

by the Effective Date, which may be approximately five months after the Closing Date. A significant portion of the Collateral will be purchased on or after the Closing Date. The price and availability of Collateral Obligations may be adversely affected by a number of market factors, including price volatility of Collateral Obligations and availability of investments suitable for the Issuer, which could hamper the ability of the Issuer to acquire an initial portfolio of Collateral Obligations that will satisfy the Concentration Limits and the Effective Date Target Par prior to the Effective Date. Delays in reaching the Effective Date Target Par may adversely affect the timing and amount of payments received by the holders of Securities and the yield to maturity of the Rated Notes and the distributions on the Subordinated Securities.

Under the Indenture, the Investment Manager may direct the disposition of (a) Defaulted Obligations and Equity Securities at any time, and (b) subject to certain restrictions in the event of a downgrade of the ratings on the Rated Notes, (i) Credit Risk Obligations and Appreciated Obligations and (ii) other Collateral Obligations subject, after the Effective Date, to an annual percentage limitation. Circumstances may exist under which the Investment Manager may believe that it is in the best interests of the Issuer to acquire or dispose of a Collateral Obligation but will not be permitted to do so under the terms of the Indenture or the Investment Management Agreement. In addition, circumstances may exist which cause the Issuer not to be able to fully invest its cash in Collateral Obligations, for example, because of market conditions, the unavailability of suitable obligations or an inability to satisfy the Reinvestment Requirements. Accordingly, during certain periods or in certain specified circumstances, as a result of the restrictions contained in the Indenture and Investment Management Agreement, the Issuer may be unable to acquire or dispose of Collateral Obligations or to take other actions that the Investment Manager might consider in the interests of the Issuer and the securityholders.

Reinvestment Risks. Amounts available for distribution on the Securities will decline if and when the Issuer invests the proceeds from matured, prepaid, sold or called Collateral Obligations into lower yielding instruments. Subject to criteria described herein, the Investment Manager will have discretion to use Principal Proceeds to invest in Collateral Obligations in compliance with the Reinvestment Requirements. The yield with respect to such Collateral Obligations will depend on, among other factors, reinvestment rates available at the time, the availability of investments satisfying the Reinvestment Requirements and acceptable to the Investment Manager, and market conditions related to below investment grade obligations in general. The need to satisfy the Reinvestment Requirements and identify acceptable investments may require the purchase of Collateral Obligations with a lower yield than those replaced, with different characteristics than those replaced (including, but not limited to, coupon, spread, maturity, call features and/or credit quality) or require that such funds be maintained in Eligible Investments pending reinvestment in Collateral Obligations, which will further reduce the yield on the Collateral Obligations. Any decrease in the yield on the Collateral Obligations will have the effect of reducing the amounts available to make distributions on the Securities, especially the Subordinated Securities. There can be no assurance that in the event Collateral Obligations are sold, prepaid, called, or mature, yields on Collateral Obligations that are available and eligible for purchase will be at the same levels as those replaced, that the characteristics of any Collateral Obligations purchased will be the same as those replaced or as to the timing of the purchase of any such Collateral Obligations.

Leveraged Loans are not as easily (or as quickly) purchased or sold as publicly traded securities for a variety of reasons, including confidentiality requirements with respect to obligor information, the customized non-uniform nature of loan agreements and private syndication. The reduced liquidity and lower volume of trading in such debt obligations, in addition to restrictions on investment represented by the Reinvestment Requirements, could result in periods of time during which the Issuer is not able to fully invest its cash in Collateral Obligations. The longer the period before investment of cash in Collateral Obligations, the greater the adverse impact will be on aggregate Interest Proceeds available for distribution by the Issuer, especially on the Lower Ranking Classes, thereby resulting in lower yields than could have been obtained if proceeds were immediately invested. In addition, Leveraged Loans are often prepayable by the obligors with no, or limited, penalty or premium. As a result, Leveraged Loans generally prepay more frequently than other corporate obligations of the same obligor. Senior Leveraged Loans usually have shorter terms than more junior obligations and often require mandatory repayments from excess cash flow, asset dispositions and offerings of debt and/or equity securities. The increased levels of prepayments and amortization of Leveraged Loans increase the associated reinvestment risk on the Collateral Obligations which risk will be borne by holders of the Securities, beginning with the Subordinated Securities as the most junior Classes. See “— Defaults; Market and Credit Spread Volatility.”