

A green phoenix with its wings spread wide, rising from a pile of white and yellow rubble. The phoenix is the central focus of the image, symbolizing rebirth and resilience. The rubble is composed of various pieces of debris, including what appears to be a broken shell or a piece of metal, suggesting a state of distress or failure.

DISTRESSED DEBT 1 LP

WHEN PERFORMANCE MATTERS..

DISCLAIMER

INFORMATION IN THIS PRESENTATION IS PROVIDED FOR INFORMATIONAL PURPOSES ONLY AND IS NOT OFFERED AS ADVICE WITH RESPECT TO ANY PARTICULAR SECURITY OR RELATED FINANCIAL INSTRUMENT. THIS INFORMATION SHOULD NOT BE USED AS A BASIS FOR MAKING AN INVESTMENT DECISION AND MUST NOT BE TREATED AS A SUBSTITUTE FOR SEEKING ADVICE FROM A LICENSED PROFESSIONAL. THE SUITABILITY OF A GIVEN INVESTMENT FOR A PARTICULAR INVESTOR DEPENDS ON A NUMBER OF FACTORS, EACH OF WHICH SHOULD BE CONSIDERED CAREFULLY. SUCH FACTORS INCLUDE, BUT ARE NOT LIMITED TO, THE RISK ASSOCIATED WITH THE INVESTMENT, THE NATURE OF CURRENT MARKET CONDITIONS, AND THE INVESTOR'S OBJECTIVES, PERSONAL NEEDS, AND SPECIFIC CIRCUMSTANCES. THIS IS NEITHER A SOLICITATION TO BUY NOR AN OFFER TO SELL, BUT RATHER AN INFORMATIONAL OVERVIEW OF DISTRESSED DEBT INVESTING AND OUR DISTRESSED DEBT I FUND. THIS INFORMATION SHOULD BE REVIEWED BY ACCREDITED INVESTORS ONLY.

AGENDA

- ❖ AWARDS
- ❖ THIRD PARTY SUPPORT SERVICES
- ❖ BIOS & ORGANIZATIONAL CHART
- ❖ RANKING
- ❖ U.S. BOND MARKET - BACKGROUND
- ❖ CREDIT RATING AGENCIES
- ❖ INEFFICIENCIES OF THE BOND MARKET
 - POLICY DRIVEN INEFFICIENCIES
- ❖ THE 2008 FAILURE OF THE BIG THREE
- ❖ MODERN PORTFOLIO THEORY
- ❖ ALTERNATIVE INVESTMENTS & DISTRESSED DEBT
- ❖ DISTRESSED DEBT 1 LP
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 - FUND BACKGROUND
 - RETURN METHODOLOGY
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- ❖ HISTORICAL SECURITY SELECTION: CASE STUDIES
 - GRAN COLOMBIA GOLD
 - DATA COMMUNICATIONS MANAGEMENT GROUP
 - EAGLE ROCK ENERGY / VANGUARD NATURAL RESOURCES
 - INTELSAT
 - MEMORIAL PRODUCTION PARTNERS
- ❖ REFERENCES

FUND AWARDS

TOP PERFORMING HEDGE FUND, 2016
(HEDGE.CO.NET)



FUND MANAGER AWARDS

BEST FOR FIDUCIARY SERVICES, 2017 (AI)



BEST U.S. DISTRESSED DEBT HEDGE FUND, 2017 (AI)



A+ RATING WITH THE BETTER BUSINESS BUREAU



* 2016 AUDIT AVAILABLE UPON REQUEST *

THIRD PARTY SUPPORT SERVICES

AUDITING FIRM: ASHLAND PARTNERS & CO., LLP

CUSTODIAN/BROKERS: INTERACTIVE BROKERS, TD AMERITRADE, RBC

LEGAL COUNSEL: JUSTIN STARK

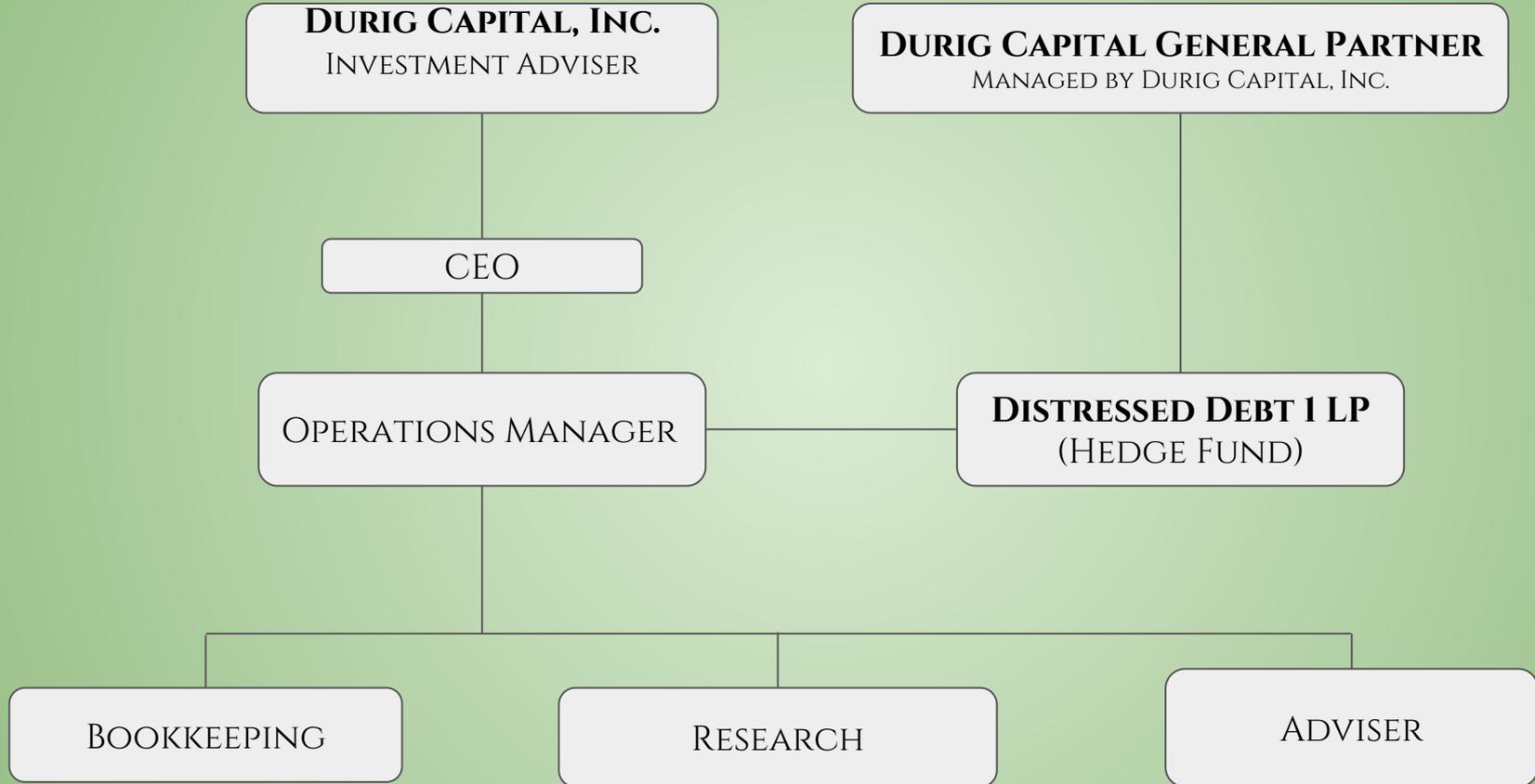


30 YEARS OF “BOOTS ON THE GROUND” INVESTMENT EXPERIENCE

RANDY DURIG

- ❖ CEO/OWNER OF DURIG CAPITAL, INC., PORTFOLIO MANAGER, (2001- PRESENT)
- ❖ SENIOR VP, CHARTER INVESTMENT GROUP/SUTRO & CO. (CURRENTLY KNOWN AS RBC) (1990-2001)
- ❖ WHILE MANAGING AT SUTRO & CO., RANDY DURIG PRODUCED OVER **500%** (ANNUALIZED AT OVER **80%**) BEFORE STARTING HIS OWN ADVISORY FIRM (11)
- ❖ OWNS, FOUNDED, AND OPERATES NUMEROUS BUSINESSES ACROSS VARIOUS INDUSTRIES, WITH *EXTENSIVE EXPERIENCE IN OPERATIONAL TURNAROUNDS*
- ❖ MR. DURIG HAS FOUND HIS NICHE, BY LEVERAGING BOTH HIS OPERATIONAL BACKGROUND AND INVESTMENT EXPERIENCE TO BRING DISTRESSED DEBT UNDER HIS MANAGEMENT TO BE AMONG THE TOP OF HIS PEERS IN DISTRESSED DEBT

DURIG CAPITAL'S ORGANIZATIONAL CHART



TOP RANKING PERFORMANCE

DISTRESSED DEBT I LP WAS RANKED AS OF OCTOBER 4TH, 2017 AS:

3RD BEST PERFORMANCE IN THE LAST TWO MONTHS

3RD HIGHEST COMPOUND ANNUAL GROWTH RATE (**52.83%**, HEDGE.CO.NET) (26)

5TH IN YEAR TO DATE RETURN (**28.18%**) (26)

7TH HIGHEST ANNUALIZED SHARPE RATIO (**1.36**) (26)

AUDITED RETURNS OF 2016 WERE **155.49%** ([ASHLAND PARTNERS & CO., LLP](http://ASHLANDPARTNERS.COM))

RANKED **1ST** OUT OF A DATABASE OF OVER 9,000 HEDGE FUNDS IN THE NATION FOR THE YEAR
2016(HEDGE.CO.NET) (26)

EVESTMENT (THIRD PARTY ANALYTICS FIRM) BENCHMARKED OUR FUND AS **1ST** OUT OF 26 OF OUR
PEERS IN DISTRESSED DEBT, AS OF MAY 2017 (45)

THE U.S. BOND MARKET

- ❖ THE PRIMARY FUNCTION OF THE BOND MARKET IS TO PROVIDE LONG-TERM FUNDING FOR COMPANIES' CAPITAL EXPENDITURES (28)
- ❖ A 2011 STUDY BY MCKINSEY GLOBAL INSTITUTE PLACES A MARKET CAP ON *GLOBAL DEBT OUTSTANDING* OF APPROXIMATELY \$93 TRILLION (DOUBLE THE CAPITALIZATION OF THE EQUITY MARKETS AT THE TIME) (20) (27)
- ❖ A 2017 SIFMA ANALYSIS ESTIMATES TOTAL OUTSTANDING DEBT IN THE US OF NEARLY \$40 TRILLION, OF WHICH BETWEEN \$9-13 TRILLION IS CONSIDERED CORPORATE DEBT (10) (23)
- ❖ OUT OF THE TOTAL U.S. CORPORATE DEBT OUTSTANDING (APPROXIMATELY \$40 TRILLION, SIFMA), ROUGHLY 10% IS CATEGORIZED AS “DISTRESSED” (10) (23)

CREDIT RATING AGENCIES

- ❖ MUCH OF THE ACTIVITY IN THIS MARKET IS INDIRECTLY INFLUENCED BY THREE CREDIT AGENCIES:
 - MOODY'S
 - S&P
 - FITCH
- ❖ THESE RATING AGENCIES EVALUATE THE CREDIT ARRANGEMENTS & CREDITWORTHINESS OF COMPANIES AND ASSIGN A RANKING BASED ON THESE, AMONG OTHER CONSIDERATIONS AND ANALYSIS
- ❖ THE MAJORITY OF INVESTORS AND FINANCIAL INSTITUTIONS CONSIDER THESE RATINGS PRIOR TO INVESTMENT AS AN INDICATION OF THE QUALITY OF THE ASSET OR DEBT-INSTRUMENT BEING CONSIDERED
- ❖ FITCH CLAIMS THAT 90% OF THE WORLD RELIES ON THEIR RATINGS TO GOVERN BUSINESS DECISIONS

EQUITY MARKET EFFICIENCY VS. BOND MARKET INEFFICIENCY

- ❖ IN TODAY'S EQUITY MARKETS, MOST INVESTMENT MANAGERS ARE UNABLE TO EXCEED THE RETURNS OF THE S&P 500 TR INDEX
 - OVER THE LAST 15 YEARS, THE S&P 500 OUTPERFORMED THE RETURNS OF:
 - LARGE CAP FUND MANAGERS 92.2% OF THE TIME (40)
 - MID-CAP FUND MANAGERS 95.4% OF THE TIME (40)
 - SMALL-CAP FUND MANAGERS 93.2% OF THE TIME (40)
- ❖ OUR BELIEF IS THAT THIS IS DUE TO THE EVER-GROWING EFFICIENCY OF THE EQUITY MARKETS
- ❖ A RECENT STUDY OF ACTIVE BOND FUND MANAGERS REVEALED THAT OVER THE PAST 5 YEARS, THESE ACTIVE BOND FUND CATEGORIES HAVE OUTPERFORMED THE RETURNS OF THEIR PASSIVE PEERS:
 - SHORT-TERM BONDS - 60% OF THE TIME (44)
 - INTERMEDIATE-TERM BONDS - 84% OF THE TIME (44)
 - HIGH-YIELD BONDS - 81% OF THE TIME (44)
- ❖ WE SEEK TO CAPTURE OPPORTUNITIES IN THE DEBT MARKETS, WHICH LACK THE SAME EFFICIENCY OF EQUITY MARKETS
- ❖ FOR THOSE UTILIZING THE STRATEGIES ABOVE AND ARE LOOKING FOR ALTERNATIVE INVESTMENTS, THAT 1) HAVE NEGATIVE BETA THAT REDUCE PORTFOLIO VOLATILITY AND 2) HAVE HISTORICALLY OUTPERFORMED THE S&P 500 INDEX, THE ASSET CLASS WHICH HAS ACCOMPLISHED BOTH OF THESE OBJECTIVES IS DISTRESSED DEBT

INEFFICIENCIES OF THE U.S. BOND MARKET

- ❖ SEVERAL OF THE RATING AGENCIES HAVE BEEN ACCUSED OF AWARDING MORE FAVORABLE RATINGS TO THE HIGHEST BIDDER (22)
- ❖ MOST RATINGS AGENCIES' POLICY IS TO MAINTAIN A REVIEW PERIOD OF 12 MONTHS (*STANDARD & POOR'S*) (13)
 - MID & SMALL-CAP FIRMS OFTEN ARE OVERLOOKED AND RECEIVE LESS FREQUENT CREDIT REVIEWS DUE TO A BROKEN PAY MODEL IN WHICH ISSUERS PAY SUBSTANTIALLY TO BE GIVEN A RATING (32)
 - "THE QUALITY OF INVESTMENT-GRADE SECURITIES CAN DETERIORATE OVER TIME. WITH LOWER-RATED SECURITIES, THE OPPOSITE IS OFTEN TRUE." - *MICHAEL MILKEN* (35)
- ❖ MANY LARGE FINANCIAL INSTITUTIONS ARE MANDATED TO LIQUIDATE POSITIONS ONCE THE UNDERLYING SECURITY'S RATING HAS BEEN DOWNGRADED BEYOND A CERTAIN THRESHOLD, OFTEN PERPETUATED BY "BANDWAGON" INDIVIDUAL INVESTORS

POLICY-DRIVEN INEFFICIENCIES

- ❖ **WE FOUND THAT MANY FIRMS ARE ABLE TO EXECUTE SUBSTANTIAL TURNAROUNDS IN UNDER NINE MONTHS, THUS AN ENTIRE “TURNAROUND” MAY OCCUR OUTSIDE OF AN AGENCY’S REVIEW PERIOD**
 - OFTEN, THE FUNDAMENTALS OF THE UNDERLYING COMPANY CHANGE SO MUCH WITHIN A REVIEW PERIOD THAT WE VIEW THE ODDS OF THAT COMPANY ACHIEVING SUCCESS ARE GREATER THAN THE ODDS OF THE COMPANY FAILING, BUT ARE STILL PRICED FOR FAILURE DUE TO MARKET INEFFICIENCIES
- ❖ DUE TO THE DODD FRANK ACT, MARKET MAKERS ARE NOW MORE JUDICIOUS WITH THEIR CAPITAL, OFTEN CREATING HIGHER VOLATILITY, ESPECIALLY WHEN IN FRONT OF LARGE TRADES OR BONDS OF LOW LIQUIDITY
 - SMALLER COMPANIES’ DEBT IS OFTEN PRIVATE, OR SO THINLY TRADED THAT IT IS MISSED BY MANY INVESTORS & OFTEN AVOIDED BY BROKERS FOR FEAR OF BEING STUCK WITH THEIR INVENTORY, FURTHER COMPOUNDING THESE INEFFICIENCIES

CREDIT RATING AGENCIES ROLE IN THE CRASH OF 2008

- ❖ JUST TWO YEARS PRIOR TO THE CRASH OF 2008, A STANDARD & POOR'S OFFICIAL EMAIL REVEALED SOMETHING UNSETTLING.. "LET'S HOPE WE ARE ALL WEALTHY AND RETIRED BY THE TIME THIS HOUSE OF CARDS FALTERS." (22)
- ❖ IF THESE COMPANIES WERE TRULY DESERVING OF THEIR AAA STATUS, WHY DID THE U.S. GOVERNMENT COMMIT \$541.4 BILLION TO BAIL THESE FIRMS OUT JUST YEARS LATER? (29) (30)
- ❖ THE BIG THREE RATINGS AGENCIES PLAYED A KEY ROLE IN PERPETUATING THE SUBPRIME LENDING CRISIS OF 2008
 - BETWEEN 2000-2007, MOODY'S RATED ROUGHLY 45,000 MORTGAGE-RELATED SECURITIES, OVER HALF OF WHICH WERE AWARDED "AAA" RATINGS (31)
 - IN 2006 ALONE, THE BIG THREE CREDIT RATING AGENCIES CAPTURED \$5 BILLION IN REVENUE FROM ISSUERS SEEKING RATINGS (25)
 - BY DECEMBER OF 2008, THE U.S. BOND MARKET HAD MORE THAN \$11 TRILLION "STRUCTURED FINANCE PRODUCTS" OUTSTANDING (31)
- ❖ MOODY'S AGREED TO PAY \$864 MILLION IN JANUARY OF 2017 TO SETTLE WITH U.S. FEDERAL & STATE AUTHORITIES OVER ITS RATINGS OF RISKY MORTGAGE SECURITIES IN THE TIME LEADING UP TO THE CRASH OF 2008 (24)
 - MOODY'S RATINGS WERE "**DIRECTLY INFLUENCED BY THE DEMANDS OF THE POWERFUL INVESTMENT BANKING CLIENTS WHO ISSUED THE SECURITIES AND PAID MOODY'S TO RATE THEM.**" - CONNECTICUT ATTORNEY GENERAL, GEORGE JEPSEN (24)
- ❖ STANDARD & POOR'S ENTERED INTO A SIMILAR SETTLEMENT IN 2015, PAYING OUT \$1.375 BN TO SETTLE A \$5 BN FRAUD SUIT (24)
- ❖ THE ROOT PROBLEM STEMS FROM A MODEL WHERE THE ISSUER IS LEFT TO THE MERCY OF AGENCIES, THAT FORCES ISSUERS TO PAY SUBSTANTIAL SUMS TO BE CONSIDERED VIABLE COMPANIES IN THE EYES OF THE INVESTING PUBLIC (22) (24)

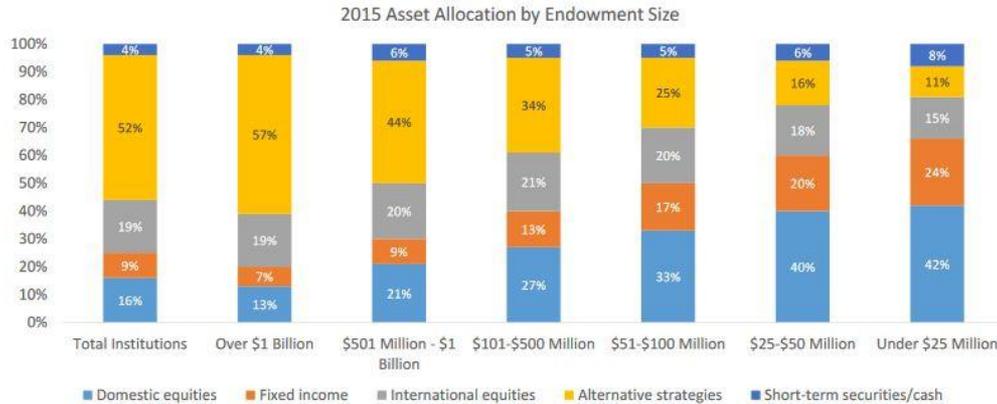
MODERN PORTFOLIO THEORY

- ❖ **MODERN PORTFOLIO THEORY** IS A FRAMEWORK FOR CREATING A PORTFOLIO AIMED AT MAXIMIZING A RETURN FOR A GIVEN LEVEL OF RISK, OR VARIANCE. THE CORNERSTONE OF THIS THEORY IS THAT AN ASSET'S RISK AND RETURN SHOULD NOT BE CONSIDERED INDIVIDUALLY, BUT RATHER BY HOW IT ADDS TO A PORTFOLIO'S RISK/REWARD PROFILE AS A WHOLE (34) (36)
 - MODERN PORTFOLIO THEORY ASSUMES THAT FOR A GIVEN LEVEL OF RETURN, THE AVERAGE INVESTOR WOULD ELECT THE PORTFOLIO WITH THE LEAST AMOUNT OF RISK, UNLESS THEY ARE COMPENSATED COMMENSURATELY FOR THE ADDITIONAL RISK (34) (36)

- ❖ AS ALTERNATIVE ASSETS CARRY HIGHER PERCEIVED RISK BY THE MARKET, IT IS PRICED AS SUCH & REFLECTED IN THE RISK/REWARD PROFILE OF THE INVESTMENT

- ❖ MODERN PORTFOLIO THEORY ALSO EXPLAINS THE BENEFITS OF DIVERSIFICATION THROUGH COMBINING A PORTFOLIO OF NON-CORRELATED ASSETS TO PRODUCE A MORE FAVORABLE RISK PROFILE WHILE MAINTAINING A GIVEN LEVEL OF RETURN (34) (36)
 - HIGH-YIELD & DISTRESSED DEBT FIT INTO THE CATEGORY OF ALTERNATIVE ASSETS, AND ARE ONE OF THE LEAST CORRELATED ASSET-CLASSES TO TRADITIONALLY COMPOSED PORTFOLIOS OR INDICES (39)

THE LARGEST ENDOWMENTS: LEADING THE NON-CORRELATED INVESTMENTS



❖ ALTERNATIVE ASSETS ARE GENERALLY CONSIDERED TO BE NEWER TYPES OF ASSETS OR THOSE NOT INCLUDED IN TRADITIONALLY COMPOSED PORTFOLIOS THAT ARE OFTEN NON-CORRELATED WITH EQUITY MARKETS

❖ TYPES OF ALTERNATIVE ASSETS INCLUDE:

- REAL ESTATE
- PRIVATE EQUITY
- VENTURE CAPITAL
- DIRECT INVESTMENT IN STARTUPS
- **PRIVATE PLACEMENT DEBT**
- **DISTRESSED ASSETS**
- **HEDGE FUNDS**
- FUNDS OF FUNDS
- COMMODITIES, ART

❖ A RECENT STUDY OF UNIVERSITY ENDOWMENTS ILLUSTRATES A TREND TOWARDS INCREASED UTILIZATION OF “ALTERNATIVE ASSETS” (6) (8)

❖ ALTERNATIVE ASSET STRATEGIES ARE APPEALING TO THE LARGEST ENDOWMENTS EMPLOYING MODERN PORTFOLIO THEORY, AS THEY ARE ABLE TO SIGNIFICANTLY REDUCE OVERALL PORTFOLIO RISK THROUGH NON-CORRELATED ASSETS WHILE POTENTIALLY INCREASING THE OVERALL PORTFOLIO RETURN

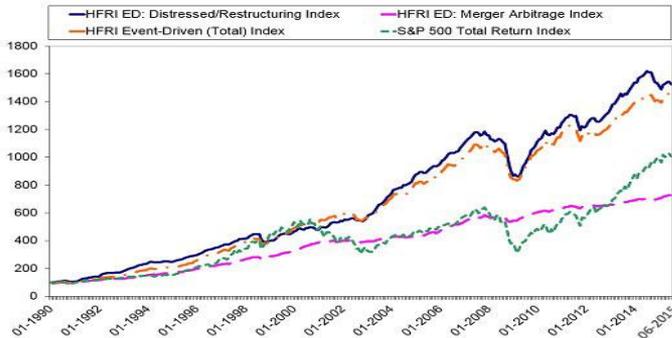
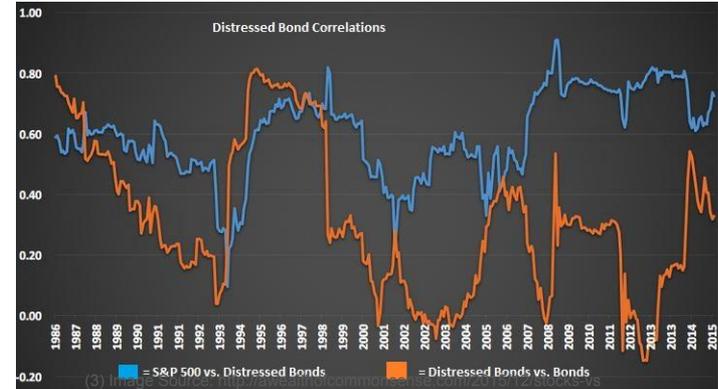
DISTRESSED DEBT - AN *ALTERNATIVE* INVESTMENT

- ❖ DISTRESSED DEBT IS A DEBT INSTRUMENT WHOSE UNDERLYING ENTITY IS EXPERIENCING FINANCIAL OR OPERATIONAL HURDLES (37)
 - WHEN THESE FIRMS FIND THEMSELVES IN “DISTRESS” OR FACING AN OPERATIONAL CHALLENGE, MANY OF THE ORIGINAL HOLDERS OF THE DEBT (MANY TIMES INSTITUTIONS) ARE MANDATED BY POLICY TO LIQUIDATE THEIR HOLDINGS, OFTEN FOR A FRACTION OF PAR VALUE
- ❖ OFTEN, DISTRESSED SECURITIES ARE NON-CORRELATED WITH MAJOR EQUITY INDICES SUCH AS THE S&P 500, AS WELL AS NON-CORRELATED OR LOW-CORRELATION WITH TRADITIONAL DEBT SECURITIES
 - IN FACT, *DISTRESSED DEBT IS ONE OF THE LEAST CORRELATED ASSET CLASSES WITH THE S&P 500*, AND CAN PROVIDE SUBSTANTIAL BENEFITS TO THOSE HIGHLY CORRELATED WITH THE EQUITY MARKETS (39)
 - BY 2006, HEDGE FUNDS, RECOGNIZING THE ADVANTAGES OF UTILIZING NON-TRADITIONAL STRATEGIES AND ASSET-TYPES, HELD NEARLY 25% OF HIGH-YIELD DEBT MARKET’S SUPPLY (37)
- ❖ FOR THOSE UTILIZING THE STRATEGIES ABOVE AND ARE LOOKING FOR ALTERNATIVE INVESTMENTS, THAT **1)** HAVE A NEGATIVE BETA THAT REDUCE PORTFOLIO VOLATILITY AND **2)** HAVE HISTORICALLY OUTPERFORMED THE S&P 500 INDEX, THE ASSET CLASS WHICH HAS ACCOMPLISHED BOTH OF THESE OBJECTIVES IS DISTRESSED DEBT
- ❖ A CAVEAT OF THE “DISTRESSED” LABEL PLACED ON THESE SECURITIES IS THAT INVESTORS ARE PAID A HIGHER RISK-PREMIUM DUE TO THE INCREASED PERCEIVED RISK (37) (38)

DISTRESSED DEBT: THE UNCORRELATED OUTPERFORMER

WHY DISTRESSED DEBT?

- ❖ NUMEROUS STUDIES (4) HAVE SHOWN THAT DISTRESSED DEBT AS AN ASSET CLASS HAS CONSISTENTLY OUTPERFORMED THE S&P 500
 - DISTRESSED DEBT HAS EXCEEDED THE RETURNS OF THE S&P 500 BY MORE THAN 4% PER YEAR (4)
- ❖ **DISTRESSED DEBT IS ONE OF THE LOWEST CORRELATED ASSET CLASSES TO THE S&P 500 (39)**
 - ADDING NON-CORRELATED ASSETS TO A HIGHLY INDEXED PORTFOLIO CAN HELP TO PROVIDE SUBSTANTIAL PORTFOLIO DIVERSIFICATION
- ❖ HISTORICALLY, ACTIVE MANAGERS IN DISTRESSED DEBT INSTRUMENTS & FUNDS HAVE OUTPERFORMED NEARLY EVERY INDEX FUND, INCLUDING THE S&P 500 TR BY NEARLY 50%:



Source: Sabadell Inversion, figures from Jan 1990 - June 2015

ASSET-CLASS CORRELATIONS

	S&P 500	RU2000	T-Bonds	High-Yield	Venture	Buyouts	Mezzanine	Distressed
S&P 500	1.00							
RU2000	0.83	1.00						
T-Bonds	-0.10	-0.16	1.00					
High-Yield	0.76	0.92	0.00	1.00				
Venture	0.39	0.29	-0.40	0.01	1.00			
Buyouts	0.79	0.65	-0.40	0.48	0.54	1.00		
Mezzanine	0.69	0.72	-0.26	0.54	0.69	0.72	1.00	
Distressed	0.65	0.87	-0.18	0.91	0.17	0.54	0.60	1.00

Image Source: CAIA Association, Mark J. P. Anson

RISK ASSESSMENT

- ❖ SUBSTANTIAL PROTECTION AGAINST RISK IN THE LONG-TERM IS TO BUY ASSETS BELOW THEIR INTRINSIC VALUE (WE TARGET UNDERVALUED COMPANIES) OR THOSE TRADING WELL BELOW PAR VALUE, ALLOWING FOR MUCH GREATER UPSIDE REWARD POTENTIAL (46)
- ❖ THIS PRICING SCENARIO OFTEN COMES FROM THE AFTERMATH OF A “BLACK SWAN EVENTS”, CYCLICAL DOWNTURNS OR CRASHES, OVERSUPPLY OF PRODUCTS, SERVICES, VOLATILE INTEREST RATES, ETC.
 - IN 1999, THE CRASH WAS THE INTERNET- REAL ESTATE & OIL WERE NOT SIGNIFICANTLY IMPACTED
 - CRASH OF 2008 - REAL ESTATE & BANKING MARKETS CRASH- INTERNET BUSINESSES & OIL WERE NOT SIGNIFICANTLY IMPACTED
 - 2016 - THE OIL MARKETS CRASH - INTERNET BUSINESSES & REAL ESTATE WERE NOT SIGNIFICANTLY IMPACTED
- ❖ THESE INDUSTRY FOCUSED SELL-OFFS OFTEN CREATE UNBALANCED PRICING SCENARIOS IN WHICH ASSETS ARE CARRIED AT A VALUE SUBSTANTIALLY BELOW THEIR INTRINSIC VALUES
- ❖ MOST FLEE SUCH EVENTS, BUT WE LOOK AT THE COMPANY’S “VITALS” :
 - LONG-TERM BUSINESSES WITH SIGNIFICANT BARRIERS TO ENTRY
 - IMPROVED BUSINESS
 - POSITIVE FREE CASH FLOW
 - IMPROVED HUMAN CAPITAL
 - “ANY ANALYSIS OF CAPITAL STRUCTURE SHOULD RECOGNIZE THAT MOST BALANCE SHEETS ARE DRAMATICALLY INACCURATE BECAUSE.. THEY FAIL TO INCLUDE THE VALUE OF HUMAN CAPITAL.” - MICHAEL MILKEN ON *HUMAN CAPITAL* (35)

PORTFOLIO DIVERSIFICATION & RISK MITIGATION

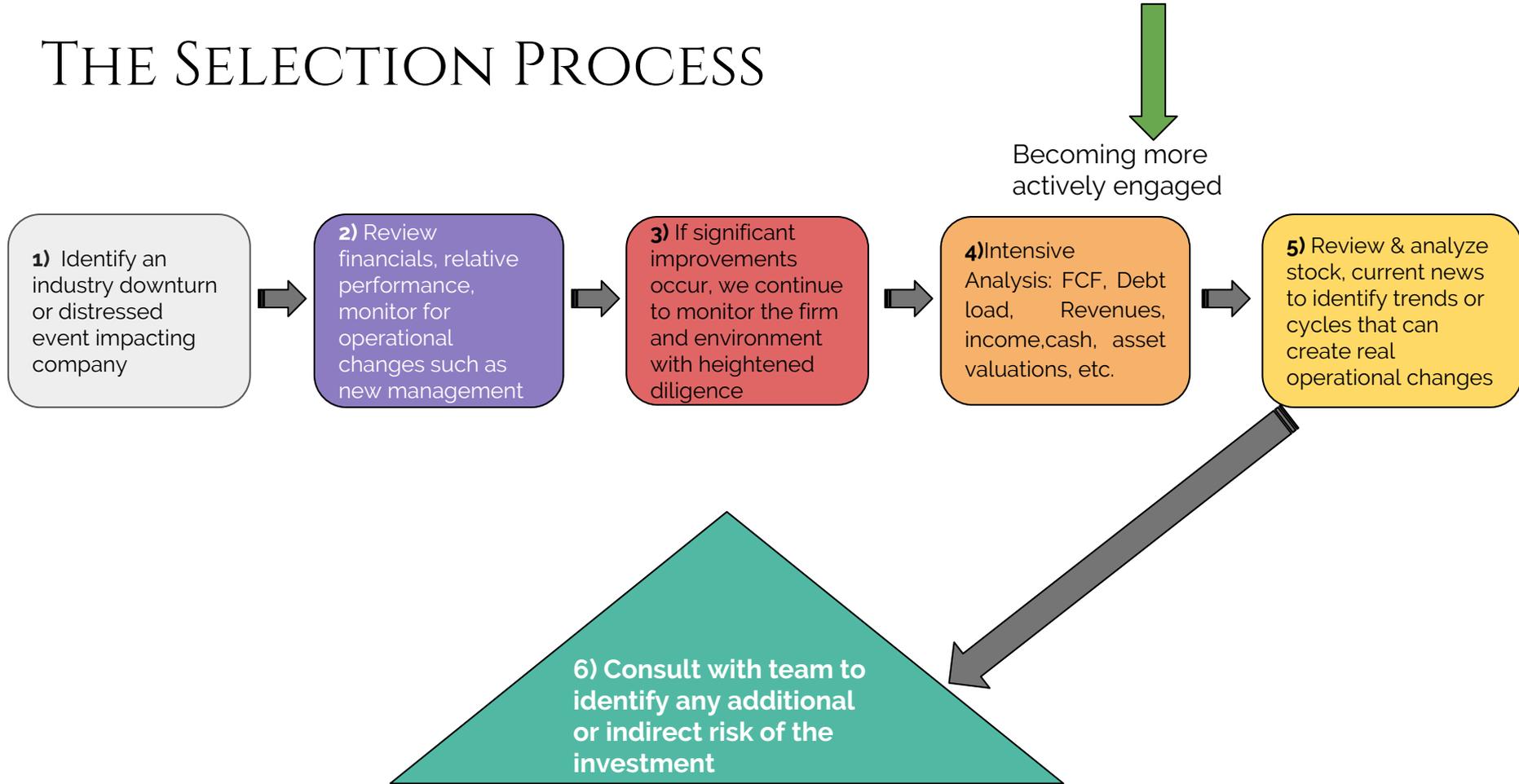
- ❖ WE METHODICALLY ANALYZE THE OVERALL IMPACT TO RISK & REWARD IN THE FUND FOR EACH SECURITY WE MARK FOR INVESTMENT, IN LINE WITH MODERN PORTFOLIO THEORY
 - WE MONITOR A COMPANY'S SITUATION/FUNDAMENTALS FOR MONTHS, SOMETIMES YEARS, BEFORE DETERMINING IF THE INVESTMENT IS COHESIVE WITH THE RISK/REWARD PROFILE OF THE OVERALL PORTFOLIO
- ❖ WE BELIEVE THAT ONE OF THE BEST WAYS TO PROTECT ONESELF FROM DOWNSIDE RISK IS TO **BUY BELOW INTRINSIC VALUE**
 - **EXAMPLE:**
 - BOND DEBT TRADING AT 100% OF PAR OFTEN HAS LIMITED UPSIDE POTENTIAL, WITH THE POTENTIAL DOWNSIDE RISK OF 100 POINTS
 - DISTRESSED DEBT TRADING AT 20% OF PAR HAS OVER 500% UPSIDE REWARD POTENTIAL (INCLUDING INTEREST) WITH 20 POINTS OF DOWNSIDE RISK
- ❖ BY *BUYING BELOW INTRINSIC VALUE*, WE NOT ONLY CHANGE THE RISK/REWARD PROFILE, BUT ALSO MITIGATE SUBSTANTIAL DOWNSIDE RISK WHILE PROVIDING A MUCH HIGHER UPSIDE REWARD POTENTIAL
- ❖ *A CAR WITH DENTS WILL SELL CHEAP, IT DOESN'T MEAN IT CAN'T BE FIXED*
 - BY DOING OUR OWN IN-HOUSE RESEARCH AND BENCHMARKING AGAINST THE ACTIONS OF THE RATING AGENCIES, WE CAN VALIDATE THAT THE RATING AGENCIES ARE NOT ACTING IN A TIMELY MANNER
 - LOOKING AT THE COMPANY'S QUARTER, WE CAN AFFIRM OUR BELIEFS AND CAPTURE OPPORTUNITIES OR ACT ON INEFFICIENCIES MUCH SOONER THAN THE RATING AGENCIES, WHO TYPICALLY REVIEW ONCE A YEAR (13)
- ❖ WE ALSO SEEK TO LOWER PORTFOLIO RISK BY:
 - MAINTAINING A LOW OR NEGATIVE BETA
 - DIVERSIFICATION AMONG ISSUERS AND INDUSTRIES
 - PRODUCING AND MAINTAINING A HIGH ALPHA (RETURN GENERATED BY INVESTMENT MANAGER THAT EXCEEDS THE EXPECTED RETURN EXPECTED BY BETA)

OUR STRATEGY

- ❖ WE SEARCH NORTH AMERICAN AND GLOBAL DEBT MARKETS FOR SECURITIES THAT HAVE DEFAULTED OR ARE PRICED AT AN EXTREME DISCOUNT, DUE TO AN INABILITY TO HISTORICALLY EXECUTE ON AN OPERATIONAL LEVEL, BUT MAY NOW BE ON THE CUSP OF A SIGNIFICANT TURNAROUND
- ❖ TYPICALLY, WE TARGET ISSUES TRADING BELOW 25% OF PAR VALUE, WITH MULTIPLE IMPROVING BUSINESS FUNDAMENTALS, OFTEN TARGETING A FULL RECOVERY
- ❖ ONCE A SPECIFIC ISSUE HAS BEEN MARKED FOR INVESTMENT, **WE MONITOR THE FIRM'S ACTIVITY**, LOOKING FOR **IMPROVING FUNDAMENTALS** SUCH AS **DEBT SERVICE AND REPURCHASE, IMPROVING COVERAGE RATIOS,** AND **POSITIVE FREE CASH FLOWS**, FOCUSING ON FINANCIAL METRICS WHICH HAVE IMPROVED TO A LEVEL THAT INDICATES THEY CAN COVER COST(S)
- ❖ WHEN SUCCESSFUL, OUR STRATEGY ALLOWS US TO NOT ONLY RECOUP THE INITIAL COST OF THE BOND, BUT EARN A **4-5X PROFIT**, PLUS COUPON INTEREST ON A DEBT INSTRUMENT ABANDONED BY MOST INVESTORS

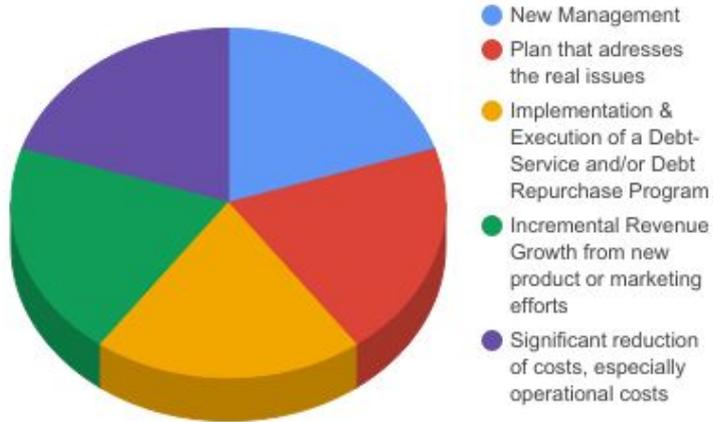
THE ROUGHER THE MARKET, THE INCREASED DEPTH AND WIDTH OF ISSUES AVAILABLE TO US

THE SELECTION PROCESS



THE “TURNAROUND”

Key Elements of a Turnaround



❖ THROUGH OUR EXPERIENCE, WE HAVE FOUND SEVERAL FACTORS PRESENT IN NEARLY EVERY “TURNAROUND”

DISTRESSED DEBT 1 LP - FUND OVERVIEW

- ❖ FOUNDED IN SEPTEMBER OF 2015, DISTRESSED DEBT 1 LP IS A POOLED INVESTMENT VEHICLE THAT SEARCHES GLOBAL BOND MARKETS FOR DEFAULTED AND/OR DEEPLY DISCOUNTED DEBT INSTRUMENTS
- ❖ POOLED FUNDING OFTEN ALLOWS US TO PURCHASE DEBT INSTRUMENTS AT MORE FAVORABLE TERMS VIA BLOCK-PURCHASE DISCOUNTS
- ❖ DISTRESSED DEBT 1 FOCUSES PRIMARILY ON CORPORATE BOND ISSUES IN THE U.S. AND NORTH AMERICA
- ❖ WE MAINTAIN VERY SPECIFIC INVESTMENT CRITERIA; LESS THAN ONE IN A THOUSAND BONDS ARE SELECTED FOR INVESTMENT IN THE FUND
- ❖ CEO/OWNER, RANDY DURIG HAS ABOUT A ONE-THIRD OWNERSHIP STAKE IN THE FUND
- ❖ WE STRIVE TO KEEP THE FUND *NON-CORRELATED WITH THE EQUITY MARKETS*
 - DISTRESSED DEBT 1 HAS A CURRENT BETA OF **-0.71** (26)(10-4-17)
- ❖ WE HAVE CONSISTENTLY OUTPERFORMED THE RETURNS OF MAJOR INDEX FUNDS SUCH AS THE S&P 500 TR (26)

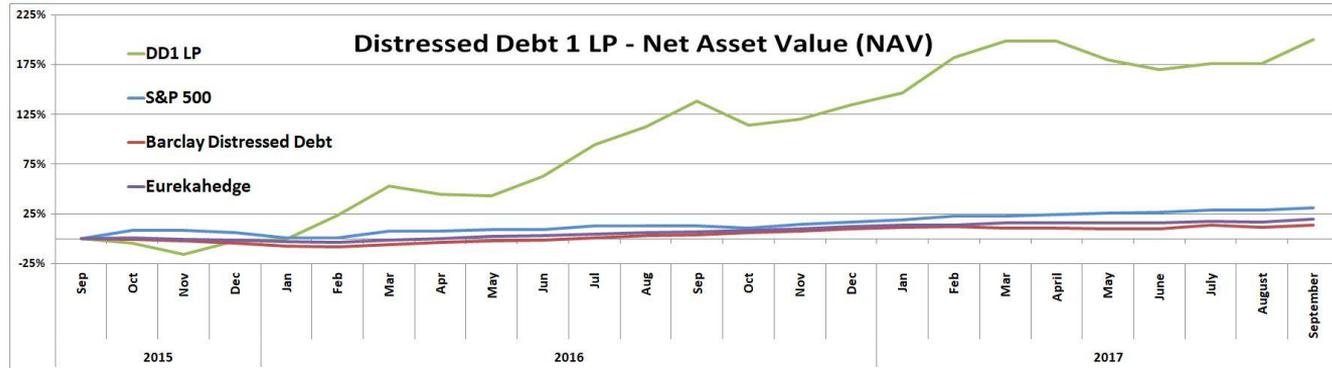
RETURN METHODOLOGY

- ❖ A BOND PURCHASED AT 20% OF PAR VALUE HAS THE POTENTIAL TO RETURN 5X IF FULLY APPRECIATES (UP TO 6X IF PAYING COUPON INTEREST)
 - FACTORING IN THE 5X PAYOFF THOUGH, IF OVER 50% OF INVESTMENTS PAY OFF, THE STRATEGY IS STILL SUCCESSFUL
- ❖ MANY BONDS THAT DEFAULT BELOW THEIR INTRINSIC VALUE APPRECIATE AFTER DEFAULTING
 - GRAN COLUMBIA, ALTHOUGH STILL OUTSTANDING, IS ONE OF MANY TO BEHAVE IN THIS WAY
- ❖ IN THE EVENT OF DEFAULT OR A RESTRUCTURING, EQUITY HOLDERS ARE OFTEN THE ONES HIT HARDEST
 - BONDHOLDERS MAINTAIN A SENIOR, AND OFTEN LEGAL CLAIM ON FIRM ASSETS ABOVE STOCKHOLDERS
 - IN SOME INSTANCES, BONDHOLDERS RECEIVE THE “LION’S SHARE” OF FIRM ASSETS

PERFORMANCE

- ❖ SINCE ITS INCEPTION IN 2015, DISTRESSED DEBT 1 LP HAS EARNED TOP RANKINGS WITHIN THE HEDGE FUND INDUSTRY (26)
 - RANKED THE TOP PERFORMING HEDGE FUND IN THE NATION OUT OF A DATABASE OF OVER 9,000 IN 2016 (26)
- ❖ WE HAVE CONSISTENTLY EXCEEDED THE RETURNS PROVIDED BY INDEX FUNDS SUCH AS THE S&P 500 AS WELL AS THE BARCLAY DISTRESSED SECURITIES INDEX & EUREKAHEDGE DISTRESSED DEBT HEDGE FUND INDEX
- ❖ DISTRESSED DEBT 1 HAS OUTPERFORMED THE S&P 500 TR INDEX BY OVER **600%** SINCE INCEPTION (10-1-15)
 - THE DISTRESSED DEBT 1 CUMULATIVE RETURN (SINCE 10-1-15) IS **199.16%**
 - THE S&P 500 TR INDEX CUMULATIVE RETURN (SINCE 10-1-15) IS **27.23%**

COMPARATIVE PERFORMANCE - CUMULATIVE RETURN (10-1-15)



PERFORMANCE

DISTRESSED DEBT 1 LP - HISTORICAL NAV YTD RETURN (INCEPTION- PRESENT)

AS OF 10-4-17

	DD1 LP Monthly Change of NAV (as a percentage)												YTD
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2015										-4.75%	-11.60%	16.30%	-2.07%
2016	1.73%	24.09%	23.65%	-5.44%	-0.88%	13.66%	19.56%	9.37%	12.12%	-10.27%	2.73%	6.56%	139.47%
2017	5.27%	14.44%	5.81%	-0.04%	-6.31%	-3.6%	2.24%	0.23%	8.69%				28.18%

KEY PERFORMANCE METRICS (AS OF 10-4-17, HEDGE.CO.NET)

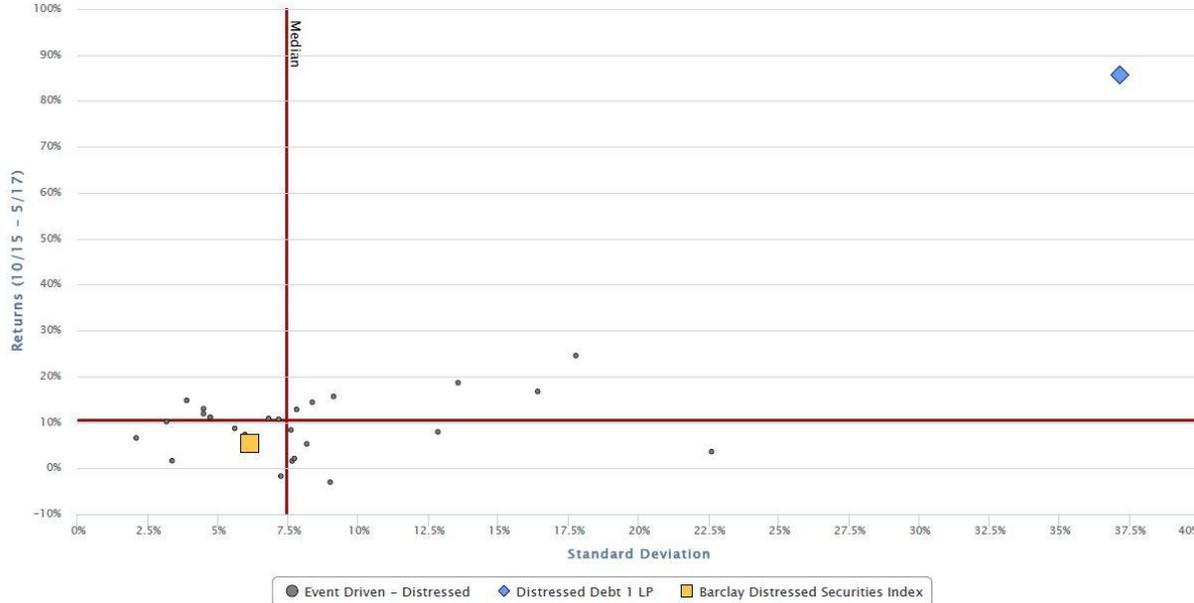
CUMULATIVE RETURN	199.16%
COMPOUNDED RATE OF RETURN (ANNUAL)	52.83%
BEST MONTHLY RETURN:	24.09%
WORST MONTHLY RETURN:	- 11.60%
ROLLING 12-MONTH RETURN:	25.37%
BETA	- 0.71
ALPHA	4.62
R	- 0.25
SHARPE RATIO (RFR 3%)	0.41
INFORMATION RATIO	1.52

EVESTMENT - THIRD PARTY ANALYSIS OF FUND RETURNS

Durig
Distressed Debt 1 LP

Oct 2015 - May 2017
Peer Analysis

Background Universe: Event Driven - Distressed displaying 26 peers



- ❖ AMONG THE 26 PEERS CONSIDERED FOR ANALYSIS, DISTRESSED DEBT 1 WAS FOUND TO PRODUCE THE HIGHEST RETURNS FOR THE PERIOD

45)

Vehicle Type: CF - Composite - eA Auto - Distressed Debt 1 LP - Net of Fees. Displayed in US Dollar (USD). Data frequency: Monthly

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SUMMARY

- ❖ HISTORICAL PERFORMANCE OF OUR DISTRESSED DEBT FUND FAR EXCEEDS THAT OF LARGE INDEX FUNDS LIKE THE S&P 500 TR
 - IN 2016 WE OUTPERFORMED THE S&P 500 IN TOTAL ANNUAL RETURN BY **126.59%** (26) (43)
 - AS OF 9-7-17, WE HAVE EXCEEDED THE S&P 500 IN YTD RETURN BY NEARLY **8%** (26) (42)
 - ❖ DISTRESSED DEBT I HAS OUTPERFORMED THE S&P 500 TR INDEX BY OVER **600%** SINCE INCEPTION (10-1-15)
 - THE DISTRESSED DEBT I CUMULATIVE RETURN (SINCE 10-1-15) IS **199.16%**
 - THE S&P 500 TR INDEX CUMULATIVE RETURN (SINCE 10-1-15) IS **27.23%**
 - ❖ OUR FUND IS NEGATIVELY CORRELATED WITH THE S&P 500 WITH A BETA OF **-0.71** (26) (AS OF 10-4-17)
 - ❖ VOLATILE INDUSTRIES OR MARKET CONDITIONS ARE WHAT WE EXCEL IN; THE MORE “DISTRESSED” A FIRM OR INDUSTRY IS, THE GREATER OUR POOL OF SECURITIES TO MARK FOR MONITORING AND POTENTIAL INVESTMENT
 - ❖ WE THRIVE WHERE OTHER FUNDS MAY FALTER AND BE FORCED TO LIQUIDATE POSITIONS DUE TO FALLING CREDIT RATINGS OR DEBT REQUIREMENTS
-
- | | |
|--|--|
| ❖ OPEN FOR CONTRIBUTION BY ACCREDITED INVESTORS | ❖ ANNUAL FEE OF 1.2% |
| ❖ MINIMUM DURATION OF INVESTMENT IS ONE YEAR | ❖ PERFORMANCE FEE OF 20% |
| ❖ MINIMUM INVESTMENT OF \$125K | ❖ NO LEVERAGE |
| ❖ NO REDEMPTION FEE | ❖ 30 YEARS OF INVESTMENT EXPERIENCE |

SUMMARY OF FUND GOALS

- ❖ OUR PRIMARY GOAL IS TO CONSISTENTLY PROVIDE CLIENTS WITH HIGH RETURNS ON FIXED INCOME & RESTRUCTURED DEBT SECURITIES THROUGH OUR PORTFOLIO OF DISTRESSED BONDS
- ❖ WE FOCUS ACQUISITION ON DEFAULT RATED OR VERY DISCOUNTED ISSUES WITH IMPROVING FUNDAMENTALS THAT OFTEN TRADE AT A FRACTION OF PAR VALUE AND HOLD THEM WHILE THEY APPRECIATE
- ❖ A GOOD STRATEGY IS TO BUY LOW AND SELL HIGH. OUR STRATEGY IS TO BUY BELOW INTRINSIC VALUE, TARGETING INCREASED OPERATIONAL PERFORMANCE WHICH CAN EQUATE TO INCREASED UPSIDE POTENTIAL AND DECREASED DOWNSIDE RISK
 - WE AIM TO ACQUIRE DEBT SECURITIES WITH IMPROVING FUNDAMENTALS AFTER “THE BOTTOM” AND RIDE TO MATURITY- ESSENTIALLY WE LEVERAGE OUR EXPERTISE TO IDENTIFY THE RIGHT TIME TO BUY
- ❖ MAINTAIN A NEGATIVE CORRELATION WITH EQUITY MARKETS (**CURRENT BETA OF -0.71**) (26)⁽¹⁰⁻⁴⁻¹⁷⁾
- ❖ ALTER THE RISK/REWARD PROFILE TO PROVIDE A **5:1** OR **6:1** POTENTIAL RETURN WITH DOWNSIDE RISK PROTECTION THROUGH THE UNDERLYING ASSET, OFTEN PRICED BELOW INTRINSIC VALUE

DISTRESSED DEBT 1: HISTORICAL ASSET SELECTION

A BRIEF REVIEW OF SOME OF OUR BIGGEST WINNERS AND LOSERS:





COMPANY: GRAN COLOMBIA GOLD, INC.

INDUSTRY: COMMODITIES (GOLD), MINING

TICKER SYMBOL: TSE:GCM

RATINGS: NA

COUPON: 5% (PRIOR TO RESTRUCTURING, PAID IN ARREARS)

AVERAGE COST (1ST TRANCHE, ROUGHLY ½ POSITION): 23.1

CURRENT YIELD: 43.29% (PRIOR TO RESTRUCTURING)

AVERAGE SALE (1ST TRANCHE): 65.45

AVERAGE COST (2ND TRANCHE): 64.436

AVERAGE SALE (2ND TRANCHE): 85.0

CURRENT PRICE: 84.0

- ❖ GRAN COLOMBIA GOLD (GCG) CAME TO OUR ATTENTION WHILE TECHNICALLY IN A DEFAULT
- ❖ AFTER REVIEWING THEIR MOST RECENT QUARTER, WE FOUND THEY WERE MAKING UP THEIR INTEREST PAYMENTS IN ARREARS
- ❖ A DEEPER ANALYSIS REVEALED AN EXTREMELY UNDERVALUED COMPANY ON THE CUSP OF A REAL OPERATIONAL TURNAROUND
- ❖ THE COMPANY IMPLEMENTED SEVERAL NEW MECHANISMS CAUSING EMPLOYEES TO BE MORE ACCOUNTABLE FOR THEIR PAY, LEADING TO A SERIOUS INCREASE IN EMPLOYEE PRODUCTION RESULTING IN A VERY IMPRESSIVE QUARTER
- ❖ WE TOOK AN INITIAL POSITION AT AN AVERAGE COST OF 23.1
- ❖ THE NEXT QUARTER WAS NO LESS IMPRESSIVE FOR GCG, WITH IMPROVED QUARTER-ON-QUARTER PERFORMANCE IN ALMOST EVERY SEGMENT OF THEIR BUSINESS
- ❖ AFTER ANOTHER IMPRESSIVE 2ND QUARTER, WE ADDED MORE WEIGHT TO OUR POSITION IN GCG AROUND 64.4
- ❖ WHEN GCG PROPOSED A NEW DEBT STRUCTURE (LESS THAN OPTIMAL) WE BECAME MORE ACTIVE IN THE INVESTMENT AND PARTNERED WITH OTHER BONDHOLDERS TO BLOCK THE DEAL, AT WHICH POINT GCG DECIDED TO SWEETEN THE DEAL, WHICH WE ACCEPTED
- ❖ WHEN THE ISSUE APPRECIATED TO THE UPPER 60'S TO LOW 70'S (AVERAGE SALE 65.45), WE SIGNIFICANTLY REDUCED OUR POSITIONS

COMPANY: DATA COMMUNICATIONS MANAGEMENT GROUP

INDUSTRY: INFORMATION TECHNOLOGY, BUSINESS PROCESS SERVICES (BPS)

TICKER SYMBOL: TSX:DCM

COUPON: 6%

RATINGS: N/A

AVERAGE COST (ENTIRE POSITION): 43.0

CURRENT YIELD: 13.9%

AVERAGE SALE (ENTIRE POSITION): 56.9

- ❖ WE FOLLOWED COMPANY FOR QUITE SOME TIME PRIOR TO TAKING A POSITION
- ❖ THE COMPANY WAS REPORTING DECENT NUMBERS EACH QUARTER, HOWEVER THE STOCK AND BONDS WERE STILL IN FREEFALL
- ❖ AFTER THE ANNOUNCEMENT OF THEIR RESTRUCTURING IN WHICH BONDHOLDERS WERE TO RECEIVE 98% OF EQUITY VIA A CONVERTIBLE FEATURE OF THE BONDS, WE TOOK A FULL POSITION AT 43.0
- ❖ WE REALIZED THAT WITH REDUCED DEBT, THE 25% OF BONDS NOT CONVERTED WOULD NOT BE MUCH TROUBLE FOR THE COMPANY AT MATURITY
- ❖ WE SOLD ALL STOCK AS SOON AS IT REACHED OUR TARGET PRICE, BUT HELD THE BONDS
- ❖ BECAUSE OF OUR CONTRACT WITH THE COMPANY, WE WERE ASKED TO PARTICIPATE IN A PRIVATE PLACEMENT DEAL, WHICH WE DECLINED



COMPANY: VANGUARD NATURAL RESOURCES, LLC (FORMERLY EAGLE ROCK ENERGY PARTNERS, LP)

INDUSTRY: ENERGY, OIL & GAS

TICKER SYMBOL: NASDAQ: VNR

RATINGS: CAA3

COUPON: 8.375% (EAGLE ROCK)

COUPON: 7.875% (VANGUARD NATURAL RESOURCES)

AVERAGE COST (ENTIRE POSITION): 23.5

CURRENT YIELD: 35.6% (EAGLE ROCK)

CURRENT YIELD: 33.13% (VANGUARD)

AVERAGE SALE (ENTIRE POSITION): 49.1

- ❖ AS OIL APPEARED TO HAVE BOTTOMED OUT (MARCH/APRIL OF 2016), WE NOTICED THAT VANGUARD NATURAL RESOURCES HAD BONDS TRADING AT 20% OF PAR BUT WAS MAINTAINING A STRONG LEVEL OF POSITIVE FREE CASH FLOW
- ❖ ALTHOUGH THERE WERE SEVERAL ONGOING ISSUES WITH CREDITOR BANKS, WE CONSIDERED THE FREE CASH FLOW TO OUTWEIGH THE RISK OF ISSUES AT HAND AND DECIDED TO TAKE A POSITION
- ❖ FOLLOWING SEVERAL QUARTERS OF OUTSTANDING POSITIVE FREE CASH FLOW, WE ADDED ADDITIONAL WEIGHT TO OUR POSITION
- ❖ AFTER SELLING OFF SOME OF THEIR ASSETS TO GENERATE CASH, THE BONDS CONTINUED TO APPRECIATE UP INTO THE 40'S & 50'S
- ❖ AFTER FAILING TO MAKE THEIR REDETERMINATION NUMBERS, VANGUARD EXERCISED THEIR 30-DAY GRACE PERIOD BEFORE PAYING BOND INTEREST, AT WHICH POINT WE SOLD OUR POSITIONS IN VANGUARD & EAGLE ROCK FOR PRICES RANGING FROM 50-55, FOR A GAIN OF 2-3X OUR INITIAL INVESTMENT

COMPANY: INTELSAT

INDUSTRY: TECHNOLOGY, INFORMATION TECHNOLOGY

TICKER SYMBOL: INTEL

RATINGS: CA/CCC-

COUPON: 7.75%

AVERAGE COST (1ST TRANCHE): 33.9

CURRENT YIELD: 22.68%

AVERAGE SALE (1ST TRANCHE): 56.2 (ROUGHLY 2/3 OF POSITION)

CURRENT PRICE: 66.8

- ❖ AFTER FOLLOWING THE COMPANY FOR ROUGHLY SIX MONTHS AND SEEING SEVERAL QUARTERS OF IMPROVING CASH FLOW, WE TOOK A POSITION AT A PRICE OF 29.0
- ❖ FOLLOWING SEVERAL CONSECUTIVE QUARTERS OF IMPROVING CASH FLOWS, WE BEGAN TO OVERWEIGHT THIS POSITION, ADDING POSITIONS IN THE 31-36 RANGE
- ❖ THE COMPANY THEN RECEIVES BUYOUT/MERGER OFFER FROM SOFTBANK GROUP WHICH AIDED IN THE BONDS TRADING UP IN PRICE BY ABOUT 20 BASIS POINTS
- ❖ AFTER A RELATIVELY WEAK 1ST QUARTER, THE DEAL WAS PUT ON HOLD
- ❖ CONDITIONS SURROUNDING THE DEAL CAUSED US TO BELIEVE THE MERGER WOULDN'T TAKE PLACE, SO WE LIQUIDATED 2/3RDS OF OUR POSITION BEFORE THE FAILED MERGER ANNOUNCEMENT
- ❖ WE CONTINUE TO MONITOR THE SITUATION CLOSELY AND HOLD A SMALL POSITION



COMPANY: MEMORIAL PRODUCTION PARTNERS

INDUSTRY: ENERGY

TICKER SYMBOL: NASDAQ: MEMP

COUPON: 7.625%

RATINGS: N/A

AVERAGE COST (ENTIRE POSITION): 43.9

CURRENT YIELD: 17.37%

AVERAGE SALE (ENTIRE POSITION): 38.5

- ❖ AFTER REPORTING A VERY POSITIVE QUARTER WITH ACCEPTABLE INTEREST COVERAGE, WE INITIATED A SMALL POSITION ALTHOUGH BANK REDETERMINATION WAS STILL AN ISSUE
- ❖ FOLLOWING TWO QUARTERS OF ACHIEVING ONLY MARGINAL RETURNS, THE COMPANY ANNOUNCED IT WOULD UTILIZE IT'S 30-DAY GRACE PERIOD BEFORE PAYING INTEREST TO BONDHOLDERS
- ❖ WHEN HEARING THIS ANNOUNCEMENT, WE IMMEDIATELY SOLD THE POSITION FOR A SMALL LOSS

THANK YOU

DISTRESSED DEBT 1 LP HEDGE FUND **DURIG CAPITAL GENERAL PARTNER**

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