client, other clients may not be able to initiate a transaction that they otherwise might have initiated and would not be able to sell an investment that they otherwise might have sold.

*Centerbridge Policies and Procedures.*

Policies and procedures implemented by Centerbridge from time to time (including as may be implemented in the future) to mitigate actual or potential conflicts of interest and address certain regulatory requirements and contractual restrictions could at times reduce the synergies across Centerbridge's areas of operation or experience that the clients expect to draw on for purposes of pursuing attractive investment opportunities. Centerbridge is subject to a number of actual and potential conflicts of interest, additional regulatory considerations and more legal and contractual restrictions than it otherwise would be subject to if it focused only on a single client and / or if it did not pursue a combination of private equity, credit and real estate-related investments. In addressing these conflicts and regulatory, legal and contractual requirements across its various businesses, Centerbridge has implemented and may in the future implement certain policies and procedures (such as, for example, information walls) that could reduce the positive synergies that the clients expect to utilize for purposes of finding attractive investments. In that regard, it is possible that in the future Centerbridge will establish information barriers or other forms of separation between certain professionals, such as those who are primarily involved in trading marketable securities or liquid instruments or distressed investments, on the one hand, and other professionals, such as others who are primarily involved in privately negotiated or illiquid investments, on the other, and in any such event it is possible that the clients will not be able to avail itself of the full resources of Centerbridge. Such information barriers or other forms of separation between certain professionals may cause certain personnel to not have access to material non-public information in the possession of other Centerbridge personnel which might be relevant to an investment decision to be made by the clients, and the clients may initiate a transaction or sell an investment which, if such information had been known to it, may not have been undertaken. There can be no assurance that walling off procedures can be implemented efficiently or successfully in all cases.



### *Co-Investment Opportunities.*

Centerbridge also from time to time offers co-investments to third-party investors, based on, among other factors determined by Centerbridge in good faith, strategic reasons, as further described in Item 4. In the event that one or more co-investors or co-investment vehicles invest side-by-side with the client in Instruments and any such co-investor or co-investment vehicle defaults on its obligations with respect to such investment, it is possible that any liability accruing as a result of such default will be borne by that client in excess of that client's *pro rata* portion (based on the amount initially invested or intended to be invested in such investment) of such investment.

In order to facilitate the acquisition or financing of an investment, to the extent permitted under its governing documents, each client has the authority to make (or commit to make) an investment that exceeds the desired amount with a view to disposing all or a portion of such investment to co-investors or other persons prior to or after the closing of the transaction. In addition, subject to the terms of the applicable client's governing documents, a client may borrow to fund the portion of an investment that it intends to sell to any such co-investors or other persons. Centerbridge will determine the terms and conditions and the price at which any such transaction will be effected, which determination, with respect to price, may reflect the original cost basis (with or without any incremental amount such as interest or cost of carry) or be at the fair value of such investment (or portion thereof) as of the date of such sale. The methodology for how Centerbridge will determine fair value is described in the applicable client's governing documents. In the event of any such "sell-down," the clients will bear the risk that the transaction will not be consummated, or that any or all of the excess portion of such investment cannot be sold or can only be sold on unattractive terms and that, as a consequence, the clients will bear the entire portion of any break-up fee or other fees, costs and expenses related to such transaction, and hold a larger than expected portion of such investment or realize lower than expected returns from such investment. See also "*Syndication of Investments*" in Item 8.B.

Please also refer to the discussion of expense allocations in Item 4.B.

As Centerbridge's business continues to evolve over time, it can be expected that Centerbridge and Centerbridge personnel would in the future engage in activities that result in conflicts of interest not addressed herein. For example, Centerbridge has the authority to enter other investment management businesses that could present further conflicts of interest, such as high-yield bond and leveraged loan management, CDO origination and management, and real estate and / or real estate mortgage management. In the event that a conflict of interest arises, Centerbridge will attempt to resolve such conflicts in a fair and equitable manner. There can be no assurance that Centerbridge will identify all conflicts of interest, or that it will resolve identified conflicts in a manner that is favorable to the clients.





## **ITEM 12 BROKERAGE PRACTICES**

### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.**

As noted previously and in Item 16 below, Centerbridge has full discretionary authority to manage the Funds and certain other clients, including authority to make decisions with respect to which investments are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. Centerbridge's authority is limited by its own internal policies and procedures and each client's investment guidelines.

Portfolio transactions for the clients are allocated to brokers and dealers on the basis of seeking best execution and in consideration of Centerbridge's assessment of factors such as such broker's or dealer's ability to effect such transactions, and its resources, responsiveness and reliability, market or product knowledge, market standing, integrity and financial responsibility. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged to the clients by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such products or services.

Subject to the considerations described above, the selection of a broker (including a prime broker) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services may be influenced by, among other things, the provision by the broker of the following: consulting with respect to technology, operations and equipment, commitment of capital, access to company management and access to deal flow. Generally, neither Centerbridge, nor the clients intend to separately compensate any broker for any of these other services.

#### **1. Research and Other Soft Dollar Benefits**

As a matter of general policy, Centerbridge does not participate in soft dollar arrangements, although the U.S. office of Centerbridge, from time to time, receives research prepared by broker-dealers and circulated by such broker-dealers to their clients.

With the implementation of the Markets in Financial Instruments Directive (2004/39/EC) ("MiFID II") in January 2018, the Sub-Advisor pays directly for any products deemed to be "investment research" pursuant to MiFID II, although in the future the Sub-Advisor may determine to use a research payment account for this purpose as permitted by MiFID II.

#### **2. Brokerage for Client Referrals**

Broker-dealer selection for trade order execution is a function of the best execution considerations described in this Item 12. In relation to trade order execution, Centerbridge has no active engagement with any broker-dealer providing for the payment



of fees in consideration for client referrals or recommending any specific broker to clients.

At such times as Centerbridge engages a placement agent registered as a broker-dealer for the purpose of assisting with fundraising activities, such placement agent would receive compensation in connection with such engagement, which is unrelated to the trade order execution activities of the clients. See Item 14.B.

### **3. Directed Brokerage**

Centerbridge does not recommend, request or require that a client direct Centerbridge to execute transactions through a specified broker-dealer.

#### **B. Order Aggregation.**

In some circumstances, it will be appropriate for Centerbridge to buy or sell an investment on behalf of more than one client account for which the transaction is allocable at one time or over a period of time, and if any order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order on behalf of more than one client cannot be fully executed under prevailing market conditions, securities may be allocated among the different clients on a basis which Centerbridge considers equitable. As a general matter, Centerbridge believes that the aggregation of orders for multiple advisory clients is consistent with its duty to seek best execution for its clients. Aggregation of trades facilitates more efficient and less costly execution by enabling Centerbridge to negotiate transactions on a consolidated basis rather than dealing with multiple smaller lots in investment types that normally trade in significant and / or pre-set blocks.



## **ITEM 13**

### **REVIEW OF ACCOUNTS**

#### **A. Frequency and Nature of Review of Client Accounts or Financial Plans.**

Centerbridge performs various daily, weekly, monthly, quarterly and periodic investment monitoring reviews of each client's investment portfolio. Such reviews are conducted by Centerbridge's investment professionals together with members of other teams.

#### **B. Factors Prompting Review of Client Accounts Other than a Periodic Review.**

Portfolio management is a dynamic process. The frequency of reviews of client account portfolios is a function of facts and circumstances, which can include, for example, market or economic conditions, conditions affecting a particular issuer and Centerbridge's general views about various opportunities and risks that may be relevant to the portfolio or a particular position at a given point in time. Accordingly, evaluation of the portfolio happens on a periodic as well as a non-periodic basis as believed warranted by Centerbridge taking into account circumstances such as those noted above.

#### **C. Content and Frequency of Account Reports to Investors.**

Centerbridge provides annual audited financial statements to the Funds' investors no later than 90 to 120 days after the applicable Fund's fiscal year end, as required by the governing documents of the Fund and consistent with the Custody Rule (as defined in Item 15).

At times (and for some Funds that are actively investing, on a periodic basis), investors receive update letters from Centerbridge with commentary, although Centerbridge provides, in certain circumstances, certain investors with information on a more frequent and detailed basis if agreed to by Centerbridge, including in response to specific due diligence requests made by one or more investors or their representatives. Investors and prospective investors have unique due diligence needs and requirements. The information furnished in response to requests varies based on the nature of, and confidentiality considerations relating to, the information requested. Similarly, not all investors monitor their investments in vehicles such as the Funds in the same manner. For example, certain investors may periodically request from Centerbridge information regarding the Funds and investments and / or portfolio companies that is not otherwise or is yet to be set forth in the reporting and other information delivered to investors generally. When receiving specific questions or information requests from investors, prospective investors or their representatives, Centerbridge does not make such questions, requests or the responses thereto available to persons other than the requesting parties. Additionally, from time to time, Centerbridge may agree to provide "risk aggregators" reasonably acceptable to it certain information pertaining to a Fund's portfolio. While Centerbridge and the applicable Fund (as the case may be) will attempt to provide information that they believe is accurate and where possible impose contractual



requirements with respect to such information, it has no actual control over how such information is being processed, and does not directly monitor, supervise or exercise any control over how such information is reported by such “risk aggregators.” Investors should understand that by requesting that information be provided to “risk aggregators,” the Funds and their respective affiliates have no liability with respect to any report received by investors from such “risk aggregators.”

In addition, investors in the Funds structured as closed-end vehicles are invited to attend annual meetings regarding the applicable Fund. Information also is available through the Funds’ password-protected website. Centerbridge endeavors to make matters that Centerbridge considers to be of general significance to investors available to investors generally and to ensure that information furnished in response to due diligence requests is generally consistent; however, to the extent an investor receives information that other investors have not received, which is in addition to information provided in a Fund’s or Centerbridge’s regular reports to investors, such information may provide such investor with greater insight into the Fund’s and Centerbridge’s activities. This may enhance such investor’s ability to make investment decisions with respect to a Fund and possibly, with respect to the Credit Partners Funds, affect such investor’s decision to request a redemption from the Fund. Conversely, investors who are “friends and family” investors have agreed that they will receive more limited information.

Centerbridge encourages all investors and prospective investors to make such due diligence requests as they consider appropriate.



**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

**A. Economic Benefits for Providing Services to Clients.**

Centerbridge does not receive economic benefits from non-clients for providing investment advice and other advisory services to its clients.

**B. Compensation to Non-Supervised Persons for Client Referrals.**

From time-to-time Centerbridge engages placement agents pursuant to which a placement agent would receive fees in consideration for introducing investors to the Funds. In some circumstances a placement agent could subscribe to a Fund with a capital commitment amount equal to all or a portion of the placement agent fees payable to such placement agent. Potential investors must independently evaluate the offering and make their own investment decisions. The fees payable by Centerbridge to a placement agent generally will take the form of a fixed fee and / or a fee based upon the amount of interests committed to by investors that each such placement agent introduces to Centerbridge, commissions, and expenses (including travel and entertainment) and interest thereon in connection with the offering, subscription or sale of interests, and such fees are subject to offset provisions under the governing documents for the relevant funds, reducing fees otherwise payable by the applicable Fund. Potential investors should also note that at various times, placement agents act as such for multiple Funds and other unaffiliated fund sponsors and funds, which may offer interests that are similar to the interests being offered by the Funds. Placement agents acting on behalf of the Funds would receive fees in respect of the Funds and can therefore be incentivized to recommend investors to invest in multiple Funds. Additionally, unaffiliated sponsors may pay placement fees on terms different from the fees that the placement agents will receive from Centerbridge, and this difference in fees may influence placement agents to introduce or not introduce potential investors to Centerbridge.

Certain jurisdictions mandate the use of placement agents or licensed persons in order to market funds to investors in such jurisdictions, and in such circumstance engaging a placement agent could become necessary or advisable, and an offset of the Management Fee would not necessarily apply.



## **ITEM 15 CUSTODY**

Centerbridge is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to clients are sent by qualified custodians to Centerbridge.

Centerbridge is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule") and satisfies its Custody Rule obligations with respect to each Fund by either: (i) complying with the provisions of the so-called "Pooled Vehicle Annual Audit Exception" with respect to such Fund, which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days after the end of its fiscal year or (ii) complying with the requirements related to quarterly delivery of account statements and annual independent verification, and any other applicable requirements of the Custody Rule with respect to such client. The independent public accountants confirm such independence through their audit reports that accompany the audited financial statements of the Funds, and through analyses provided to Centerbridge confirming their determinations with respect to independence that Centerbridge itself relies upon when making its own determination as to auditor independence and related Custody Rule compliance.





## **ITEM 16**

### **INVESTMENT DISCRETION**

Centerbridge serves as the management company with discretionary trading authority for each Fund. In addition, Centerbridge serves as the investment advisor with non-discretionary trading authority for a client to invest in Martello Re. Martello Re has entered into an investment management agreement with each of Barings, LLC and the Martello Advisor, pursuant to which each is responsible for investing certain of the investable assets and accounts of Martello Re. Each of Barings and Centerbridge have full discretion to supervise and direct the investment of the applicable assets, subject to the investment guidelines described in the applicable Investment Management Agreement. With respect to Seaport, Centerbridge has entered into a sub-advisory agreement with The Vistria Group, LP ("Vistria") pursuant to which Vistria will (i) monitor, evaluate and make recommendations to Centerbridge regarding Seaport's investments, (ii) provide such other services related thereto that Centerbridge and Vistria may agree from time to time and (iii) be entitled to certain approval and consultation rights with respect to Seaport's investments, for which a portion of the fees payable to Centerbridge from Seaport will be paid to Vistria (as described in Item 5).

Centerbridge's investment decisions and advice with respect to each client are subject to each client's investment objectives and guidelines, as described in its offering documents.

Centerbridge or an affiliate of Centerbridge entered into an investment management agreement, or similar arrangement, with each client, pursuant to which Centerbridge or an affiliate of Centerbridge was granted trading authority. In addition, the Sub-Advisor has entered into sub-advisory agreements with the Advisors pursuant to which the Sub-Advisor serves as sub-advisor to the Funds.



## ITEM 17 VOTING CLIENT SECURITIES

### A. Policies and Procedures Relating to Voting Client Securities.

In compliance with Advisers Act Rule 206(4)-6, Centerbridge has adopted a proxy voting policy and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, “Proxies”) in a way Centerbridge believes, consistent with its fiduciary duty, will cause the value of the issue to increase the most or decline the least.

Centerbridge’s general practice is to vote consistently for all clients offered the opportunity to vote. In certain circumstances, Centerbridge may refrain from voting Proxies where Centerbridge believes that abstaining from voting would be in the applicable client’s best interest and / or where Centerbridge believes abstention is appropriate to address potential conflicts of interest, as more fully discussed below. Certain matters subject to a proxy vote may require a more detailed analysis by Centerbridge (*e.g.*, where Centerbridge has identified ESG considerations) than the analysis required for some routine or uncontested matters (*e.g.*, mergers and acquisitions or a contested director election). In performing such analysis, Centerbridge has entered into license or similar agreements to receive proxy voting research, and such research includes certain recommendations of the relevant service provider. Importantly, Centerbridge makes its own determinations regarding the most appropriate manner for managing proxy votes; such determinations may or may not be consistent with what is recommended by third-party resources.

Conflicts of interest may arise between the interests of the clients on the one hand and Centerbridge or its affiliates on the other hand. If Centerbridge determines that it may have, or is perceived to have, a conflict of interest when voting Proxies, Centerbridge will either (i) use an independent, third-party service to vote the proxy on behalf of the affected Fund(s), (ii) disclose the conflict of interest to the investors in such Fund(s) and obtain their consent to vote the proxy in accordance with Centerbridge’s policy or (iii) employ an alternative method of addressing the identified conflict of interest (which can include refraining from voting, as discussed above).

A copy of Centerbridge’s Proxy voting policy is available through the Funds’ password-protected website. In addition, clients may obtain a copy of Centerbridge’s Proxy voting policy and its Proxy voting record upon request.



**ITEM 18**  
**FINANCIAL INFORMATION**

Centerbridge is not required to include a balance sheet for its most recent fiscal year (see Item 5.A), is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past 10 years.