

economic downturns and changes in interest rates; (ii) sensitivity to adverse economic changes and corporate developments; (iii) redemption or call provisions which may be exercised at inopportune times; and (iv) being subject to substantial risk of default, bankruptcy, moratorium, etc.

Valuing high-yield and distressed credit instruments is an inherently uncertain process due to the lack of available market prices and the uncertain financial condition of the issuers (and the lack of reliable information concerning such issuers' financial condition). These valuation difficulties can be expected to be materially exacerbated in certain markets.

Investments in Loans

Although priority loans in which an Underlying Fund will invest may hold the most senior position in the capitalization structure of the borrower, a borrower's inability to meet its payment obligations under junior debt may detract from the borrower's perceived creditworthiness, reduce the value and liquidity of the loans made to the borrower and impair the borrower's ability to obtain financing to cover short-term cash flow needs, which may force the borrower into bankruptcy or other forms of credit restructuring.

Certain of the loans acquired by an Underlying Fund will be issued by entities which face ongoing uncertainties and exposure to adverse business, financial or economic conditions and the issuer's failure to make timely interest and principal payments. The market values of certain of these debt investments may reflect individual corporate developments, and it is likely that a major economic recession would have a materially adverse impact on their value. Adverse publicity and investor perceptions surrounding an issuer's "distressed" financial situation may decrease the value and liquidity of its debt.

Bank Loans. An Underlying Fund may acquire interests in bank loans and other debt obligations 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 lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. A participation interest in a portion of a debt obligation typically results in a contractual relationship with only the institution acting as a lender under the credit agreement, not with the borrower. As a holder of a participation interest, an Underlying Fund generally will have no right to exercise the rights of the lender under the credit agreement, including the right to enforce compliance by the borrower with the terms of the loan agreement, approve amendments or waivers of terms, nor will an Underlying Fund have any rights of set-off against the borrower, and the Underlying Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Underlying Fund will be exposed to the credit risk of both the borrower and the institution selling the participation.

An Underlying Fund may invest directly or through participations in loans with revolving credit features or other commitments or guarantees to lend funds in the future. A failure by an Underlying Fund to advance requested funds to a borrower could result in claims against the Underlying Fund and in possible assertions of offsets against amounts previously lent.