

Item 1 – Cover Page

**Part 2A of Form ADV
Brochure for:**

Avanath Capital Management, LLC

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March 31, 2023

This brochure provides information about the qualifications and business practices of Avanath Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (949) 269-4700 or regulatory@avanath.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Registration as an Investment Adviser does not imply any certain level of skill or training.

Additional information about Avanath Capital Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

There have been no material changes to Avanath Capital Management’s advisory business since the last brochure filed on March 31, 2022. Certain clarifying and other updates have been made to this brochure and you are encouraged to read this brochure in its entirety.

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Item 4 – Advisory Business

Avanath Capital Management, LLC (“Avanath,” or “the Firm,”), a Delaware limited liability company, is a vertically integrated real estate investment manager. Avanath was founded in 2008 and is principally owned by Daryl J. Carter. The Firm has an investment focus on the affordable/workforce multifamily sector, with an emphasis on properties that were originally developed under the Low Income Housing Tax Credit program or with other related structures. Avanath is comprised of a dedicated group of industry professionals with experience in building and managing real estate enterprises.

Avanath currently provides investment advisory services to eleven clients: Avanath Affordable Housing III, LLC, Avanath Affordable Housing Feeder III, LLC and Avanath Affordable Housing Parallel Fund III, LLC (collectively, “Fund III”), Avanath Affordable Housing IV, LLC, Avanath Affordable Housing Feeder IV, LLC, Avanath Affordable Housing IV-A SCSP (Luxembourg), and Avanath Affordable Housing IV-B SCSP (Luxembourg) (collectively, “Fund IV”), Avanath Affordable Housing Renaissance Fund, L.P. and Avanath Affordable Housing Renaissance Parallel Fund, L.P. (collectively, “Renaissance” and, along with Fund III and Fund IV, each a “Fund” and collectively, “the Funds”) and two co-investment vehicles formed to invest alongside of Fund III and Fund IV (the “Partnerships”). The Funds and the Partnerships are each referred to individually as a “Client,” and collectively as “the Clients.” Renaissance was formed as an open-end fund vehicle with a focus on core-plus affordable and workforce housing, while all other Funds are structured as closed-end funds.

The Clients offer limited liability company or limited partnership interests to certain qualified investors as described in response to Item 7, below. Such investors or prospective investors are referred to herein as “Investors.”

The Firm provides its investment advice on the strategy and restrictions (if any) set forth in the applicable Client offering memorandum, organizational documents and subscription agreements, as the case may be. Investment advice is provided directly to the Client by the Firm or an affiliate of the Firm (e.g., the General Partner or Managing Member) and not individually to the limited partners or members. The Firm may add to or change investment strategies over time at its sole discretion, within the parameters of the applicable Client governing documents. The Firm has in the past established, and may in the future establish, certain partnerships, such as co-investment vehicles (“Partnerships”), that are designed to invest in one or more specific investments alongside the Funds. To the extent that such co-investment opportunities arise, the Firm will generally offer such co-investment opportunities to all Investors in the applicable Fund, or in another manner as permitted by the applicable Fund offering documents, at Avanath’s sole discretion.

Advisory services are tailored to achieve the Clients’ investment objectives. Avanath has the authority to select which and how many securities and other investments to buy or sell without consultation with the Investors.

Avanath does not participate in wrap fee programs.

Avanath managed approximately \$3,637,600,00 in assets on a discretionary basis and \$0 in assets on a non-discretionary basis, calculated based on the gross asset value of such assets as of December 31, 2022.

Item 5 – Fees and Compensation

Management and Performance Fees

For each of the Funds managed by Avanath, the Investors pay to the Adviser or an affiliate of the Adviser an annual advisory fee (the "Management Fee") that is generally called from Investors or paid out of the operating income of the Fund. Such Management Fee will vary depending on the amount of capital committed and the date of investment and may be reduced or waived for certain related parties of Avanath. The Management Fee is typically paid quarterly in advance, although Avanath retains the right to delay the timing of its receipt of the Management Fee at its sole discretion. The Management Fee arrangement is detailed in the applicable governing documents of each Fund. Co-investment vehicles such as the Partnerships pay a reduced fee, as indicated in their respective governing documents.

In addition to the Management Fee, Avanath is eligible to receive an incentive allocation as described in the offering documents for each Fund and Partnership. The preferred return varies for certain Funds and Partnerships. Each Investor should refer to the governing documents for the relevant Client for specific details on the applicable fees and incentive allocation calculation methodology.

The incentive allocation will only be charged to accounts of those Investors who are "qualified clients" as defined in Rule 205-3 of the Investment Advisers Act of 1940.

Fees and other compensation are negotiable in certain circumstances and arrangements with any particular Investor may vary. Although Avanath believes its fees are competitive, lower fees for comparable services may be available from other investment advisers.

Fees, Costs, and Expenses

Avanath's Management Fees and incentive allocation are not inclusive of all the fees and expenses that Investors may bear. The Funds are responsible for costs and expenses incurred for maintaining the operations of the Funds, including legal fees, tax and audit expenses, insurance costs, and other out-of-pocket fees and expenses in connection with organizing and raising capital for the Funds up to certain limits. To the extent permitted by the Fund offering materials, a portion of the salary for certain Avanath personnel will be allocated to the Funds for time spent on organizing and raising capital for the Funds. Other expenses allocated to the Funds or to the properties owned by the Funds include, but are not limited to, costs and expenses of identifying, investigating, acquiring, owning, financing, expanding, and disposing of properties, including related travel expenses, to the extent applicable; "dead deal" costs for unconsummated transactions, including for investments that are pursued that may be appropriate for a co-investment vehicle; expenses related to the ongoing operations of the properties owned by the Funds, including, but not limited to, property management; construction management; salary, benefit, and other related costs for personnel of Avanath or its affiliates who perform certain property-related functions including, but not limited to, leasing, property management, and accounting; expenses related to annual meetings of Investors, including attendance of employees at such meetings; and expenses incurred by the members of the Advisory Committee for their attendance at meetings of the Advisory Committee. This list is not intended to be exhaustive; prospective Investors are advised to review the applicable offering materials and organization agreements for a more extensive description of the fees and expenses associated with investments in the Funds. To the extent that expenses are attributable to more than one property or Fund, Avanath will allocate such costs in a manner that it believes to be fair and equitable to all properties or Funds involved. The allocation methodology will vary depending on the type of expense but may include allocating expenses equally among properties or pro rata by committed capital to the Funds.

Notwithstanding the above, any placement agent fees and certain organizational costs above specified thresholds incurred by the Firm or its affiliated entities are not borne by the Fund, as specified in the governing documents for each of the Funds.

With respect to each investment held in a Partnership in which co-investors co-invest (or propose to co-invest) with a Fund, any investment expenses or indemnification or repayment obligations related to such investments shall be borne by the relevant Fund and co-investors in proportion to the capital committed by each to such investment. For the avoidance of doubt, Avanath may in its sole discretion structure any co-investment opportunity so that the proposed co-investors do not bear any broken deal expenses; provided, that if so structured, such co-investors shall not be entitled to receive any break-up or similar fees that may be earned with respect to such transaction.

Avanath occasionally invests in assets where the investment opportunity is shared with a joint venture partner (“JV Partner”) that provides equity and/or services to the shared project (“JV Project”). JV Partners can receive compensation in the form of management fees from the JV Project or incentive allocations from the JV Project when JV Project outperforms certain hurdles. This compensation is paid to the JV Partner by the underlying asset.

With the exception of certain investments of the Clients for which a JV Partner or its affiliate provides property management or other services, an affiliate of Avanath is typically hired to provide ongoing property management, construction management and/or leasing services and paid a fee that Avanath believes to be comparable to market rates for doing so. The fees paid for property management vary based on factors such as the occupancy and level of stabilization of the properties held by each Client. In certain circumstances, a JV Partner or its affiliate is responsible for managing the properties purchased with the assistance of such JV Partner, but the property manager has delegated certain administrative duties to an affiliate of Avanath. In exchange for its assistance, the Avanath affiliate receives a portion of the fees paid by the relevant properties to the JV Partner or its affiliated property manager. Those fees and services are discussed in the governing documents of the applicable Client and are subject to review by the Advisory Committee of the respective Fund. These fees may create an incentive for the Adviser to hold investments for longer than it may otherwise hold. This may result in lower returns for the Clients. Additional details concerning affiliates of the Adviser are discussed below in Item 10.

Outside Compensation for the Sale of Securities

Neither Avanath nor its supervised persons accepts compensation for the sale of securities or other investment products outside of their association with Avanath.

Item 6 - Performance-Based Fees and Side-By-Side Management

As discussed in Item 5, in addition to management fees, Avanath generally receives an incentive allocation based on the performance of each Fund and Partnership, as described above and in the applicable offering documents.

The incentive allocation may provide a possible incentive for Avanath to make riskier or more speculative investments on behalf of a Client than those that would be recommended under a different fee arrangement. In addition, this arrangement may cause Clients to pay a greater expense than if such fees were not charged. Notwithstanding this potential incentive, Avanath will evaluate investments in a manner that it considers to be in the best interest of the Clients, given those Clients’ investment objectives, investment strategies, suitability of the investment, and risk profile.

Avanath’s Clients have different fee structures. Additionally, other funds and co-investment vehicles that may be formed in the future may not have the same fee structure as the current Clients. To the extent that there are currently or may be in the future differences in Avanath’s compensation arrangements, such circumstances could create an incentive for Avanath to manage Client portfolios so as to favor a portfolio that pays performance-based compensation over one that does

not. Notwithstanding this conflict, Avanath will allocate transactions and opportunities among the Clients' accounts in a manner it believes to be as equitable as possible, considering each Client's objectives, programs, limitations, and capital available for investment. Generally, investment opportunities are evaluated for the Fund that is currently in its investment period to the extent such Fund has capacity. If a Fund that is in its investment period does not have capacity for an identified investment opportunity, such opportunity may be allocated to the next Fund that will enter into its investment period in a sequential manner.

Item 7 – Types of Clients

Avanath's Clients are the Funds and Partnerships, structured as limited liability companies that are exempt from registration as an investment company under U.S. law by virtue of Section 3(c)(7) of the Investment Company Act of 1940.

The Investor base (i.e. members) consists of highly sophisticated participants that are generally institutional Investors. The minimum capital commitment required of each Investor is typically \$2 to 5 million depending on the Client, although Avanath reserves the right to accept capital commitments of lesser amounts.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Avanath has an investment focus on the affordable/workforce multifamily sector, with an emphasis on properties that were originally developed under the Low Income Housing Tax Credit program or with other related structures. Avanath is comprised of a dedicated group of industry professionals with experience in building and managing real estate enterprises. The Firm invests in high-quality multifamily communities in established residential neighborhoods and focuses primarily on coastal markets with high income growth and a significant supply/demand imbalance. Avanath's communities typically enjoy amenities found in market-rate multifamily properties, such as a pool, gym, clubhouse and well-appointed unit interiors.

Methods of Analysis

Avanath utilizes various criteria in evaluating an individual real estate or real estate related opportunity for investment. Examples of these criteria may include:

- Investment goals for the particular Client
- Evaluations of the specific economic cycle and or market opportunity
- Measuring risk in various geographic markets under consideration for investment
- Underwriting investment opportunities and mitigating risks in downside scenarios
- Mitigating economic, legal, environmental or other specific risks identified during the due diligence process
- Ability to add value through effective property management

Risks Related to Investment Strategy and Method of Analysis

Investing in securities involves risk of loss that clients should be prepared to bear. Some risks associated with the Firm's overall strategy may include:

- There is no assurance that the operations of a Client will be profitable or that cash from operations will be available for distribution to Investors. Since real estate, like many other types of long-term investments, historically has experienced significant fluctuations and

cycles in value, specific market conditions may result in occasional or permanent reductions in the value of real property interests. The marketability and value of the real property interests will depend on many factors beyond the control of a Client, including, without limitation: (i) changes in general or local economic conditions; (ii) changes in supply of or demand for competing properties in an area (e.g., as a result of over-building); (iii) changes in interest rates; (iv) the promulgation and enforcement of governmental regulations relating to land-use and zoning restrictions, environmental protection and occupational safety; (v) unavailability of mortgage Funds which may render the sale of a property difficult; (vi) the financial condition of tenants, buyers and sellers of properties; (vii) changes in real estate tax rates and other operating expenses; (viii) the imposition of rent controls; (ix) energy and supply shortages; (x) various uninsured or uninsurable risks; and (xi) acts of God, war or terrorism or natural disasters, including pandemics, and uninsurable losses. Since investments in real estate generally are not liquid, there is no assurance that there will be a ready market for real property interests held by a Client. In addition, general economic conditions in the United States and abroad, as well as conditions of domestic and international financial markets, may adversely affect operations of a Client.

- A Client may encounter competition for real property investments from numerous other real estate investment partnerships, limited liability companies and trusts, as well as from individuals, corporations, bank and insurance company investment accounts, non-U.S. Investors and other entities engaged in real estate investment activities, including, under certain circumstances, the Firm or its affiliates.
- Although Avanath and/or its employees may have been successful in locating suitable investments in the past, a Client may be unable to find a sufficient number of attractive opportunities to meet its investment objectives.
- Because a Client is generally allowed to concentrate its investments in limited geographic areas and significant percentages of its commitments in a single investment, the overall adverse impact on a Client of adverse movements in the value of a single property will be considerably greater than if a Client were not permitted to concentrate its investments to such an extent. In addition, a Client may make investments in some transactions with the intent of refinancing or selling a portion thereof and in such cases, there will be the risk that a Client will be unable to complete the refinancing or sale which could lead to increased risk as a result of a Client having an unintended long-term investment and reduced diversification.
- Avanath may make substantial investments in nonperforming or other troubled assets that involve a degree of financial risk and there can be no assurance that a Client's internal rate of return objectives will be realized or that there will be any return of capital. Furthermore, investments in properties operating in workout modes or under Chapter 11 of the Bankruptcy Code may, in certain circumstances, be subject to additional potential liabilities that could exceed the value of the Investor's original investment, including equitable subordination and/or disallowance of claims or lender liability. In addition, under certain circumstances, payments to a Client and distributions by a Client to the Investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment under applicable law.
- The Firm may cause a Client to incur nonrecourse or recourse debt to finance purchases of real property interests. However, market and interest rate fluctuations may decrease significantly the availability and increase the cost of real estate mortgage loans. While such leveraging will increase the proceeds available for investment by a Client, it will also increase the risk of loss on a leveraged property. Furthermore, subsequent reductions in cash flow from underlying properties could cause the debt service coverage ratios to substantially exceed the limits set by a Client. If a Client defaults on indebtedness secured by a given property, the lender may foreclose and a Client could lose its entire investment in the given property. In addition, recourse debt subjects the assets of a Client and the

- managing members to risk of loss.
- Interests represent highly illiquid investments and should only be acquired by Investors able to commit their funds for an indefinite period of time.
- Assets may not achieve projected rental growth due to lower than anticipated average monthly income.
- Asset operating expense growth may exceed projections.
- Upon exit, assets may not achieve their originally projected exit capitalization rates.

An investment in a Client entails a high degree of risk and is suitable only for sophisticated Investors for whom an investment in a Client does not represent a complete investment program. An investment in a Client requires the financial ability and willingness to accept the substantial risks and lack of liquidity inherent in such investment. Investors in a Client must be prepared to bear such risks for an indefinite period of time. Prospective Investors to a Client should carefully review the applicable governing documents for a more complete description of the applicable risks of an investment in such Client. Prospective Investors are also encouraged to consult their own legal, investment, tax, and other advisers, and the applicable offering documents, as to whether an investment in a Client is appropriate for them.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Avanath or the integrity of Avanath's management. Avanath and its management personnel have no reportable disciplinary events to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

Avanath has vertically integrated operations. The Firm's primary business purpose is to provide investment advisory services to the Clients. Avanath is affiliated with other companies that provide investment management services, however these companies are not registered as an investment adviser with the United States Securities and Exchange Commission ("SEC"). These companies, Avanath AH MM III, LLC, Avanath III NY Co-Investment Fund MM, LLC, Avanath AH MM IV, LLC, Avanath AH IV Co-Invest GP, LLC, and Avanath AH Renaissance GP, LLC serve as general partners to the Clients ("Related Advisers"). Avanath or a Related Adviser will be responsible for all decisions regarding portfolio transactions of the Clients and has full discretion over the management of the Clients' investment activities. While Related Advisers are not registered as an investment adviser, all of the investment advisory activities are subject to the Investment Advisers Act of 1940 and the rules thereunder. In addition, employees and persons acting on behalf of the Related Advisers are subject to the supervision and control of Avanath. Thus, each Related Adviser, all of its employees and the persons acting on its behalf would be "persons associated with" the registered investment adviser so that the SEC could enforce the requirements of the Advisers Act against the Related Advisers.

The management team of the Firm devotes a substantial amount of their time and focus to the Funds until termination of the Funds' commitment period as defined in the applicable governing documents.

In addition to providing investment advisory services, Avanath has affiliated entities that provide property and construction management services to the real estate properties held by the Clients for investment.

Avanath Realty Inc. and Avanath Communities, Inc. are affiliates of the advisor that provide

property and construction management services for certain of the Clients' real estate investments. A conflict of interest arises because Avanath has the potential to benefit by using affiliated entities for property and construction management services instead of using unaffiliated third parties. Avanath addresses this conflict of interest by comparing its fees against independent apartment industry surveys to assess the reasonableness of the fees charged by such related property management entities. This comparison data is generally reported to the Investors on an annual basis.

Avanath Development, LLC ("Avanath Development") is an affiliate of the advisor that was formed to pursue ground-up development and Opportunity Zone projects. Avanath Development is currently undertaking a redevelopment project in North Carolina and a development project in Detroit. At the time of this Brochure, Avanath Development is not providing any services to Avanath's Clients.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Avanath has adopted a Code of Ethics ("Code") that describes the standards of business conduct that it requires of its investment advisory employees and accounts beneficially owned by persons associated with Avanath, and establishes procedures intended to prevent Avanath, and its personnel and certain of their relatives, from inappropriately benefiting from Avanath's relationships with its clients.

The Code provides that:

- i. Avanath has a fiduciary duty to its Clients and must act in its Clients' best interests.
- ii. Neither Avanath nor its employees should ever benefit at the expense of any Client.
- iii. Avanath's employees will act with competence, dignity, integrity, and in an ethical manner, when dealing with Clients, the public, prospects, third-party service providers and fellow employees.
- iv. Each employee must assist Avanath in promptly identifying any practice that creates, or gives the appearance of, a material conflict of interest.
- v. Avanath and its employees must comply with all applicable securities laws.
- vi. Employees may engage in personal trading only in accordance with Avanath's Code.

Avanath has established procedures for monitoring its investment advisory employees' securities transactions and holdings and employees must arrange for records of their personal securities transactions and holdings to be sent to the Chief Compliance Officer ("CCO") or designee. The Code includes a requirement that employees make a written request for and receive clearance from Avanath's CCO or designee for certain securities transactions. The Code also contains restrictions on and procedures to prevent inappropriate trading while Avanath is in possession of material nonpublic information.

Avanath will provide a copy of its Code of Ethics to any Investor or prospective Investor upon request. Such a request may be made by submitting a written request to Avanath at the address on the cover page to this brochure.

Certain employees of an affiliate of Avanath receive a discount on rental rates or free lodging as part of their overall compensation package to create an incentive for such employees to live at properties owned by the Clients. Avanath considers it a benefit to the Clients to have its employees living onsite at its properties, especially in the case of property management employees who will be available to provide assistance and oversight to the property and does not expect such practice to negatively impact the Clients owning such property because any housing benefits are offset against other forms of compensation.

Item 12 – Brokerage Practices

Avanath does not currently have a contractual relationship with or utilize the services of any securities broker-dealers in connection with the real estate transactions in which it engages on behalf of the Clients. The Firm's advisory business generally does not involve securities broker-dealers, although the Clients' governing documents generally provide Avanath with discretionary authority to engage in certain types of securities transactions that could necessitate the use of a securities broker-dealer. In the event that Avanath does effect a securities transaction through a broker-dealer, Avanath will consider a variety of factors including but not limited to: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer or counterparty; and (iv) the competitiveness of commission rates in comparison with other broker-dealers.

Avanath generally engages a real estate broker in connection with the disposition of a real estate asset held on behalf of the Clients. The Firm selects the brokerage company and the particular real estate broker that the Firm believes will best represent the interests of the Clients.

Avanath does not typically aggregate the purchase or sale of securities for the Clients since each Client holds distinct investments.

Item 13 – Review of Accounts

Avanath's investment professionals, as well as those individuals responsible for the asset management and ongoing operations of the investments, provide ongoing oversight and supervision of investments held by the Clients. At least annually, Avanath's investment professionals review updated business plans and discuss significant operations and assumptions related to such business plans. Avanath's investment professionals periodically review the investments held by the Clients to ensure compliance with the applicable investment guidelines and restrictions. In the case of the Funds, an Investment Committee must approve any acquisitions and any dispositions of Fund investments as specified in the Fund operating agreements.

Investors in the Clients receive audited financial statements on an annual basis. On a quarterly basis, Investors also receive unaudited financial statements and Fund-level and property-level performance reports. When applicable, Avanath provides certain other reports and analyses to Investors and prospective Investors upon request.

Item 14 – Client Referrals and Other Compensation

Registered investment advisers are required to disclose all material facts regarding any compensation or other benefits received, directly or indirectly, for Client referrals.

Avanath does not receive any economic benefit from a person who is not a Client for providing investment advice or other advisory services to Avanath's Clients. Avanath does not directly or indirectly compensate any person who is not a supervised person for Client referrals, although Avanath has engaged certain marketers who will receive compensation for the referral of qualifying prospective Investors to the Funds.

Item 15 – Custody

Avanath would be deemed to have custody of advisory Clients' funds or securities due to the general partners' ability to access Client funds and securities.

Avanath maintains custody of each Client's funds and securities through City National Bank and Royal Bank of Scotland. City National Bank and Royal Bank of Scotland are "qualified custodians" and maintain custody of each Client's funds and securities in a separate account for that Client.

At the end of each Fiscal Year, each of Avanath's Clients has its financial statements examined and certified by an independent certified public accountant. Copies of the audited financial statements are furnished to each limited partner or Investor of a Client as soon as practicable after the end of each Fiscal Year, but no later than 120 days after the end of the Fiscal Year. Unaudited quarterly performance reports also will be provided to each partner or Investor in an Avanath Fund.

Item 16 – Investment Discretion

To the extent granted in the Client governing documents, Avanath has broad discretion, without limitation, to determine the:

- Securities or other investments to be bought or sold for the Client account(s);
- amount of securities or other investments to be bought or sold for the Client account(s);
- real estate or securities broker to be used for a purchase or sale of securities or other investments for the Client account(s); and
- commission rates to be paid to a real estate or securities broker for the Client's investment transaction(s).

Investors in Funds and Partnerships that are managed on a discretionary basis grant Avanath such discretionary authority when they invest in the Clients.

Item 17 – Voting Client Securities

The Firm invests on behalf of the Clients solely in real estate and real estate related assets. The Firm generally does not hold publicly-traded securities which possess voting rights on behalf of the Clients. To the extent applicable, Avanath will submit votes in what the Company considers to be the best financial interest of the Clients and may, in certain instances, determine that abstaining from voting is in the best interest of the Clients. To the extent that a conflict of interest arises in the proxy voting process, Avanath will consult with the CCO and/or Advisory Board on how to proceed as applicable. Investors cannot direct the votes of Avanath but may request information regarding votes submitted by Avanath in the past on behalf of the Clients or a copy of Avanath's proxy voting policies by sending a written request to the address on the first page of this document.

Item 18 – Financial Information

Avanath has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients. Avanath has not been the subject of a bankruptcy petition. Furthermore, the Firm does not believe there are any financial conditions that are reasonable likely to impair its ability to meet contractual commitments to its clients.