

Sankaty Credit Opportunities IV, L.P.

Financial Statements

December 31, 2009

CONFIDENTIAL
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Report of Independent Auditors

To the Partners of Sankaty Credit Opportunities IV, L.P.

In our opinion, the accompanying statement of assets, liabilities and partners' capital, including the condensed schedule of investment, and the related statement of operations, changes in partners' capital and of cash flows present fairly, in all material respects, the financial position of Sankaty Credit Opportunities IV, L.P. (the "Partnership") at December 31, 2009, and the results of its operations, changes in its partners' capital and its cash flows for year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the General Partner. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the General Partner, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 16, 2010

Sankaty Credit Opportunities IV, L.P.
Statement of Assets, Liabilities and Partners' Capital
December 31, 2009

Assets

Investments, at fair value (cost \$899,796,707)	\$ 1,049,076,590
Cash and cash equivalents	260,630,441
Restricted cash for securities sold short	8,763,600
Restricted cash for credit default swaps	36,838,022
Credit default swaps, at fair value (proceeds \$18,075,494)	665,419
Interest receivable	9,385,097
Unrealized appreciation of forward currency contracts	162,575
Receivable for investments sold	76,961,283
Receivable for principal paydowns	54,720
Other receivable	56,655

Total assets \$ 1,442,594,402

Liabilities

Securities sold short, at value (proceeds of \$8,529,250)	\$ 8,807,200
Credit default swaps, at fair value (proceeds \$13,245,116)	7,293,485
Due to broker - margin	497
Unrealized depreciation of forward currency contracts	1,278,956
Payable for investments purchased	96,488,497
Accrued expenses and other liabilities	2,070,605

Total liabilities 115,939,240

Commitments

Partners' capital 1,326,655,162

Total liabilities and partners' capital \$ 1,442,594,402

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities IV, L.P.
Statement of Operations
For the Year Ended December 31, 2009

Investment Income

Income:

Interest (net of withholding taxes of \$78,593)	\$ 93,362,773
Dividends and other income	<u>2,141,915</u>

Total investment income 95,504,688

Expenses:

Management fee - net	20,152,501
Professional fees and operating expenses	2,025,640
Interest and dividend expense on securities sold short	<u>528,154</u>

Total expenses 22,706,295

Net investment income 72,798,393

Net realized and unrealized gains and losses

Net realized gain on investments and securities sold short	183,738,759
Net realized loss on swap contracts	(18,990,821)
Net realized gain on written options	4,201,860
Net realized loss on foreign currency contracts	(5,359,987)
Net realized loss on foreign currency transactions	(2,095,111)
Net change in unrealized appreciation of investments and securities sold short	200,455,628
Net change in unrealized appreciation on swap contracts	14,030,862
Net change in unrealized appreciation of written options	(1,345,060)
Net change in unrealized appreciation of forward currency contracts	(2,497,106)
Net change in unrealized appreciation from foreign currency translation	<u>353,191</u>

Net realized and unrealized gain 372,492,215

Net increase in partners' capital resulting from operations \$ 445,290,608

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities IV, L.P.
Statement of Changes in Partners' Capital
For the Year Ended December 31, 2009

	<u>Limited Partners*</u>	<u>General Partner</u>	<u>Total</u>
Balance at December 31, 2008	\$ 727,894,299	\$ 731,351	\$ 728,625,650
Contributions	305,378,500	305,684	305,684,184
Distributions	(118,975,563)	(33,969,717)	(152,945,280)
Management Fee	(20,152,501)	-	(20,152,501)
Carried Interest	(81,951,509)	81,951,509	-
Allocation of net increase in partners' capital resulting from operations (excluding management fee)	<u>455,579,826</u>	<u>9,863,283</u>	<u>465,443,109</u>
Balance at December 31, 2009**	<u>\$ 1,267,773,052</u>	<u>\$ 58,882,110</u>	<u>\$ 1,326,655,162</u>

* Included in the limited partners' capital account balance at December 31, 2009 is \$37,306,013 which relates to limited partners who are members of the Sankaty Group. The Investment Advisor has waived management fees with respect to these limited partners for the year ended December 31, 2009.

**At December 31, 2009, three limited partners each held over 10% of partners' capital of the Partnership. In total, the limited partners held 59.3% of partners' capital of the Partnership.

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities IV, L.P.

Statement of Cash Flows

For the Year Ended December 31, 2009

Cash used for operating activities:	
Purchases of investments	\$ (1,096,075,283)
Payments for credit default swaps	(72,575,030)
Purchases of written options	(37,941,940)
Purchases of covers of securities sold short	(16,169,194)
Proceeds from sales of investments	797,289,300
Proceeds from credit default swaps	89,697,418
Proceeds from sales of written options	31,540,280
Proceeds from sales of securities sold short	25,169,052
Proceeds from principal paydowns of investments and credit default swaps	99,396,616
	<u>(179,668,781)</u>
Net effects from foreign currency translation	(7,101,907)
Net investment income	72,798,393
Adjustments to reconcile net investment income to net cash used for operating activities	
Non-cash interest income	(40,543,703)
Decrease in restricted cash	40,332,166
Increase in interest receivable	(3,856,485)
Increase in other receivable	(12,997)
Increase in accrued expenses and other liabilities	1,410,143
	<u>(116,643,171)</u>
Net cash used for operating activities	
Cash provided by financing activities:	
Partners' capital contributions	305,534,184
Partners' capital distributions	(152,945,280)
Decrease in due to broker - margin	(8,578,111)
	<u>144,010,793</u>
Net cash provided by financing activities	
	<u>27,367,622</u>
Net increase in cash and cash equivalents	
	<u>233,262,819</u>
Cash and cash equivalents, beginning of year	
	<u>\$ 260,630,441</u>
Cash and cash equivalents, end of year	
	<u>\$ 260,630,441</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 231,372
Taxes paid	\$ 27,361

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities IV, L.P.
Condensed Schedule of Investments
December 31, 2009

Investments 79.1%*	Fair Value
Corporate Fixed Income 8.5%*	
Automotive	\$ 8,028,145
Broadcast Radio and Television	67,920
Business Equipment and Services	16,739,250
Conglomerates	3,730,000
Containers and Glass Products	2,791,216
Electronic/Electric	2,808,958
Financial Intermediaries	19,387,447
Food Services	6,222,263
Food/Drug Retailers	13,048,860
Hotels/Motel/Inns and Casinos	16,417,975
Nonferrous Metals/Minerals	7,511,950
Oil and Gas	15,463,350
Total Corporate Fixed Income (Cost \$81,004,515)	<u>112,217,334</u>
Senior Bank Debt 38.9%*	
Aerospace and Defense	2,588,073
Air Transportation	22,472,026
Automotive	98,443,370
Broadcast Radio and Television	48,516,774
Building and Development	4,952,256
Business Equipment and Services	94,310
Cable Television	35,806,753
Chemical/Plastics	28,965,838
Clothing/Textiles	13,517,569
Conglomerates	17,203,145
Containers and Glass Products	195,499
Electronic/Electric	11,481,882
Financial Intermediaries	726,753
Food Products	1,288,298
Food Services	16,550,027
Healthcare	10,353,431
Hotels/Motel/Inns and Casinos	9,506,726
Industrial Equipment	6,471,482
Insurance	982,990
Leisure	53,574,230

The accompanying notes are an integral part of these financial statements.

Sankaty Credit Opportunities IV, L.P.
Condensed Schedule of Investments
December 31, 2009

Investments (continued)	Fair Value
Senior Bank Debt (continued)	
Nonferrous Metals/Minerals	\$ 21,642,268
Oil and Gas	60,701,018
Publishing	14,620,735
Telecommunications/Cellular communications	33,607,977
Utilities	2,863,781
Total Senior Bank Debt (Cost \$411,207,009)	517,127,211
Mezzanine 22.2%*	
Air Transportation	21,162,475
Automotive	5,663,289
Building and Development	29,490,457
Business Equipment and Services	6,984,344
Cable Television	45,433,557
Chemical/Plastics	1,796,905
Conglomerates	8,067,600
Electronic/Electric	5,333,946
Food Products	1,317,896
Healthcare	18,327,396
Industrial Equipment	15,323,129
Leisure	1,943,736
Oil and Gas	8,407,797
Publishing	81,379,917
Retailers (other than food/drug)	38,182,379
Telecommunications/Cellular communications	5,462,500
Total Mezzanine (Cost \$290,371,211)	294,277,323
Common Stock 7.2%*	
Automotive	1,021,599
Building and Development	11,779,771
Business Equipment and Services	9,975,456
Ecological Services and Equipment	1,314,460
Financial Intermediaries	5,295,188
Food Services	182,049
Healthcare	10,039,625
Leisure	1,370,202

The accompanying notes are an integral part of these financial statements.

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Condensed Schedule of Investments
December 31, 2009

Investments (continued)	Fair Value
Common Stock (continued)	
Miscellaneous	\$ 9,402,298
Oil and Gas	17,544,897
Publishing	413,431
Retailers (other than food/drug)	15,069,186
Utilities	<u>11,743,685</u>
Total Common Stock (Cost \$88,067,557)	<u>95,151,847</u>
Warrants 0.0%*	
Broadcast Radio and Television	<u>402</u>
Total Warrants (Cost \$0)	<u>402</u>
Structured Investments 2.3%*	
Structured Finance Obligation	<u>30,302,473</u>
Total Structured Investments (Cost \$29,146,415)	<u>30,302,473</u>
Total Investments (Cost \$899,796,707)	<u>\$1,049,076,590</u>
Credit Default Swaps -0.5%*	
Providing Protection -0.5%*	
Chemical/Plastics	\$ 64,722
Financial Intermediaries	193,969
Structured Finance Obligation	<u>(6,567,368)</u>
Total Providing Protection (Proceeds \$31,350,747)	<u>(6,308,677)</u>
Receiving Protection 0.0%*	
Automotive	(52,232)
Financial Intermediaries	320,165
Healthcare	<u>(587,322)</u>
Total Receiving Protection (Cost \$30,137)	<u>(319,389)</u>
Total Credit Default Swaps (Proceeds \$31,320,610)	<u>\$ (6,628,066)</u>
Securities Sold Short -0.7%*	
Corporate Fixed Income -0.7%*	
Telecommunications/Cellular communications	<u>(8,807,200)</u>
Total Corporate Fixed Income (Proceeds \$8,529,250)	<u>(8,807,200)</u>
Total Securities Sold Short (Proceeds \$8,529,250)	<u>\$ (8,807,200)</u>

The accompanying notes are an integral part of these financial statements.

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Forward Contracts -0.1%*	Fair Value
Australian Dollar/USD	\$ 273,294
Canadian Dollar/USD	(117,191)
Euro/USD	(755,151)
Norwegian Kroner/USD	(178,559)
Pounds Sterling/USD	(338,774)
Total Forward Contracts	\$ (1,116,381)

The geographical categorization by country of issuer of the value of investments is as follows:

USA	83.2%
Other	16.8%
	<u>100.0%</u>

At December 31, 2009 all issuers of the credit default swaps receiving protection were as follows:

USA	83.6%
Sweden	16.4%
	<u>100.0%</u>

At December 31, 2009 all issuers of the credit default swaps providing protection were from the United States.

*All investment category percentages are calculated as a percentage of total partners' capital of \$1,326,655,162.

The accompanying notes are an integral part of these financial statements.

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Notes to Financial Statements

December 31, 2009

1. Organization

Sankaty Credit Opportunities IV, L.P. (the "Partnership") is a Delaware limited partnership, which commenced operations on July 15, 2008. Sankaty Advisors, LLC, a Delaware limited liability company and the credit products and fixed income affiliate of Bain Capital, LLC, serves as the investment advisor of the Partnership (the "Investment Advisor"). Sankaty Credit Opportunities Investors IV, LLC, a Delaware limited liability company and an affiliate of the Investment Advisor, serves as the General Partner of the Partnership (the "General Partner").

The investment objective of the Partnership is to capitalize on opportunities available in the credit markets including: stressed/distressed debt and bank loans, mezzanine and private placement investments, structured products and special situations investments. The Partnership's aggregate committed capital is \$1,528,420,921, of which \$1,069,894,645 has been called as of December 31, 2009, or 70% of the aggregate commitments of all partners. At December 31, 2009, the General Partner held \$1,069,895, or 0.10%, of the aggregate contributions of all partners. The Partnership will continue until June 30, 2018, unless at some earlier date the Partnership ceases to have a general partner, all partners consent in writing to the termination of the Partnership or the General Partner elects to extend the life of the Partnership.

The Bank of New York Mellon Trust Company and Brown Brothers Harriman serve as the Partnership's custodians for senior bank debt securities. J.P. Morgan and Goldman Sachs and Co. act as prime brokers for the Partnership's corporate fixed income, public equity securities and certain senior bank debt securities under prime brokerage agreements.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates, and such differences could be material. Events or transactions occurring after period end through the date that the financial statements were issued, March 16, 2010, have been evaluated in the preparation of the financial statements.

Valuation of Investments, Credit Default Swaps and Securities Sold Short

The Investment Advisor, in consultation with the General Partner, fair values the investments owned by the Partnership. Corporate fixed income securities are generally valued based on the "high bid average" price obtained from an independent pricing service. Senior bank debt securities are generally valued based on the "mean of mean" price obtained from a loan pricing service. Public equities are generally valued based on the closing price listed on a United States securities exchange or, if unavailable, at the last bid price for long positions and last ask price for short positions. Swap contracts and other derivatives are fair valued as noted below. For additional information related to derivative instruments utilized, please see the following footnotes: Footnote 3, 4, and 5.

Investments that cannot be fair valued, as described above, (primarily mezzanine investments, structured investments and special situations) are valued at fair value as determined in good faith by the General Partner. In determining the fair value of an investment, the General Partner considers such factors as financial statements, earnings forecasts, recent transactions in the same or similar securities and valuation information obtained from broker-dealers, recognized quotation services or independent appraisal firms. The value assigned to these investments is based upon available information and does not necessarily represent the amount that might ultimately be realized upon sale. Equity investments in structured financing vehicles (such as CLOs) are valued by the General Partner using a model that utilizes inputs determined by the General Partner to discount present value of future cash flows from the investment. The General Partner determines the fair value of certain securities, including certain structured investments, held by the Partnership on the basis of prices provided by principal market makers. Due to the inherent uncertainty of

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valuation, this estimated fair value may differ from the value that would have been used had a ready market for the security existed, and the difference could be material.

Cash and Cash Equivalents

Cash includes cash held at retail banks, custodial banks and prime brokers. Included in cash and cash equivalents at December 31, 2009 is \$251,902,934 invested overnight in highly liquid money market investment vehicles bearing interest from 0.01% to 0.05%. Cash balances are presented gross of amounts due to retail banks, custodial banks, and prime brokers.

Restricted cash

Restricted cash for collateral held for credit default swaps and loan credit default swaps represents cash collateral maintained in accounts by the respective swap agreement counterparties. Restricted cash for securities sold short represents funds maintained in interest bearing cash accounts with the custodian(s) or broker(s). Such funds are restricted from withdrawal to the extent of the value of the outstanding short sales shown on the Statement of Assets, Liabilities and Partners' Capital.

Due to broker - margin

Due to broker - margin represents short term margin debt balances held at various brokers.

Investment Transactions, Investment Income and Expenses

Investment transactions are accounted for on the trade date. Realized gains and losses on investment transactions are determined using the specific identification method. Interest income is recorded on the accrual basis. Expenses are recorded on the accrual basis. Premiums and discounts on securities purchased and securities sold short are amortized using the effective yield method over the life of the respective security when cash collection is expected and included in interest income (long investments) and interest expense (short investments). Discounts on securities with fair values below 50% of par are not amortized. Certain fees received or paid on bank loans are recorded as a cost basis adjustment or as income. Dividend income is recorded on the ex-dividend date net of withholding taxes. Distributions from collateralized debt obligations are recorded as dividend income on the Statement of Operations during the collateralized debt obligation's reinvestment period. Subsequent to this reinvestment period, distributions are recorded as a return of capital. Dividend and interest income paid in the form of additional shares or par value is recorded at current value. For the Partnership's investments in revolving bank loans, the cost basis of the investments purchased are adjusted for the cash received for the discount on the total balance committed. The fair value is also adjusted for price appreciation or depreciation on the unfunded portion. As a result, the purchase of commitments not completely funded may result in a negative value until it is offset by the future amounts called and funded.

In some cases, the Partnership invests in securities indirectly through one or more holding companies or other entities in which other parties affiliated with the Partnership and/or the Investment Advisor may also be investors. In cases where the Partnership invests directly through such an entity, the Condensed Schedule of Investments reflects the Partnership's proportionate share of the underlying investment.

Restricted Securities

The Partnership is permitted to invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and prompt sale at an acceptable price may be difficult. At December 31, 2009, the fair value of restricted securities (excluding 144A issues) amounted to \$39,886,826.

Income Taxes

As a partnership, the Partnership itself is not subject to U.S. Federal income taxes; each partner is individually liable for income taxes, if any, on its share of the Partnership's net taxable income. Interest, dividends and other income realized by the Partnership from non-U.S. sources and capital gains realized on the sale of securities of non-U.S. issuers may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced. For foreign partners invested in the Partnership, a reduction in capital could be made for withholding taxes (30% or lower treaty rate) on their allocable share of dividends

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as well as certain interest and other income received by the Partnership from sources within the United States.

On January 1, 2009, the Partnership adopted an accounting standard which required the Investment Advisor to determine whether tax positions of the Partnership are more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. The Investment Advisor has determined that there were no tax positions which met the recognition and measurement requirements of the accounting standard, and therefore, the Partnership did not record an expense related to uncertain positions on the Partnership's Statement of Operations for the year-ended December 31, 2009.

The Partnership files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Partnership is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of December 31, 2009, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2008 forward (with limited exceptions).

Securities Sold Short

Upon selling a security short, the Partnership recognizes the proceeds received as restricted cash in the Statement of Assets, Liabilities and Partners' Capital and securities sold short is established as an offsetting liability. The cash is retained by the Partnership's prime brokers as collateral for the short position. The liability is marked-to-market while the position remains open to reflect the current settlement obligation and the amount of collateral is adjusted accordingly. When a closing purchase is entered into by the Partnership offsetting the security sold short, a gain or loss is realized based on the difference between the proceeds originally received and the purchase cost.

A short sale creates a risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit thus increasing the cost to the Partnership of buying those securities necessary to cover a short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. As a result, short sales create risk that the Partnership's ultimate obligation to satisfy the delivery requirements may exceed the amount of the proceeds initially received or the liability recorded in the Statement of Assets, Liabilities and Partners' Capital.

Foreign Currency Translation

The accounting records of the Partnership are maintained in U.S. dollars. The fair values of foreign securities, currency holdings and other assets and liabilities are translated to U.S. dollars based on the current exchange rates each business day. Income and expenses denominated in foreign currencies are translated at current exchange rates when accrued or incurred. Unrealized gains and losses on foreign currency holdings and non-investment assets and liabilities attributable to the changes in exchange rates are included in the net increase in unrealized appreciation from foreign currency translation in the Statement of Operations. Net realized gains and losses on foreign currency holdings and non-investment assets and liabilities are included in net realized gain on foreign currency transactions in the Statement of Operations.

The portion of both realized and unrealized gains and losses on investments, credit default swaps and securities sold short that result from fluctuations in foreign currency exchange rates is not separately disclosed, but is included in net realized and unrealized gains on investments and securities sold short, and swap contracts, in the Statement of Operations.

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Forward Currency Contracts

The Partnership enters into forward currency contracts in connection with settling planned purchases or sales of securities or to hedge the currency exposure associated with the Partnership's investments. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. Forward currency contracts are fair valued daily and the change in value is recorded as an unrealized gain or loss. Forward foreign currency contracts are valued at the prevailing forward exchange rate of the underlying currencies. Realized gains and losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency or, if a forward currency contract is offset by entering into another forward currency contract with the same broker, upon settlement of the net gain or loss. These contracts may involve market risk in excess of the unrealized gain or loss reflected in the Partnership's Statement of Assets, Liabilities and Partners' Capital. The Partnership may be exposed to risk if the counterparties are unable to meet the terms of the contract or if there are movements in foreign currency values that are unfavorable to the Partnership.

Unrealized gains and losses relating to the Partnership's forward contracts are recorded on the Statement of Assets, Liabilities and Partner's Capital on a net basis. On the Condensed Schedule of Investments, derivative contracts are presented net by type of derivative contract, considering long and short contracts separately.

Credit Default Swaps

The Partnership uses credit default swaps to provide a measure of protection against defaults of corporate issuers (i.e., to reduce risk where the Partnership owns or has exposure to the issuer) or to take an active long or short position with respect to the likelihood of a particular issuer's default. The reference obligation of the swap can be a single issuer, a "basket" of issues, or an index. The underlying reference assets are corporate bonds and loans. Under the terms of each transaction, the Partnership receives or makes payments quarterly based on a specified interest rate on a fixed notional amount. Net interest earned on swaps and realized gains or losses from closing out transactions is included in net realized gain on swap contracts in the Statement of Operations.

Generally, a credit event for corporate reference obligations means bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the par value of the reference obligation, though the actual payment may be mitigated by netting arrangements and collateral. After a credit event occurs, this amount may be reduced by anticipated recovery rates, segregated collateral and netting arrangements that may incorporate multiple transactions with a given counterparty. The contingent payment may be a cash settlement or a physical delivery of the reference obligation in return for payment of the face amount of the obligation. The Partnership closes out transactions by entering into offsetting transactions. When transactions are closed out, a realized gain is recognized. In connection with these agreements, cash is posted as collateral with the counterparty which is included in Restricted cash for credit default swaps on the Statement of Assets, Liabilities and Partners' Capital.

The Partnership values credit default swaps based on quotes obtained from a third party pricing service. When a fair value is unavailable, as described above, fair values are determined in good faith by the General Partner. Entering into these agreements involves, to varying degrees, elements of credit, legal, market, and documentation risk in excess of the amounts recognized on the Statement of Assets, Liabilities and Partners' Capital. Such risks involve the possibility that there will be no liquid market for these agreements, and that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreements.

The Partnership may from time to time enter into various managed tranche credit default swap transactions ("Swap Transactions") whereby the Partnership contributes a net amount to financial intermediaries and amount paid upfront by the Partnership for potential credit events and a gross amount of upfront interest

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received by the Partnership for certain tranches of these pools. The termination of these contracts is the earlier of the total usage of protection or the contract termination dates. Upon expiration of the contracts, the Partnership will be entitled to receive the unused portion of the gross amount paid upfront by the Partnership. As of December 31, 2009, the Partnership holds fourteen Swap Transactions on seven pools of credit default swaps, of various credit quality, with a total notional value of \$125,854,965.

Upfront amounts received or paid are recorded as credit default swap proceeds, or cost, respectively, and accreted over the life of the respective swap contracts, and included in net realized loss on swap contracts in the statement of operations.

As of December 31, 2009, the Partnership is the buyer ("receiving protection on credit default swaps") on a total notional amount of \$43,678,859 and is the seller ("providing protection on credit default swaps") on a total notional amount of \$140,354,965. The notional amounts of the swaps are not recorded in the financial statements; however the notional amount does approximate the maximum potential amount of future payments that the Partnership could be required to make if the Partnership were the seller of protection and a credit event were to occur.

Those credit default swaps for which the Partnership is providing protection at December 31, 2009 are summarized as follows:

Written Credit Derivative Contracts	Single Name Credit Default Swaps (in thousands)		Credit Default Swap Basket (in thousands)		Total
	Debt	Loan	Debt	Loan	
Fair value of written credit derivatives	\$ 259	\$ -	\$ -	\$ (6,568)	\$ (6,309)
Maximum potential amount of future payments	14,500	-	33,129	92,726	140,355
Collateral held by the Partnership or other third parties which the Partnership can obtain upon occurrence of triggering event	1,434	-	4,304	23,667	29,405

Maximum Potential Amount of Future Payments by Contract Term (in thousands)						
Current credit rating on underlying securities	0-6 months	6-12 months	1-5 years	5-10 years	More than 10 years	Total
Investment Grade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Investment Grade	4,000	-	10,500	-	-	14,500
Swap Transactions	33,129	10,743	81,983	-	-	125,855
Total	37,129	10,743	\$92,483	-	-	\$140,355

The credit rating disclosed above for each reference obligation where the Partnership is the seller of protection is a representation of the current payment/performance risk of the swap. Reference obligations with a credit rating of BBB or higher are considered Investment Grade while those with a credit rating of BB or lower are Non-Investment Grade. Swap Transactions are not rated by ratings agencies; however, the current credit ratings on the underlying pools of credit default swaps are predominately non-investment grade.

In some cases, the Partnership has purchased related credit protection with respect to the underlying

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securities where it has previously sold credit protection, thereby limiting its exposure. In these instances, the extent of recourse is difficult to estimate and therefore not disclosed.

Options

The Partnership writes call and put options. When the Partnership writes call or put options, an amount equal to the premium received is recorded as a liability and is subsequently fair valued to reflect the current market value of the written option. When a written option expires on its stipulated expiration date or the Partnership enters into a closing purchase transaction, the Partnership realizes a gain or loss without regard to any unrealized gain or loss on the underlying security and the liability related to such options is extinguished. There is a risk of loss from a change in value in such options which may exceed the related premiums received.

The Partnership may buy call options and put options. The Partnership pays a premium for purchased options which is included in Cost of Investments on the Statement of Assets, Liabilities and Partners' Capital. Premiums paid for purchased options which expire are treated as realized losses. Premiums paid for purchased options which are exercised or closed are offset against the proceeds from that transaction and included in realized gain or loss. Option contracts are fair valued daily using a third party valuation service and the change in value is recorded as unrealized appreciation or depreciation on investments in the Statement of Operations.

Unrealized gains and losses relating to the Partnership's derivative contracts are recorded on the Statement of Assets, Liabilities and Partner's Capital on a gross basis. On the Condensed Schedule of Investments, derivative contracts are presented net by type of derivative contract, considering long and short contracts separately.

3. Recent Accounting Pronouncements

FASB Accounting Standards Codification™ ASC 105-10

In June 2009, the FASB issued FASB ASC 105-10, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*, (formerly SFAS 168). FASB ASC 105-10 replaces the SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. The Codification became the exclusive authoritative reference at September 30, 2009. Updates to the Codification Standards are issued as Accounting Standard Updates ("ASU"s) by the FASB. The adoption of the Codification does not impact the Partnership's financial statements except for references made to authoritative accounting literature in the footnotes.

FASB Accounting Standards Codification™ ASC 815-10-50

The Partnership adopted amendments to authoritative guidance on disclosures about derivative instruments and hedging activities on January 1, 2009. The new requirement amends and expands the disclosure requirement related to derivative instruments, to provide users of financial statements with an enhanced understanding of the use of derivative instruments by the Partnership and how these derivatives affect the financial position, financial performance and cash flows of the Partnership. This Statement requires qualitative disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about the fair value of, and gains and losses on, derivative instruments.

The standard enhances the disclosure requirements for derivative instruments and related hedging activities and thus, the adoption of the standard had no impact on the Statement of Assets, Liabilities and Partners' Capital, Statement of Operations or the Statement of Changes in Partners' Capital. The Partnership does not designate any derivative instruments as hedging instruments under the authoritative guidance.

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The Partnership transacts in a variety of derivative instruments including, forwards, swaps and options primarily for trading purposes with each instrument's primary risk exposure being interest rate, credit, foreign exchange, or equity risk. The fair value of these derivative instruments is included either as a separate line item or in the case of purchased option within the Investments line item in the Statement of Assets, Liabilities and Partners' Capital with changes in fair value reflected as realized gains (losses) or net change in unrealized gains (losses) on investments and swap contracts within the Statement of Operations.

The following table lists fair value of derivatives by contract type as included in the Statement of Assets, Liabilities and Partners' Capital.

The total notional or contractual amounts and fair values for derivatives were:

<i>(Dollars in thousands)</i>	Notional/ contractual amount	Gross Derivative Assets (at fair value)	Gross Derivative Liabilities (at fair value)
Forward currency contracts	\$ (238,997)	\$ 1,811	\$ (2,927)
Credit Default Swaps	96,676	665	(7,293)
Total	\$ (142,321)	\$ 2,476	\$ (10,220)
Netting (see note below) *		(1,648)	1,648
Carrying value of derivatives on the Statements of Assets, Liabilities, and Partners Capital		\$ 828	\$ (8,572)

**Note: GAAP permits the netting of derivative assets and liabilities and the related cash collateral received and paid when a legally enforceable master netting agreement exists between the Partnership and a derivative counterparty.*

During the year ended December 31, 2009, the average notional exposure of Forward Currency Contracts, Credit Default Swaps, Purchased Options, and Written Options were (\$164,236,448), \$67,521,149, \$2,068,244, and (\$2,114,731), respectively.

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The following table indicates the gains and losses on derivatives, by contract type, as included in the Statement of Operations for the year ended December 31, 2009.

The gains (losses) recognized in the statement of operations related to derivatives were:

The gains (losses) recognized in the statement of operations related to derivatives were:	
<i>(Dollars in thousands)</i>	For the year ended December 31, 2009
Forward currency contracts	\$ (7,857)
Written Options	2,857
Purchased Options	(2,457)
Credit Default Swaps	(4,960)
Total	\$ (12,417)

The above gains (losses) on derivatives have been recognized as realized/ change in unrealized on the Statement of Operations.

The significant accounting policies relating to recording of derivatives and related gain/ (loss) have been summarized in Note 2 of the financial statements.

By using derivative instruments, the Partnership is exposed to the counterparty's credit risk - the risk that derivative counterparties may not perform in accordance with the contractual provisions offset by the value of any collateral received. The Partnership's exposure to credit risk associated with counterparty non-performance is limited to collateral posted and the unrealized gains inherent in such transactions that are recognized in the Statement of Assets, Liabilities, and Partners' Capital. The Partnership minimizes counterparty credit risk through, credit monitoring procedures, executing master netting arrangements and managing margin and collateral requirements, as appropriate. The Partnership records counterparty credit risk valuation adjustments, if material, on certain derivative assets in order to appropriately reflect the credit quality of the counterparty.

4. Fair Value Measurements

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Partnership discloses the fair value of its investments in a hierarchy which prioritizes and ranks the level of market price observability used in measuring assets or liabilities at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Assets or liabilities with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. In such cases, the determination of which category within the fair value hierarchy is appropriate for any

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given investment is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The General Partner considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the General Partner's perceived risk of that instrument.

In determining an asset or liabilities' placement within the hierarchy, the General Partner separates the Partnerships investment portfolio into major categories as determined by the General Partner. Each of these categories can further be divided between those held long or short.

Assets or liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of assets or liabilities included in Level I include listed equities.

Level II – Inputs are other than quoted prices that are observable for the assets or liabilities either directly or indirectly, including inputs in markets that are not considered to be active. Exchange traded and over-the-counter derivatives, such as forwards, credit default swaps, and options, are valued by the General Partner using observable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of an over-the-counter derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, bid and ask prices yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. Certain exchange traded and over-the-counter derivatives, such as generic forwards, swaps and options, have inputs which can generally be corroborated by market data and are therefore classified within Level II. Assets or liabilities which are generally included in this category include corporate bonds and loans and credit default swaps where there is sufficient market activity for the investment, less liquid and restricted equity securities and certain exchange traded and over-the-counter derivatives.

Level III – Investments and derivative investments classified within Level III have significant unobservable inputs, as they trade infrequently or not at all. Level III instruments include private equity investments, certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments and mezzanine), CDS Tranches, structured products (including CLOs, CDOs, and MBS). When observable prices are not available for these securities, the General Partner uses one or more valuation techniques (e.g., the market approach or the income approach) for which sufficient and reliable data is available. Within Level III, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The inputs used by the General Partner in estimating the value of Level III investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Certain Level III investments, such as structured investments, utilize models which rely on assumptions determined by the General Partner. Level III investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information. The fair value measurement of Level III investments does not include transaction costs that may have been capitalized as

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part of the security's cost basis. Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Partnership's results of operations. Assets or liabilities which are generally included in this category include limited partnership interests, CDOs, privately placed debt, and privately placed equity, bonds, loans and credit default swaps for which there are no observable inputs. Those over-the-counter derivatives that have less liquidity or for which inputs are unobservable are classified within Level III. While the valuations of these less liquid over-the-counter derivatives may utilize some Level I and/or Level II inputs, they also include other unobservable inputs which are considered significant to the fair value determination. At each measurement date, the General Partner updates the Level I and Level II inputs to reflect observable inputs, though the resulting gains and losses are reflected within Level III due to the significance of the unobservable inputs.

The following table summarizes the valuation of the Partnership's assets or liabilities by the above fair value hierarchy levels as of December 31, 2009:

Assets at Fair Value as of December 31, 2009 (in thousands)	Level I	Level II	Level III	Total
Cash Equivalents	\$ 251,903	\$ -	\$ -	\$ 251,903
Investments:				
Corporate Fixed Income	-	112,217	-	112,217
Senior Bank Debt	-	461,522	55,605	517,127
Mezzanine	-	-	294,277	294,277
Common Stock	80,400	-	14,752	95,152
Structured Investments	-	-	30,302	30,302
Credit Default Swaps (Assets)	-	665	-	665
Forward Contracts (Assets)	-	163	-	163
Subtotal	\$ 332,303	\$ 574,567	\$ 394,936	\$ 1,301,806
Liabilities at Fair Value as of December 31, 2009 (in thousands)	Level I	Level II	Level III	Total
Securities Sold Short:				
Corporate Fixed Income	\$ -	\$ (8,807)	\$ -	\$ (8,807)
Credit Default Swaps (Liabilities)	-	(726)	(6,567)	(7,293)
Forward Contracts (Liabilities)	-	(1,279)	-	(1,279)
Subtotal	\$ -	\$ (10,812)	\$ (6,567)	\$ (17,379)
Total	\$ 332,303	\$ 563,755	\$ 388,369	\$ 1,284,427

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The following table presents changes in assets or liabilities that use Level III inputs for the period ended December 31, 2009:

(in thousands)	Balance as of 12/31/08	Net change in unrealized gains (losses)	Net realized gains (losses)	Net purchases, sales, or redemptions	Net transfers into and/or (out of) Level III	Balance as of 12/31/2009
Investments:						
Corporate Fixed Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Senior Bank Debt	8,976	17,135	697	21,811	6,986	55,605
Mezzanine	190,663	680	6,856	96,078	-	294,277
Common Stock	3,059	(13)	(3)	11,709	-	14,752
Structured Investments	41,995	12,344	23,575	(47,612)	-	30,302
Credit Default Swaps (Liabilities)	(1,206)	(5,390)	29	-	-	(6,567)
Total	\$ 243,487	\$ 24,756	\$ 31,154	\$ 81,986	\$ 6,986	\$ 388,369

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying statement of operations. During the year ended December 31, 2009, there were \$17,617,985 of unrealized gains on investments classified as Level III at December 31, 2009. See Note 2 for the Partnership's valuation techniques used to measure fair value.

Effective January 1, 2009, the Partnership adopted the authoritative guidance under GAAP on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. Accordingly, if the Partnership determines that either the volume and/or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. Valuation techniques such as an income approach might be appropriate to supplement or replace a market approach in those circumstances. The guidance also provides a list of factors to determine whether there has been a significant decrease in relation to normal market activity. Regardless, however, of the valuation technique and inputs used, the objective for the fair value measurement in those circumstances is unchanged from what it would be if markets were operating at normal activity levels and/or transactions were orderly; that is, to determine the current exit price.

The Partnership has also adopted the authoritative guidance under GAAP for estimating the fair value of investments in investment companies that have calculated net asset value per share in accordance with the specialized accounting guidance for Investment Companies. Accordingly, in circumstances in which net asset value per share of an investment is not determinative of fair value, the Partnership estimates the fair value of an investment in an investment company using the net asset value per share of the investment (or its equivalent) without further adjustment, if the net asset value per share of the investment is determined in accordance with the specialized accounting guidance for Investment Companies as of the reporting entity's

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measurement date. The adoption of this guidance does not have a material effect on the financial statements.

There have been no significant changes in valuation techniques and related inputs used by the General Partner during the year ended December 31, 2009.

5. Market and Credit Risks of Debt Securities

The Partnership's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The significant types of financial risks to which the Partnership is exposed are listed below.

Market Risk

Market risk encompasses the potential for both losses and gains and includes price risk, currency risk and interest rate risk. The fair value of investments and securities sold short will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in any particular industry and the financial condition of the issuer. During periods of limited liquidity and higher price volatility, the Partnership's ability to dispose of investments at a price and time that the Partnership deems advantageous may be impaired.

Price Risk

The prices of securities held by the Partnership may decline in response to certain events, including those directly involving the companies whose securities are owned by the Partnership; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency, interest rate and commodity price fluctuations.

Currency Risk / Foreign Markets Risks

The Partnership may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Partnership may be exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Partnership's assets or liabilities denominated in currencies other than the functional currency.

The Partnership may have investments in various countries, including emerging market countries. Investments in these countries involve risks, including, but not limited to, risks relating to adverse political, social, and economic developments in other countries, as well as risks resulting from the differences between the regulations to which issuers and markets are subject in different countries. These risks may include expropriation of assets, confiscatory taxation, withholding taxes on dividends and interest paid on Partnership investments, currency exchange controls, and other limitations on the use or transfer of Partnership assets and political or social instability. Such investments may also involve currency exchange rate risks. There may be rapid changes in the value of foreign currencies or securities, causing the fair value of Partnership investments to be volatile.

Interest Rate Risk

Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly and directly. In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree. Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

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Liquidity Risk

Liquidity risk is the risk that the Partnership will encounter difficulty in meeting obligations associated with financial liabilities. Among other things liquidity could be impaired by an inability to access secured and/or unsecured sources of financing or the failure of Limited Partners to meet capital calls.

Leverage Risk

The Partnership may use leverage directly and indirectly. The Partnership currently uses leverage indirectly mainly through credit default swaps and structured investments. The use of leverage will increase the volatility of the Partnership. While the use of borrowed funds will increase returns if the Partnership earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage will decrease returns if the Partnership fails to earn as much on such incremental investments as it pays for such funds. The effect of leverage may therefore result in a greater decrease in the net asset value of the Partnership than if the Partnership was not as leveraged.

Financing Risk

In the normal course of business, the Partnership may enter into agreements with certain counterparties for OTC derivative transactions. These agreements contain among other conditions events of default and termination events, and various covenants and representations.

There is no guarantee that the Partnership's borrowing arrangements or other arrangements for obtaining leverage will continue to be available, or if available, will be available on terms and conditions acceptable to the Partnership. Unfavorable economic conditions also could increase funding costs, limit access to the capital markets or result in a decision by lenders not to extend credit to the Partnership. In addition, a decline in market value of the Partnership's assets may have particular adverse consequences in instances where they have borrowed money based on the market value of those assets. A decrease in market value of those assets may result in the lender (including derivative counterparties) requiring the Partnership to post additional collateral or otherwise sell assets at a time when it may not be in the Partnership's best interest to do so.

Illiquidity of Investments

The Partnership may invest in securities, bank debt and other claims, and other assets, which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and, for various reasons, the Partnership may 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. Restricted securities are generally valued at a price lower than similar securities that are not subject to restrictions on resale.

Some of the Partnership's investments may be illiquid and the Partnership may not be able to vary the portfolio in response to changes in economic and other conditions. The securities that are purchased in connection with privately negotiated transactions are not registered under the relevant securities laws, which may result in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the relevant registration requirements. Some of the bank loans, mezzanine securities and the collateralized loan obligation investments that are purchased and sold are traded in private, unregistered transactions and are therefore subject to restrictions on resale or otherwise have no established trading market. In addition, if the Partnership is required to liquidate all or a portion of its portfolio quickly, the Partnership may realize significantly less than the value at which it previously recorded those investments. The Partnership may from time to time invest in derivative contracts traded over the counter, which are not traded in an organized public market and may be illiquid. Furthermore, the Partnership may face other restrictions in its ability to liquidate an investment in a business entity to the extent that the Partnership has or could be attributed with material non-public information regarding such business entity.

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Credit Risk

Credit risk refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, subordination, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and securities which are rated by rating agencies are often reviewed and may be subject to downgrade.

The Partnership is subject to the credit risk of its custodians, prime brokers and counterparties to the extent they may be unable to fulfill their obligations either to return the Partnership's securities or to repay amounts owed. Credit risk is measured by the loss the Partnership would record if its counterparties failed pursuant to terms of their obligations to the Partnership.

Bank Loans

The Partnership invests in loans originated by banks and other financial institutions. The loans invested in by the Partnership may include term loans and revolving loans, may pay interest at a fixed or floating rate, may be senior or subordinated and may be purchased in the form of assignments or participations in all or a portion of loans from third parties. Purchasers of bank loans are predominantly commercial banks, investment funds and investment banks. Based on activity in the bank loan market the Partnership is exposed to liquidity risk as well as the risk of the borrower.

High Yield Debt

The Partnership invests in high yield debt whose rating is typically below investment-grade by one or more nationally recognized statistical rating organizations or is unrated but of comparable credit quality to obligations rated below investment-grade, and has greater credit and liquidity risk than more highly rated debt obligations. As a result the Partnership is exposed to liquidity risk and the risk of the obligor.

Structured Investments

The Partnership invests in Structured Investments. The Structured Investments include investments in both Collateralized Debt Obligations and Collateralized Loan Obligations and are either debt or subordinated equity investments. These investments have limited secondary markets and in some instances can have restrictions on transfers. Debt investments are nonrecourse obligations; therefore, the debt is payable solely from the collateral obligations and all other assets pledged. Depending on the structure of the investment and the investment made, the Partnership's debt investments could be subordinate to other classes of debt. All equity interests are unsecured and subordinate to all classes of debt. Subordinated debt and equity investments represent leveraged investments in underlying assets.

Credit Derivatives

The Partnership invests in credit derivatives. These transactions generally provide for the transfer from one counterparty to another of certain credit risks inherent in the ownership of a financial asset such as a bank loan or a high yield debt security. Such risks include, among other things, the risk of default and insolvency of the obligor of such asset; the risk that the credit of the obligor or the underlying collateral will decline or that credit spreads for like assets will change. Credit derivatives are used to gain or reduce exposure to one or more reference assets, to reduce concentration risk, or to diversify the investment portfolio's exposure to the underlying instrument.

Mortgage-Backed Securities

The Partnership invests in mortgage-backed securities through Collateralized Mortgage Obligations. Mortgage-backed securities represent direct or indirect participations in, or are collateralized by and payable from, mortgage loans secured by residential real property. The value of these securities may also fluctuate in response to the market's perception of the credit worthiness of the underlying mortgage loans and the adequacy of the collateral which secures the underlying mortgage loan. The Partnership's investments in these mortgage-backed securities are reflected in the accompanying Schedule of Investments within the Structured Investments classification.

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Purchased Options

The Partnership has purchased put options. Purchasing put options will generally decrease the Partnership's exposure to the underlying instrument. The Partnership's risk is limited to the premium paid.

Written Options

The Partnership has written options. There is a risk of loss from a change in value in such options which may exceed the related premiums received.

6. Transactions with Affiliates

Management Fees

At the beginning of each fiscal period, the Partnership will pay the Investment Advisor an advisory fee for each Fee Partner at an annual rate equal to 2.0% multiplied by (a) for fiscal periods beginning on or prior to June 30, 2013, the sum of the Fee Partners' contributed capital and any net realized and unrealized profits less distributions or withdrawals as of the date on which the fee is paid and (b) for all other fiscal periods, such Fee Partner's Book Capital Account balance less unrealized gains or plus unrealized losses on Designated Investments (as defined in Note 8).

The Investment Advisor may, in its sole discretion, waive the management fee with respect to certain members of the Sankaty Group and Fee Waiver Partners. In that case, the base for calculating the management fee will be reduced by such partners' contributed capital and any net realized and unrealized profits less distributions or withdrawals or allocable portion of partners' capital, as the case may be. During the year ended December 31, 2009, \$653,019 of management fees were waived. As of December 31, 2009, there was \$163,558 of management fees payable to the Investment Advisor, which is included in accrued expenses and other liabilities on the Statement of Assets, Liabilities and Partners' Capital.

On October 28, 2008, the Partnership entered into an agreement with the Investment Advisor in respect of any managed Swap Transactions, as defined, whereby the Investment Advisor will furnish advice to the Partnership regarding the terms thereof and the composition of the related reference portfolio of the Swap Transactions. On the first business day of each fiscal quarter, the Partnership pays the Investment Advisor a Management Fee for advice on each Swap Transaction ("Swap Management Fee") in an amount equal to the product of the Notional Amount with respect to such Swap Transaction and an annual rate as noted below. The Partnership held the following tranches of managed Swap Transactions at December 31, 2009.

Swap Transaction	Notional Amount	Tranche	Fee Percentage
Plum Island III	\$15.8 million	20 – 23%	0.30%
Plum Island III	\$9.5 million	16 – 19%	0.55%
Plum Island III	\$7.9 million	10 – 13%	0.70%

During December 31, 2009, the Partnership paid \$152,455 of Swap Management Fees to the Investment Advisor which is included in professional fees and operating expenses on the Statement of Operations. There was a \$4,294 payable at December 31, 2009, which is included in accrued expenses and other liabilities on the Statement of Assets, Liabilities and Partners' Capital.

Collateralized Debt Obligations ("CDOs")

The Partnership has invested in the following CDOs managed by the Investment Advisor. The Partnership's investments in these CDOs are reflected in the accompanying Condensed Schedule of Investments within the Structured Investments classification.

Sankaty High Yield Partners II, L.P. ("Sankaty II")

The Partnership has invested in Sankaty II, a market value CDO. This entity was established for the purpose of acquiring and managing a diverse portfolio of primarily below investment-grade assets consisting of senior bank debt, corporate fixed income securities, structured debt instruments, limited

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partnerships, mezzanine investments, equity securities and certain other investments. Sankaty II's capital structure consists of \$214 million of debt and \$179 million of limited partnership interests.

During the period ended December 31, 2008, the Partnership purchased \$1,680,000 of Class E Junior Subordinated Secured Notes for \$1,369,456 from an affiliate. As of December 31, 2009, the Partnership's investment was valued at \$0.

During the year ended December 31, 2009, the Partnership purchased \$2,200,000 of Class C Notes for \$1,364,000. As of December 31, 2009, the Partnership's investment was valued at \$1,602,682.

During the year ended December 31, 2009, the Partnership purchased \$166,767 of Class A-2 Notes for \$166,767. As of December 31, 2009, the Partnership's investment was valued at \$166,767.

During the year ended December 31, 2009, the Partnership earned interest totaling \$31,337 from its investment in Sankaty II which is included in interest income in the Statement of Operations. There is an interest receivable of \$14,106 at December 31, 2009, which is included in Interest receivable in the Statement of Assets, Liabilities and Partners' Capital. Sankaty II is currently in default and has stopped making interest payments. Interest earned but not paid of \$17,299 has been included as paid in kind and is included in the principal balance of the investment.

Sankaty High Yield Partners III, L.P. ("Sankaty III")

The Partnership has invested in Sankaty III, a market value CDO. This entity was established for the purpose of acquiring and managing a diverse portfolio of primarily below investment-grade assets consisting of senior bank debt, corporate fixed income securities, structured debt instruments, limited partnerships, mezzanine investments, equity securities and certain other investments. Sankaty III's capital structure consists of \$141 million of debt and \$119 million of limited partnership interests.

During the period ended December 31, 2008, the Partnership purchased \$170,000 of Class E Junior Subordinated Secured Notes for \$114,821 from an affiliate. As of December 31, 2009, the Partnership's investment was valued at \$0.

During the year ended December 31, 2009, the Partnership purchased \$600,000 of Class B Notes for \$459,810. As of December 31, 2009, the Partnership's investment was valued at \$506,949.

During the period ended December 31, 2009, the Partnership earned interest totaling \$1,576 from its investment in Sankaty III which is included in interest income in the Statement of Operations and Changes in Partners' Capital. There is an interest receivable of \$2,509 at December 31, 2009, which is included in Interest receivable in the Statement of Assets, Liabilities and Partners' Capital. Sankaty III is currently in default and has stopped making interest payments. Interest earned but not paid of \$580 has been included as paid in kind and is included in the principal balance of the investment.

Rose Island, LLC ("Rose Island")

The Partnership has invested in Rose Island, a Delaware LLC. Rose Island was formed by the Partnership and other affiliated entities for the sole purpose of making a loan in the principal amount of \$25,969,501 to a third party entity for the purpose of providing a portion of the proceeds for the acquisition of certain loans issued by investment funds managed by Sankaty Advisors, LLC. Rose Island's capital structure consists only of the membership interests of the Partnership and affiliated entities of \$25,969,501.

During the year ended December 31, 2009, the Partnership purchased a \$2,349,910 membership interest in Rose Island at par. During the year ended December 31, 2009 the Partnership received \$1,562,636 to pay down the principal balance of the investment in Rose Island, and was realized as a return of capital and reduction of principal of its investment in Rose Island. As of December 31, 2009, the Partnership's remaining investment of \$787,274 principal was fair valued at \$779,739. During the year ended December 31, 2009, the Partnership earned interest income of \$2,674 which is included in interest income in the

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accompanying Statements of Operations. The interest receivable at December 31, 2009 is \$225, which is included in Interest receivable in the Statement of Assets, Liabilities and Partners' Capital.

Winter Harbor CLO, Ltd. ("Winter Harbor")

The Partnership invested in Winter Harbor, a cash flow CLO, managed by the Investment Advisor. This entity was established for the purpose of making leveraged investments in high yield securities - both bank loans and corporate bonds through a total return swap - and commenced operations in October 2008.

Winter Harbor entered into a Master Swap Agreement with Bank of America, the Class A noteholder, for the purpose of executing a bank loan total return swap on October 24, 2008. Each underlying bank loan in the swap was selected by the Investment Advisor and agreed to by Bank of America. After an initial six month period, the portfolio remained static. The scheduled termination date of the agreement is April 1, 2010.

Winter Harbor's capital structure consisted of \$1,050 million of Class A Notes and \$363 million of Subordinated Interest. Subordinated Interest was unsecured and subordinated with respect to cash payments to all other debt holders. During the period ended December 31, 2008, the Partnership purchased a \$34.96 million face value investment in the Subordinated Interest in Winter Harbor at par. During the year ended 2009, the Partnership paid \$530,880 in fees that are included in the cost basis of the investment.

The swap agreement provided for Winter Harbor to receive interest payments and the return on the underlying assets. Winter Harbor paid the proceeds of these amounts to Bank of America to make interest payments and to reduce the amount of debt outstanding. Once certain financing thresholds were met, distributions were made to both Winter Harbor and Bank of America in accordance with the terms of their Master Swap Agreement. During the year ended December 31, 2009, all of the debt in the capital structure was paid. During the year ended December 31, 2009, the Master Swap Agreement was terminated and Winter Harbor began a liquidation process to distribute all of its assets and the Partnership received \$50,719,618 of distributions. Gains of \$24,515,123 were realized and are included in Realized gains on the investments in the accompanying Statement of Operations. As of December 31, 2009, \$9,286,385 is receivable by the Partnership and is included in Receivable for investments sold on the Statement of Assets, Liabilities and Partners' Capital.

Winter Harbor was also required to comply with certain covenants to its swap agreement, which included an overcollateralization test, a collateral quality test and an event of default. The overcollateralization test required Winter Harbor to maintain collateral that exceeded a set percentage of the par amount of the debt. On any payment date on which the coverage tests were not satisfied, Winter Harbor was required to pay down the principal of the debt until these tests were satisfied. The collateral quality test sets criteria for rating, diversity and recovery of the underlying assets.

An event of default included the failure to pay the necessary interest or principal to the debt holders, bankruptcy of Winter Harbor, or if the ratio of the aggregate collateral principal to the outstanding debt was less than 105%. Upon an event of default, all proceeds had to be used to pay the interest and principal of the debtholders and if the event of default continues, the debtholders had the unilateral right to direct the liquidation of the assets.

Bain Capital Investments

Certain other investments included in the accompanying Condensed Schedule of Investments have been issued by organizations in which investment funds advised by a related party have made substantial equity investments and may control the organization. At December 31, 2009 the aggregate value of these securities was \$206,806,164.

From time to time the Partnership may purchase and sell investments to other entities advised by the Investment Advisor. All such cross trades are executed at a price provided by a third party, where

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available. If no third party price is available, the Investment Advisor will purchase or sell the asset to a third party to determine a price or utilize another third party price source approved by the Investment Advisor Compliance Group. All such cross trades are reviewed by the compliance group. During the year ended December 31, 2009, the Partnership sold investments to other entities advised by the Investment Advisor or its affiliates at fair value for proceeds of \$134,662,129 resulting in a net realized gain of \$19,084,087. At December 31, 2009, the Partnership had \$16,891,773 included in Payable for investments purchased relating to investment transactions with other entities advised by the Investment Advisor. At December 31, 2009, the Partnership had \$6,000,228 included in Receivable for investments sold relating to investment transactions with other entities advised by the Investment Advisor.

Other Expenses and Payables

During the year ended December 31, 2009, \$1,267,692 of the Partnership's expenses were paid by a related party of the General Partner and reimbursed by the Partnership. All expenses paid by the related party were reimbursed during the period and there is no payable as of December 31, 2009.

7. Commitments

Certain of the Partnership's investments in revolving bank loans and bridge loans include unfunded commitments. As of December 31, 2009, unfunded commitments totaled \$42,058,093.

In the normal course of business, the Partnership enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Partnership's maximum exposure under these is unknown, as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the General Partner expects the risk of loss to be remote.

8. Partners' Capital and Allocation

All capital commitments made on or prior to the initial closing date must be called by the General Partner by the fifth anniversary of the initial closing. The General Partner is required to maintain a capital commitment balance of at least 0.1% of the aggregate Capital Contributions of all partners. Limited Partners may not voluntarily withdraw all or any portion of their Book Capital Accounts until June 30, 2018. At any time, the General Partner may withdraw amounts from its book capital account as long as the withdrawal would not give rise to a contribution obligation prior to the liquidation of the Partnership. The General Partner may at its sole discretion at any time and for any reason require a limited partner to withdraw all or any portion of its Basic Capital Account.

The General Partner, in its sole discretion, may admit additional limited partners to the Partnership as of the first day of any fiscal period.

Income, Expense, and Carried Interest Allocations

The net realized and unrealized investment profits and losses of the Partnership will initially be apportioned among the partners based on their Basic Capital Accounts as of the first day of the fiscal period. Miscellaneous income and expenses are allocated based on each partner's Book Capital Account as of the first day of the fiscal period. The portion of the investment profits and losses is then first allocated to each limited partner until it reaches a Total Return reflecting a 5% annualized rate of return on its net capital contributions. Next, the net profits are allocated to the General Partner as carried interest until the cumulative amount equals 20% of the net profits allocated to all partners in the current and all prior fiscal periods. Lastly, 80% and 20% of net profit is allocated to each Limited Partner and to the General Partner, respectively. As of the last business day of each fiscal period in which net loss was initially apportioned to the Limited Partners, such net loss will then be allocated between each Limited Partner and the General Partner so as to reverse any net profits allocated as provided above during the relevant fiscal year. The

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General Partner may waive all or any part of the carried interest that it would otherwise be entitled to receive from partners who are members of the Sankaty Group and Fee Waiver Partners. For the year ended December 31, 2009, there was \$2,557,378 of carried interest waived.

Distributions

Distributions are made at the sole discretion of the General Partner. Generally, cash distributions representing profits are made in the same proportion as such profit is allocated to the capital accounts. Cash distributions representing returns of capital are made in proportion to the Partners' Basic Capital Accounts. Distributions of publicly traded securities are valued at the last trade price or, if unavailable, at the last bid price on the date of distribution.

New Issues

Realized and unrealized profits and losses on certain securities involving initial public offerings are allocated only to those partners that are not considered restricted persons as defined by the Financial Industry Regulatory Authority, Inc. ("FINRA"). The restricted partners are allowed New Issue gains and losses at the same percentage as their beneficial ownership unless the combined beneficial ownership of these partners exceeds 10%, in which case only 10% of the New Issue gains and losses will be allocated. The remaining New Issue gains and losses are allocated to those partners who do participate in New Issues. The accounts of those partners who do not participate in New Issues are credited with interest on their proportionate share of the funds utilized to purchase New Issues. During the year ended December 31, 2009, there were no realized or unrealized profits from New Issues.

Profits and Losses of Designated Investments

Profits and losses relating to certain illiquid securities designated as such by the General Partner ("Designated Investments") are allocated to partners at the end of each fiscal quarter in proportion to the partners' respective share of each Designated Investment. Partners' respective share of the Designated Investment is based on their basic capital accounts as of the beginning of the fiscal quarter in which the Designated Investment was originally acquired. There were no Designated Investments held at December 31, 2009.

9. Other Required Disclosure

For the year ended December 31, 2009, excluding the allocation of carried interest, the ratio of net investment income to average limited partners' capital was 6.99%, the ratio of expenses to average limited partners' capital before and after carried interest was 2.26% and 10.45% respectively, and the limited partners' total return before and after carried interest was 49.84% and 39.58%, respectively.

10. Subsequent Events

Management has evaluated the events and transactions that have occurred through March 16, 2010, the date the financial statements were issued, and noted no items requiring adjustment of the financial statements or additional disclosures.

Subsequent to year end, the Partnership made a cash distribution of \$84,063,151.