

**Summit Consumer Receivables Fund, L.P.**

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# Summit Consumer Receivables Fund, L.P.

## Applying Disciplined Management Strategies to the Consumer Receivables Markets

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## SETTING THE STAGE

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**Consumer Spending represents 70%+ of U.S. GDP (much of it stimulated by finance programs)**

- And yet, the market for third-party consumer receivables acquisition is fragmented and underserved
- Many potential sellers do not realize that they have the option of selling their receivables or cannot find qualified buyers
- Other companies may want to outsource their consumer finance programs, but have difficulty finding a consumer finance company which meets their needs

# BENEFITS OF SELLING RECEIVABLES OR OUTSOURCING FINANCE PROGRAMS

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**Selling receivables at known discounts or outsourcing finance programs to third parties creates greater predictability of Company cash flows and income vs. collecting receivables internally over their life**

- Company may have limited experience underwriting consumer loans and servicing receivables
- A good alternative to seeking multiple funding sources or renegotiating an existing credit line (often at a higher interest rate) in today's tight SMB credit markets
  - Sales are no longer restrained by a fixed credit facility but rather can continue to grow as your company grows
- Up-front cash today can help companies reduce debt, increase available cash allocated to operations, finance an acquisition, etc.
- Rebalance a Company portfolio or exit an industry
  - Allows Company to shift asset allocations and/or industry concentrations

# WHY IMPLEMENT THIRD-PARTY CONSUMER FINANCE PROGRAMS?

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**Utilizing third-party consumer finance programs allows consumer product and service companies to stimulate sales, increase cashflow and re-focus on their core business**

- Providing alternative financing options can save lost customers
  - More flexible underwriting guidelines with pricing across the spectrum of FICO score levels
  - Varying interest rate (“coupon”) to the customer and discount to the originator/buyer per credit tier
  
- Increase Income and Revenue
  - Eliminate conflicts of interest on the billing and collections front, especially if customers generate new referrals (e.g., Elective Medical industry)
  - Increase credit approvals while eliminating default risk
  
- Cashflow Management
  - Generate up-front cash vs. an annuity over time
  - Revenue projections become much easier to forecast and manage by eliminating the uncertainties inherent in accounts receivable (prepayments / write-offs / economic cyclicity)

## EXECUTIVE SUMMARY

**Summit acquires pools of performing consumer receivables at a discount and profits from its ability to underwrite the default risk and prepayment potential of these loans, while also increasing payment performance from expert servicing and collections practices**

- Summit Alternative Investments, LLC. (“Summit”) is seeking new investors for its Summit Consumer Receivables Fund, L.P.
  
- Summit launched in March 2007 and currently has \$5.37 Million in AUM (\$1.49 Million in fund assets)
  - 5.06%\* annualized return since inception net of fees
  - Experienced management team with over 100 years of combined experience in consumer finance
  - Target 15% IRR net of fees (2%/20%)
  - While “bad debt” buyers who purchase defaulted accounts are prevalent, purchasers of micro-ticket prime and near-prime performing loans are few and far between
  - Focus on purchasing “delivered product” as opposed to future services
  - SCRF has access to a vast pool of businesses generating their own consumer receivables portfolios or aggregating them from others
  - Few investment managers have the experience or sophistication to effectively source, underwrite and price these consumer receivables portfolios

**\*Past performance is not a guarantee of future performance**

## OVERVIEW

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### **The Fund seeks to identify and purchase the best micro-ticket loans available in the market and service these loans through maturity**

- Consumer Receivables are loans from businesses to consumers for products and services purchased
- Micro-ticket loans are small-dollar loans up to \$20,000 with a historical weighted-average balance of \$6,000
- Only purchase U.S. receivables
- Summit targets pools of loans with very strong credit typically averaging a 670 FICO score, and paid current when purchased
- For added liquidity, the loan maturities average less than 60 months
- Coupons range from 0% to 22% and average 16%
- All loans are purchased at a discount to par
- Total yearly market size of hundreds of billions of dollars
- Fragmented, underserved market for purchasing pools of loans

# BUSINESS MODEL

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## Summit has a simplified business model that focuses on purchasing the most transparent and liquid portfolios of consumer loans

- Purchases consumer receivables portfolios from businesses:
  - With current “seasoning” or in-depth credit underwriting of each debtor, allowing us to effectively predict aggregate payment performance
  - Priced at a significant discount to current value (based on default risk, coupon and term)
  - Favorable purchase terms often include “recourse” buy-back of individual non-performing contracts, mandatory ACH payments, and/or monthly processing fees
  - Once purchased, portfolios are serviced more effectively through outsourcing of servicing and collections to firms with knowledge of the products and services financed
  - The company offering the product or service often wants to avoid collections with their customers to avoid turning away future sales—Summit has no conflict of interest here
  
- Easily understood short-term consumer receivables contracts are the sole asset class
  - Our portfolio is comprised of tens of thousands of individual consumer contracts
  - Diversification across Geography and product/service Industry
  
- Starting in July 2007, Summit’s returns and liquidity were also bolstered by using moderate leverage
  - \$0 outstanding balance on term loan, fully unlevered as of January, 2014

## GOALS AND OBJECTIVES

**Summit seeks to achieve extraordinary risk-adjusted returns through disciplined pricing, underwriting and servicing of loans**

- Disciplined implementation of Summit's proprietary portfolio pricing methodology:
  - Several variables are analyzed using quantitative analysis and extensive experience
  - Portfolios are purchased at a discount to their par value
  
- Hold receivables to maturity for protection of principal
  
- Provide portfolio diversification across industry, geography, maturity and other factors
  
- Provide steady returns in all market cycles
  - Minimal correlation to public equity and debt markets
  - Unsecured consumer paper default rates have historically varied by less than 6 points since 1985
  
- **Target 15%+ annual returns net of all fees with low volatility**



## TRANSPARENCY

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### **Our strategy is not a “black box” and we strive for the highest level of transparency for our investors**

- We are audited by a large regional firm with over 260 professionals, and expertise in consumer receivables - Blackman Kallick ([www.blackmankallick.com](http://www.blackmankallick.com))
- US Bancorp in Minneapolis is SCRF’s custodian of assets and backup servicer, as well as our third-party administrator
  - Anyone who would like to verify our assets can do so
- US Bank provides detailed “exception reports” verifying that every loan document matches our electronic records, contains an original signature, and other fine details
- Not only is SCRF’s cash flow from our third-party billing and collections companies audited by Blackman Kallick, but consumer loan payments go to bank “lockbox” accounts - greatly reducing fraud risk

## FUND STRUCTURE

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<b>Fund</b>	<b>Summit Consumer Receivables Fund, L.P.</b>
<b>Manager</b>	<b>Summit Alternative Investments, LLC</b>
<b>Lock-Up Period</b>	<b>12 months</b>
<b>Redemptions</b>	<b>Quarterly with 90 days notice. Minimum redemption \$25,000. Subject to total Fund withdrawal limitations.</b>
<b>Income</b>	<b>Reinvested Monthly</b>
<b>Leverage</b>	<b>0-300%</b>
<b>Management Fee</b>	<b>2% per annum paid monthly on invested capital</b>
<b>Subscriptions</b>	<b>Monthly, with initial minimum of \$500,000 (subsequent minimum contributions of \$25,000)</b>
<b>Performance Fee</b>	<b>20% per annum paid quarterly net of all cumulative losses</b>

# MANAGEMENT

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## Eric Gangloff Managing Director

- Founding Partner of Alternative Debt Portfolios and Summit Alternative Investments
- Founding Partner of Gangloff & Associates Management Consulting
- Gemini Management Consulting and General Electric Corporation
- MBA and MMM from the Kellogg Graduate School of Management at Northwestern University and Bachelor of Science in Electrical Engineering from Villanova University
- Passed Series 65 “Uniform Investment Advisor” exam (score of 100% on Economics and Analysis)

## Wayne Crane Asset Acquisition

- Senior Vice President Sterling National Bank – Loan Portfolios
- Senior Vice President Carmel Financial Corporation – Consumer Finance
- Vice President Bank One – Commercial Lending
- FDIC Bank Examiner

## Paul Cook Operations Manager

- General Manager FirstSource Advantage for Reno Call Center
- Vice President of Operations at IQOR (formerly IRMC)
- Vice President of Operations at Risk Management Alternatives
- Assistant General Manager of Collections at National Credit Services Corporation

## David Hyman, CPA Controller

- Controller, Quintus Resorts LLC
- Controller, Harich Tahoe Developments
- Senior Staff Accountant for Main Hurdman
- BS in Accounting from Humboldt State

## FUND ADMINISTRATION

■ MANAGER (General Partner)

Summit Alternative Investments, LLC  
50 West Liberty Street, Suite 980  
Reno, NV 89501  
775-682-3000

■ MANAGER LEGAL STRUCTURE

The Manager (and General Partner) is a Nevada LLC

■ FUND LEGAL STRUCTURE

The Fund is a Delaware Limited Partnership. Investors are Limited Partners, the Manager is the General Partner

■ AUDITOR

Blackman Kallick ([www.blackmankallick.com](http://www.blackmankallick.com))

■ INDEPENDENT ADMINISTRATOR

US Bancorp Fund Services

■ CUSTODIAN & BACKUP SERVICER

US Bancorp

■ CONSUMER CALL CENTER, BILLING & COLLECTIONS

Summit uses five national billing companies, and collections law firms in every State

# SUMMIT PROCESS OVERVIEW

## 1. Sourcing:

- Long-term Sales Presence in 3<sup>rd</sup> Party Markets
- Experience in finding Portfolios matching Summit needs
- Determine Investment Grade for Initial Price
- Propose Preliminary Offer Pending U/W
- Line up new investor capital or existing Fund capital to match portfolio size

## 2. Underwriting:

- Analyze Contractual Documentation
- Load and Run Proprietary Risk Management Model
- Determine Customer Sample
- Go/No-Go Decision
- If Go – Determine Final Offering Price
- Negotiate Final Pricing, Terms & Conditions

## 4. Servicing & Collections:

- Initiate Auto-Debit Process
- Monitor Receipt of Funds
- Facilitate Customer Transition Issues
- Contact Delinquents
- Place Accounts in Collections
- Generate Electronic Reporting
- Transfer Receipts minus Fees to Summit

## 3. Administration:

- Master Agreement and Contracts
- Send Funds, Notify Customers of Transition
- Electronically or Manually Load Contracts
- Review Terms and Conditions with Call Center
- Set Up Auto-Debit Process
- Monitor Electronic Management Reports
- Monitor Default-Replacement Process

## RECEIVABLES SOURCING

Summit continuously monitors the marketplace for appropriate portfolios through industry contacts and alliances across the United States which are screened for:

- Maturities – typically 3 to 60 months
- Discount Levels – typically 5 to 35%
- “Bulk” Portfolio Size – typically \$1M to \$25M (the largest was \$42.7M)
- “Flow” Originations – typically \$100K/month to \$4M/month
- Typically high coupon (interest), as well as monthly billing and late fees to consumers
- Often, Favorable Recourse or Reserve Holdback Provisions

**Vast industry experience and contacts increase the flow of target portfolios**

## **BULK PORTFOLIO UNDERWRITING**

**With over 100 years experience in the consumer finance industry, Summit professionals use their accumulated experience to:**

- Explore risk/reward scenarios
- Utilize proprietary portfolio risk management models
- Obtain a preliminary price point for each portfolio to satisfy our net yield requirements (net of servicing costs and projected defaults)
- Interview a sample of existing customers in each target portfolio to assess their satisfaction with the product or service being financed
- Triangulate with industry sources to determine third-party experience with the company selling the portfolio
- Negotiate favorable pricing and final terms & conditions
- Service the loan portfolio and utilize collections to achieve maximum return on investment

## FLOW UNDERWRITING

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Summit's seasoned Flow Underwriting team performs proprietary consumer credit decisioning including:

- Detailed review of DTI ratios
- Evaluation of “alternative” mortgage risk, which we have done since well before the housing bubble burst
- Length and type of employment
- Thorough credit background review, not just FICO score
- Inclusion of co-signers when applicable
- Multiple credit tiers for different levels of risk, each with different discounts and coupons
- Choice of servicers and collectors with asset class experience to achieve maximum return on investment



## SYSTEMS

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### Summit uses state-of-the-art technology and systems to ensure the reliability and continuity of our business operations

■ Systems and technology employed include:

- State-of-the-art technology resources including nightly full data backup of our server and secure nightly Internet backup of key Company files
- Electronic billing and collections reporting captured at the consumer debtor level by our Servicers, and available continuously to Summit via secure online access
- Implementation of the Nortridge Loan System in progress to:
  - Provide additional management reporting
  - Streamline the receivables accounting process
  - Create an ongoing local backup of all third-party servicer and collections data and collector comments
- Redundant, load-balanced WAN connections to provide maximum uptime and systems access
  - One connection via phone line, the other via Cable for maximum redundancy

## SERVICING AND COLLECTIONS

**Outsourcing servicing and collections focuses management expertise on the core fundraising, sourcing, underwriting and pricing functions**

- Summit currently outsources most of its customer call center, billing and collections functions to multiple third-party experts
  
- This provides Summit with a full suite of services including:
  - Automatic and pay-by-phone credit card and bank account debit processing
  - Call Center staffing on nights and weekends
  - Monthly debtor statement generation
  - Inbound / Outbound call center
  - Electronic reporting with online access to every consumer account
  - Delinquent account collections services by specialist collections law firms nationwide
  
- By reducing the internal servicing and collections functions, management is able to focus more of its time and energy on key activities that enhance returns and reduce the overall portfolio risk

	SCRIF Fund	S&P 500 (SPY)	Nasdaq 100 (QQQ)	CSFB/Tremont Hedge Fund Index
Jun-12	0.32%	4.06%	3.45%	-0.40%
Jul-12	0.20%	1.18%	1.00%	1.42%
Aug-12	0.10%	2.50%	5.19%	0.84%
Sep-12	0.11%	2.54%	0.60%	1.04%
Oct-12	-0.41%	-1.82%	-5.28%	-0.18%
Nov-12	-2.35%	0.57%	1.31%	0.64%
Dec-12	0.14%	0.18%	-1.02%	1.48%
Jan-13	0.14%	5.38%	2.67%	2.07%
Feb-13	0.12%	1.03%	0.34%	0.24%
Mar-13	0.09%	3.34%	2.79%	1.21%
Apr-13	0.08%	1.92%	2.54%	1.39%
May-13	-0.38%	2.36%	3.58%	0.42%
Jun-13	0.32%	-1.85%	-2.70%	-1.66%
Jul-13	0.07%	5.17%	6.31%	0.88%
Aug-13	0.06%	-3.00%	-0.40%	-0.54%
Sep-13	0.04%	2.66%	4.52%	1.27%
Oct-13	0.05%	4.63%	4.96%	1.59%
Nov-13	0.04%	2.96%	3.55%	1.31%
Dec-13	-0.37%	2.04%	2.60%	1.19%
Jan-14	0.01%	-3.52%	-1.92%	-0.29%
Feb-14	0.27%	4.55%	4.72%	1.72%
Mar-14	0.25%	0.39%	-2.96%	-0.48%
Apr-14	0.17%	0.70%	-0.32%	-0.21%
May-14	0.24%	2.32%	4.49%	1.13%
Jun-14	0.32%	1.58%	2.85%	0.96%
Jul-14	0.35%	-1.34%	1.18%	-0.31%
Aug-14	-1.02%	3.95%	5.01%	0.88%
Sep-14	0.29%	-1.84%	-0.99%	-0.01%
Oct-14	0.26%	2.36%	2.64%	-0.80%
Nov-14	0.34%	2.75%	4.55%	1.50%
Dec-14	-6.33%	-0.80%	-2.60%	0.01%
Jan-15	0.26%	-2.96%	-2.08%	0.81%
Feb-15	0.28%	5.62%	7.22%	1.06%
Mar-15	0.22%	-2.01%	-2.58%	0.60%
Apr-15	0.27%	0.98%	1.92%	0.02%
May-15	0.23%	1.29%	2.25%	0.83%
Jun-15	0.30%	-2.49%	-2.71%	-1.31%
Jul-15	0.20%	2.21%	4.56%	0.87%
Aug-15	0.29%	-6.13%	-6.82%	-1.99%
Sep-15	0.29%	-2.99%	-2.44%	-1.41%
Oct-15	0.22%	8.51%	11.37%	0.53%
Nov-15	0.26%	0.37%	0.61%	0.20%
Dec-15	4.38%	-2.31%	-1.89%	-0.85%
Jan-16	0.30%	-4.98%	-6.91%	-1.41%
Feb-16	0.29%	-0.08%	-1.57%	-1.08%
Mar-16	0.29%	6.18%	6.54%	0.29%
Apr-16	0.32%	0.39%	-3.19%	0.34%
May-16	0.24%	1.70%	4.37%	0.36%
June-16	0.36%	3.00%	4.52%	-0.10%
<b>Annualized Return Since Inception</b>	<b>5.06%</b>	<b>5.76%</b>	<b>10.87%</b>	<b>3.48%</b>

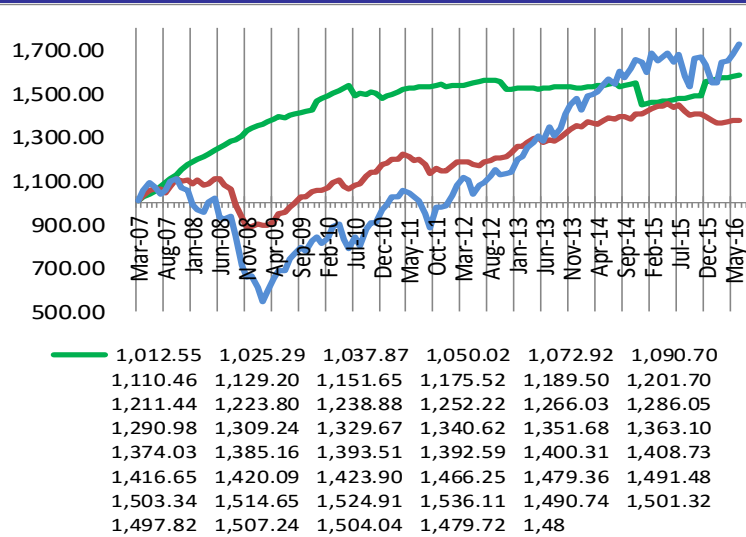


# FUND PERFORMANCE



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2016	0.30%	0.29%	0.29%	0.32%	0.24%	0.36%							1.80%
2015	0.26%	0.28%	0.22%	0.27%	0.23%	0.30%	0.20%	0.29%	0.29%	0.22%	0.26%	4.38%	7.34%
2014	0.01%	0.27%	0.25%	0.17%	0.24%	0.32%	0.35%	-1.02%	0.29%	0.26%	0.33%	-6.33%	-4.93%
2013	0.14%	0.12%	0.09%	0.08%	-0.38%	0.32%	0.07%	0.06%	0.04%	0.05%	0.04%	-0.37%	0.27%
2012	0.17%	0.17%	0.17%	0.37%	0.32%	0.32%	0.20%	0.10%	0.11%	-0.41%	-2.35%	0.14%	-0.72%
2011	0.69%	0.66%	0.63%	0.59%	0.42%	0.32%	0.05%	0.13%	0.12%	0.36%	0.15%	-0.53%	3.63%
2010	0.89%	0.82%	0.80%	0.75%	0.68%	0.73%	-2.95%	0.71%	-0.23%	0.63%	-0.21%	-1.62%	0.92%
2009	0.83%	0.84%	0.80%	0.81%	0.60%	-0.07%	0.55%	0.60%	0.56%	0.24%	0.27%	2.97%	9.37%
2008	1.19%	1.03%	0.81%	1.02%	1.23%	1.08%	1.10%	1.58%	0.38%	1.41%	1.56%	0.82%	14.04%
2007			1.26%	1.26%	1.23%	1.17%	2.18%	1.66%	1.81%	1.69%	1.99%	2.07%	19.61%

## Growth of \$1,000



## Fund Statistics

Annualized Return	5.06%
Standard Deviation	3.65%
Sharpe Ratio (annualized)	1.02
Average Monthly Return	0.42%
Percent Profitable Months	89.29%
Best Month	4.38%
Worst Month	-6.33%

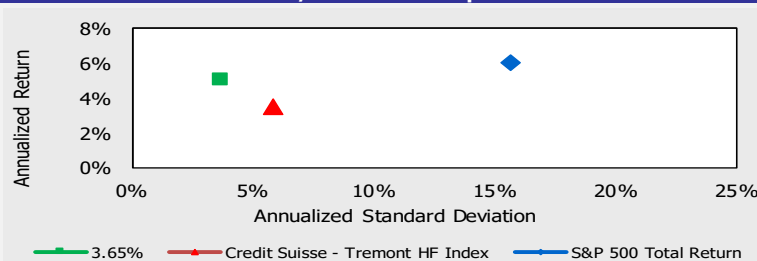
## Fund Information

Strategy	Micro-Ticket Consumer Receivables
Total Strategy Assets (in millions)	\$1.49
Fund NAV (in millions)	\$5.37
Minimum Investment	\$500,000
Mgmt Fee	2%
Incentive Fee	20%
Lock-Up	12 months
Subscription	Monthly
Redemption	Quarterly
Reporting Period	Monthly
High-Water Mark	Yes

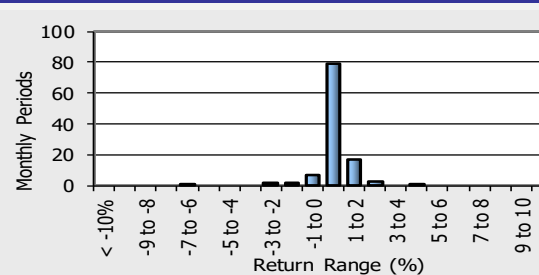
## S&P 500 Benchmark SCRF CS/T HF Index

Alpha	5.43%	1.64%
Annualized Return	5.06%	3.48%
Beta	-0.04	0.28
Correlation	-0.17	0.74
R-squared	0.03	0.55

## Risk/Return Scatterplot



## Distribution of Returns



\*Returns are net of management fees, performance fees & all transaction costs\*

\*\*Past Performance is not necessarily indicative of future results\*\*

\*\*\*S&P 500 total return includes dividend reinvestment\*\*\*

## SUMMARY

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**With a total return net of all fees and costs since inception through June, 2016 of 58.57%, we are well positioned to purchase high-credit-quality, performing consumer receivables at excellent prices**

- The Summit Alternative Investments team has the expertise, persistent track record, and risk management structure to take advantage of the investment opportunities that exist in the consumer receivables arena
- We are accepting new investor relationships in order to take advantage of the unprecedented buying opportunities that currently exist in the market

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\*Returns are net of management fees, performance fees & all transaction costs\*

\*\*Past Performance is not necessarily indicative of future results\*\*

The monthly performance from October forward is exclusive of a “designated capital account” established in October 2009 for investors as of that date. Future gains or losses on the designated capital account will only accrue to those investors participating in such account.

**Partnership Asset Valuation.** The General Partner shall use the following method of valuation for the Partnership’s net assets:

- (a) Consumer receivables and all intangible investments subject to amortization will be valued using the effective interest method or other methods as prescribed by GAAP.
- (b) Securities (as defined below) for which market quotations are available shall be valued at their closing sale price on the Valuation Date (or, if on such date securities markets were closed, then the last preceding business day on which they were open);
- (c) Securities traded in the over-the-counter market for which no sales quotations are generally available shall be valued at the closing bid price if held long or closing ask price if sold short on the Valuation Date (or last preceding business day if securities markets were closed);
- (d) Securities generally traded in an established securities market but for which there is no recorded sales information or quotations of bid and asked prices on the Valuation Date (or, if applicable, last preceding business day) shall be valued by the General Partner in good faith with reference to (i) the most recently reported sales or bid and asked prices, (ii) bid and asked price information as of the Valuation Date not generally reported but secured from a reputable broker or investment banker, and (iii) such other information as the General Partner believes in good faith is relevant;
- (e) Puts, calls, futures and other contracts and derivative securities shall be valued in a manner comparable to the method for valuing other Securities;
- (f) Securities (other than consumer receivables) not listed or traded on any exchange or in the over-the-counter market shall be considered as having no ascertainable market value and shall be valued at fair value (which may be at, below or above cost) based on information available to the General Partner regarding the value or worthlessness of such Securities;
- (g) Sales and bid and asked prices reported in newspapers of general circulation published in New York City, or in standard financial periodicals or in the records of securities exchanges or other markets, any one or more of which may be selected by the General Partner and noted in its records, shall be accepted as evidence of the price of a Security;
- (h) An investment purchased, and awaiting payment against delivery, shall be included for valuation purposes as an asset held, and the cash account shall be adjusted by the deduction of the purchase price, including brokers’ commissions or other expenses of the purchase;
- (i) An investment sold but not delivered pending receipt of proceeds shall be valued at the net sales price; and
- (j) For the purpose of valuation of an investment, except an investment sold but not delivered, it shall be unnecessary to deduct from the value determined above brokers’ commissions or other expenses that would be incurred upon a sale thereof.

All other assets of the Partnership (except goodwill, which shall not be taken into account) shall be assigned such values as the General Partner or the person acting at its discretion in good faith determines.