



**DRUM CAPITAL**  
Management

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## **Special Situation Partners II LP**

**For:** The University of Connecticut Foundation, Inc. as agent for the University of Connecticut  
**To:** Sean Griffiths  
**Attn:** StepStone Group LP  
**Email:** [reporting@stepstoneglobal.com](mailto:reporting@stepstoneglobal.com)

## Special Situation Partners II LP

### SUPPLEMENTAL SCHEDULE OF CHANGES IN PARTNERS' CAPITAL

For the period ended: September 30, 2021

(Unaudited)

**Partner Name: The University of Connecticut Foundation, Inc. as agent for the University of Connecticut**

Capital Commitment: \$400,000

Remaining Commitment as of September 30, 2021: \$35,513

	Current Quarter	Year to Date	Since Inception
<b>Balance beginning of period</b>	<b>\$180,223</b>	<b>\$137,373</b>	<b>-</b>
Contributions <sup>(1)</sup>	-	-	475,743
Distributions	(15,596)	(24,123)	(585,283)
Account Transfers	-	-	-
Net Change from Portfolio Investments	17,680	86,429	346,634
Incentive Fee Allocation	(1,598)	(18,128)	(18,128)
Other Net Income (Loss)	(88)	(264)	(5,702)
Management Fee	(332)	(998)	(32,668)
Syndication Costs <sup>(2)</sup>	-	-	(307)
Interest from Additional Limited Partners	-	-	1,183
Interest Distribution	-	-	(1,183)
<b>Capital Account Balance as of September 30, 2021</b>	<b>\$180,289</b>	<b>\$180,289</b>	<b>\$180,289</b>

(1) Capital Contributions are reflected net of recallable return of capital distributions made to certain Limited Partners due to the subsequent closings held during 2006 and 2007.

(2) Represents costs associated with selling limited partnership interests in the Fund. Such costs do not include placement agent fees which are solely borne by the General Partner of the Fund.

Totals may not sum due to rounding.

If you have questions regarding your statement, please contact Joe Peters at 203.391.7552 or [Peters@drumcapital.com](mailto:Peters@drumcapital.com)

# Special Situation Partners II LP

Financial Statements as of and for the  
Period Ended September 30, 2021  
(Unaudited)

**STATEMENT OF FINANCIAL CONDITION**  
**AS OF SEPTEMBER 30, 2021**

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**ASSETS**

Portfolio Investments, at fair value (cost \$139,352,639)	\$	214,665,427
Cash		955,930
Prepaid expenses		62,213
Withholding taxes due from foreign Limited Partners		42,216
Due from affiliate		300
		<hr/>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>215,726,086</b>
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**LIABILITIES AND PARTNERS' CAPITAL**

**LIABILITIES:**

Accounts payable and accrued expenses	\$	110,140
		<hr/>
Total liabilities		110,140

**PARTNERS' CAPITAL:**

General Partner		20,744,704
Limited Partners		194,871,242
		<hr/>
Total partners' capital		215,615,946
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<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>\$</b>	<b>215,726,086</b>
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The accompanying notes are an integral part of these financial statements.

## **SPECIAL SITUATION PARTNERS II LP**

### **STATEMENT OF OPERATIONS FOR THE PERIOD ENDED SEPTEMBER 30, 2021**

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	<b>Three Months Ending September 30, 2021</b>	<b>Nine Months Ending September 30, 2021</b>
<b>INVESTMENT EXPENSES</b>		
Expenses:		
Management fee	\$ 358,294	\$ 1,077,848
Professional fees	74,773	212,699
Administrative fund expenses	12,177	49,406
Insurance expense	8,423	24,903
Total expenses	453,667	1,364,856
Net investment loss	(453,667)	(1,364,856)
<b>NET REALIZED AND UNREALIZED GAIN/(LOSS) OF PORTFOLIO INVESTMENTS</b>		
Net change in unrealized appreciation/(depreciation) on Portfolio Investments	12,062,674	78,725,732
Net realized gain/(loss) on distributions from Portfolio Investments	7,131,919	15,110,633
Net realized and unrealized gain/(loss) on Portfolio Investments	19,194,593	93,836,365
<b>NET INCOME</b>	<b>\$ 18,740,926</b>	<b>\$ 92,471,509</b>

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

## SPECIAL SITUATION PARTNERS II LP

### STATEMENT OF CHANGES IN PARTNERS' CAPITAL FOR THE PERIOD ENDED SEPTEMBER 30, 2021

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	<b>General Partner</b>	<b>Limited Partners</b>	<b>Total</b>
Balance as of December 31, 2020	\$ 856,170	\$ 148,480,463	\$ 149,336,633
Net income:			
Net investment loss	(1,321)	(1,363,535)	(1,364,856)
Net change in unrealized appreciation/ (depreciation) on Portfolio Investments	362,549	78,363,183	78,725,732
Net realized gain/(loss) on distributions from Portfolio Investments	69,589	15,041,044	15,110,633
General Partner Incentive Allocation	19,578,337	(19,578,337)	-
Net income	20,009,154	72,462,355	92,471,509
Distributions	(120,620)	(26,071,576)	(26,192,196)
<b>Balance as of September 30, 2021</b>	<b>\$ 20,744,704</b>	<b>\$ 194,871,242</b>	<b>\$ 215,615,946</b>

For the period from inception to September 30, 2021, the management fee waiver in connection with capital contributions deemed to have been made by the General Partner totaled \$2,378,701. Refer to Note 4 for further details.

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

## SPECIAL SITUATION PARTNERS II LP

### STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED SEPTEMBER 30, 2021

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#### CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 92,471,509
Adjustments to reconcile net income to net cash provided by operating activities:	
Capital contributed to Portfolio Investments	(996,177)
Proceeds from return of capital and realized gain/(loss) on distributions received from Portfolio Investments	27,230,842
Net change in unrealized depreciation/(appreciation) on Portfolio Investments	(78,725,732)
Net realized loss/(gain) on distributions from Portfolio Investments	(15,110,633)
Changes in operating assets and liabilities:	
Change in prepaid expenses	23,610
Change in withholding taxes due from foreign Limited Partners	(37,591)
Change in due from affiliate	(300)
Change in accounts payable and accrued expenses	<u>(36,710)</u>
Net cash provided by operating activities	24,818,818

#### CASH FLOWS FROM FINANCING ACTIVITIES

Payments of distributions to partners	<u>(26,192,196)</u>
Net cash used in financing activities	(26,192,196)
Decrease in Cash	(1,373,378)
Cash — Balance as of December 31, 2020	<u>2,329,308</u>
<b>Cash — Balance as of September 30, 2021</b>	<b><u>\$ 955,930</u></b>

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

# SPECIAL SITUATION PARTNERS II LP

## SCHEDULE OF PORTFOLIO INVESTMENTS

AS OF SEPTEMBER 30, 2021

<i>Portfolio Investments</i>			Fair Value as a % of Partners'
<b>MANAGER FUNDS (39.86%)</b>	Cost	Fair Value	Capital
<i>United States of America (except as noted below)</i>			
<i>Special Opportunities</i>			
<b>Castlelake Aviation II, L.P.</b> <sup>(a)</sup>	\$ -	\$ 403,217	0.19%
\$15,000,000 capital commitment			
2.67% limited partnership interest			
<b>Centerbridge Capital Partners</b> <sup>(a)</sup>	24,692,319	4,020,443	1.86%
\$95,000,000 capital commitment			
3.09% limited partnership interest			
<b>Cerberus Institutional Partners, L.P. — Series Four</b> <sup>(a)</sup>	-	1,146,165	0.53%
\$50,000,000 capital commitment			
0.66% limited partnership interest			
<b>Harbinger Capital Partners Special Situations Fund, L.P.</b>	24,936,724	185,243	0.09%
\$30,000,000 capital commitment			
0.69% limited partnership interest			
<b>H.I.G. Bayside Debt &amp; LBO Fund II, L.P.</b> <sup>(a)</sup>	15,332,442	4,957,014	2.30%
\$30,000,000 capital commitment			
1.00% limited partnership interest			
<b>MHR Institutional Partners III LP</b> <sup>(a)</sup>	21,537,175	13,882,774	6.44%
\$50,000,000 capital commitment			
1.41% limited partnership interest			
<b>OHA European Strategic</b>			
<b>Credit Fund (Offshore), L.P.</b> <sup>(b)</sup>	-	1,377,958	0.64%
\$20,000,000 capital commitment			
4.06% limited partnership interest			
<b>Sun Capital Partners V, L.P.</b> <sup>(b)</sup>	15,635,194	3,245,280	1.51%
\$20,000,000 capital commitment			
0.40% limited partnership interest			
<b>Z Capital Partners I-A, L.P.</b>	12,873,098	27,479,716	12.74%
\$15,000,000 capital commitment			
26.97% limited partnership interest			
<b>Z Capital Partners II-A, L.P.</b>	11,201,978	29,234,595	13.56%
\$25,300,000 capital commitment			
7.21% limited partnership interest			
<b>Total Manager Funds</b>	<b>126,208,930</b>	<b>85,932,405</b>	<b>39.86%</b>

(a) Includes all alternative investment vehicles (AIVs).

(b) Investment is domiciled in the Cayman Islands.

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



# SPECIAL SITUATION PARTNERS II LP

## SCHEDULE OF PORTFOLIO INVESTMENTS (CONTINUED) AS OF SEPTEMBER 30, 2021

<i>Portfolio Investments (CONTINUED)</i>			Fair Value as a % of Partners'
<i>CO-INVESTMENTS (59.70%)</i>	Cost	Fair Value	Capital
<i>United States of America</i>			
<i>Special Opportunities</i>			
<b>Z Capital HG, L.L.C. (DBA Affinity Gaming)</b>			
Affinity Gaming Equity Interest Las Vegas, Nevada	\$ 4,032,710	\$ 98,392,155	45.63%
<i>Hotels, Motels &amp; Gaming</i>			
\$19,832,195 capital commitment			
93.84% member interest			
<b>Z Capital N-2L-D, L.L.C.</b>			
Modere, Inc. Term Loan and Equity Interest Springville, Utah	9,110,999	30,340,867	14.07%
<i>Non Durable Consumer Products</i>			
\$9,111,000 capital commitment			
100% member interest			
<b>Total Co-Investments</b>	<b>13,143,709</b>	<b>128,733,022</b>	<b>59.70%</b>
<b>TOTAL PORTFOLIO INVESTMENTS</b>	<b>\$139,352,639</b>	<b>\$214,665,427</b>	<b>99.56%</b>

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

# SPECIAL SITUATION PARTNERS II LP

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2021

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### 1. ORGANIZATION AND PURPOSE

Special Situation Partners II LP (the “Partnership”) is a Delaware Limited Partnership that commenced operations on April 11, 2006. The general partner of the Partnership is Drum Special Situation Investment LLC (the “General Partner”). Drum Capital Management, LLC (the “Advisor”), a registered investment advisor, an affiliate of the General Partner, manages the investment portfolio and operations of the Partnership.

The Partnership was formed with a goal to make selected distressed debt investments, with the objective of achieving rates of return superior to other traditional investments. The Partnership expects to invest in portfolio investments (“Portfolio Investments”) consisting of the following: partnerships or other commingled investment funds (“Manager Funds”) and managed accounts under separate investment advisory agreements with portfolio managers that invest in high yield securities, public and private debt, bank loans, trade claims, equity or other distressed obligations. Additionally, the Partnership may co-invest alongside the Manager Funds (“Co-Investments”). Investments in Portfolio Investments typically may not be redeemed.

The Partnership was scheduled to terminate on December 29, 2016, as defined in the limited partnership agreement (“Limited Partnership Agreement”), subject to extension by the General Partner, in its sole discretion, for up to two additional one-year periods. Management has exercised both of its one-year extensions. The Fund has begun an orderly liquidation pursuant to Section 7.1 in the Limited Partnership Agreement.

Capitalized terms used herein and not otherwise defined shall have meanings set forth in the Limited Partnership Agreement.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Partnership in the preparation of its financial statements in accordance with the U.S. generally accepted accounting principles (“U.S. GAAP”). Under U.S. GAAP, the Partnership is an investment company and is required to follow a specialized basis of accounting.

**Portfolio Investments** — Portfolio Investments consist of non-marketable, limited partnership or membership interests in private equity partnerships and limited liability companies, respectively. Investments in the Portfolio Investments are reported in the statement of financial condition and are generally equal to the Partnership’s proportionate share of the fair value of the partners’ capital of the Manager Funds and Co-Investments, as represented by its reported capital account balance provided by the general partners or managers of the Portfolio Investments (“Investment Managers”). The Partnership records its proportionate share of the net income or loss from the Portfolio Investments in the statement of operations.

Cost represents capital contributions made by the Partnership to the Portfolio Investments, less return of capital distributions received from such Portfolio Investments. At September 30, 2021, these investments were valued at a fair value of \$214,665,427 by the management of the Partnership, in accordance with its valuation policy. Expenses of the Portfolio Investments are included within the net realized gain/(loss) on distributions from Portfolio Investments and net change in unrealized appreciation/(depreciation) on Portfolio Investments in the statement of operations.

The fair value assigned to Portfolio Investments by management of the Partnership is based on available information and does not necessarily represent amounts that might be realized, since such

## SPECIAL SITUATION PARTNERS II LP

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2021 (CONTINUED)

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amounts depend on future circumstances and cannot reasonably be determined until the underlying investments of the Portfolio Investments are actually liquidated.

The capital account values in the Portfolio Investments, as reported, may be adjusted to reflect management's estimate of fair value. In determining whether valuation adjustments are appropriate, factors assessed include, but are not limited to, reviewing the Portfolio Investments' compliance with U.S. GAAP and valuation procedures in place, current performance and market conditions. Management will consider such information and consider whether it is appropriate, in light of all relevant circumstances, to value the Portfolio Investments at its capital account balance as reported, or adjust such value. In determining fair values, management has, as a practical expedient, estimated fair value of the Portfolio Investments within its scope using the net asset value ("NAV") (or its equivalent) as of the reporting measurement date, as further discussed under "Fair Value Measurement" below. Management's estimates of fair value may differ from the fair value that would have been used had a ready market existed for the investments, and such differences could be material.

Under U.S. GAAP, the Portfolio Investments referred to above are investment companies and are required to follow a specialized basis of accounting.

The General Partner must promptly notify the Advisory Committee, which is made up of designated Limited Partners, if it makes discretionary adjustments to the values provided by the underlying Portfolio Investments.

**Investment Income, Expenses and Transactions** — All return of capital and realized gain/(loss) distributions are recorded as reflected by the Investment Managers.

The Partnership records investment transactions on a trade date basis. Interest income and expense are recorded on the accrual basis at the current interest rate unless collection is in doubt. Expenses relating to the Partnership, as outlined in the Limited Partnership Agreement of the Partnership, are expensed as incurred.

**Use of Estimates** — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

**Cash** — The Partnership maintains its cash in bank accounts, at a major financial institution, which at times may exceed federally insured limits. The Partnership's exposure to credit risk at any point in time is generally limited to amounts recorded as assets on the statement of financial condition.

**Income Taxes** — The Partnership is not subject to federal, state, and local income taxes and no provision for income taxes has been made in the accompanying financial statements. Each partner is responsible for reporting any taxable income or loss, which is based on the partner's respective share of the Partnership's income and expenses.

The Partnership is subject to the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 740-10, *Accounting for Uncertainty in Income Taxes*. This standard defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. Management has analyzed the Partnership's tax positions taken

## **SPECIAL SITUATION PARTNERS II LP**

### **NOTES TO FINANCIAL STATEMENTS**

#### **AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2021 (CONTINUED)**

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on federal income tax returns for all open tax years since inception and has concluded that no provision for income tax is required in the Partnership's financial statements.

The Partnership is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months. Any penalties and penalty interest related to unrecognized tax benefits, are paid by the General Partner.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted on March 27, 2020 and made significant prospective and retroactive changes to the U.S. federal income tax laws (and certain corresponding state and local conformity measures). Management has considered the impact of the CARES Act on the Partnership and its investments, and has reflected the potential impact in the financial statements and the value of the investments.

### **3. CAPITAL COMMITMENTS**

The Partnership held its initial closing on April 11, 2006, accepting capital commitments from Limited Partners totaling \$109,350,000. The Partnership held additional closings during 2006 and 2007, accepting additional capital commitments from Limited Partners totaling \$322,940,000. As of September 30, 2021, capital commitments from Limited Partners totaled \$432,290,000. The General Partner has a capital commitment equal to \$2,000,000. Accordingly, as of September 30, 2021, aggregate commitments to the Partnership totaled \$434,290,000.

From inception through September 30, 2021, approximately 91.12% or \$393,907,581 of Limited Partners' committed capital, net of recallable distributions, has been called and \$38,382,419 remains available to call for purposes of satisfying unfunded investments, management fees, and expenses over the remaining life of the Partnership. Since inception through September 30, 2021, \$512,298,928 has been returned to Limited Partners, net of recallable capital.

### **4. MANAGEMENT FEE**

The Partnership will pay the Advisor a management fee computed at an annual rate of 0.80% of the Management Fee Base. For the period from April 11, 2006, to the fourth anniversary of the Final Closing Date (the "Commitment Period"), the Management Fee Base is equal to aggregate capital commitments of the Limited Partners other than a Drum Person Partner, an affiliate of the Advisor. After the Investment Period, the Management Fee Base is equal to unreturned capital contributions of the Limited Partners other than a Drum Person Partner. The management fee is payable quarterly in advance.

The Advisor may elect to waive a portion or all of its management fee payable for any period. Such election shall be in lieu of and equal to a percentage (the "Applicable Waiver Percentage") of the capital contributions the General Partner would otherwise be required to make during such period and such amounts will be deemed as contributions made by the General Partner and recorded as such on the statement of changes in partners' capital. From inception to September 30, 2021, the Applicable Waiver Percentage elected by the Advisor has equaled 100%. Accordingly, the General Partner has not made any cash contributions to the Partnership.

The management fee is also reduced by any transaction fee income received by the Advisor or its affiliates in connection with the Partnership's Portfolio Investments. There were no such reductions of the management fee during the period ended September 30, 2021.

## **SPECIAL SITUATION PARTNERS II LP**

### **NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2021 (CONTINUED)**

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#### **5. DISTRIBUTIONS**

Distributions to partners will generally be made as follows:

- First, to the General Partner until the General Partner has been distributed the Deemed Contribution Amount of the total proceeds equal to the amount the General Partner would have been distributed had the General Partner actually contributed its share of all capital contributions with respect to such investment and the related expenses as defined in the Limited Partnership Agreement;
- Second, to the Limited Partners in proportion to their capital contributions and the expenses apportioned to such investment until they have received cumulative distributions equal to their respective capital contributions plus the expenses apportioned to such investment;
- Third, any further amounts to be distributed to the Partners with respect to such investment will be apportioned among the General Partner and the Limited Partners in proportion to, respectively, their deemed and actual capital contributions for, and the expenses apportioned to, such investment. The amount of the proceeds apportioned to the General Partner will be distributed to the General Partner. The amount apportioned to the Limited Partners will then be distributed to the Limited Partners and the General Partner in respect to the incentive distribution, in the following manner;
- Fourth, to the Limited Partners in proportion to their capital contributions until the Partners have received aggregate distributions equal to their respective capital contributions plus a preferred return equal to 8% per annum compounded annually on their capital contributions;
- Fifth, to the General Partner until the General Partner has received cumulative distributions (including distributions of the preferred return) pursuant to this provision equal to 3% of the remaining aggregate net cash flows from the Manager Funds and 10% of the remaining aggregate net cash flows from Co-Investments;
- Thereafter, to the Limited Partners in proportion to capital contributions.

Distributions to the General Partner or any other Drum Person Partner are not subject to the General Partner's incentive allocation. As of September 30, 2021, \$19,578,337 incentive fee allocation has been allocated to the General Partner.

#### **6. ALLOCATIONS OF PROFITS AND LOSS**

Management fee is calculated for each Limited Partner. All remaining items of income or loss are allocated in a manner consistent with the method in which distributions are paid to partners as described in Note 5.

#### **7. INVESTMENT COMMITMENT**

As of September 30, 2021, the Partnership had unfunded investment commitments to Portfolio Investments totaling approximately \$40.9 million.

## SPECIAL SITUATION PARTNERS II LP

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2021 (CONTINUED)

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#### 8. FAIR VALUE MEASUREMENT

FASB ASC 820, *Fair Value Measurements*, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

The FASB issued an update to ASC 820, Accounting Standards Update (“ASU”) No. 2009-12 (“ASU 2009-12”), *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This update applies to an investment in an entity that meets the definition of an investment company under FASB ASC 946, *Financial Services – Investment Companies*, for which its net asset value (or its equivalent, for example, partners’ capital for an investment in a partnership) has been calculated in accordance with the ASC 946 and which does not have a readily determinable fair value. Under the guidance, entities are permitted, as a practical expedient, to estimate the fair value of investments within its scope using partners’ capital as of the reporting entities measurement dates.

Per ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its equivalent)*, an investment within the scope of paragraphs ASC 820-10-15-4 through 15-5, for which fair value is measured using the practical expedient, will not be categorized within the fair value hierarchy.

At September 30, 2021 all investments in Manager Funds, totaling \$85,932,405 and Co-investments, totaling \$128,733,022, were valued using NAV as a practical expedient.

Various inputs are used in determining the fair value of the Partnership’s investments which are summarized in the three broad levels listed below.

*Level 1* — Quoted prices (unadjusted) in active markets for identical investments that the Partnership has the ability to access at the measurement date. This level of the fair value hierarchy provides the most reliable evidence of fair value and is used to measure fair value whenever available.

*Level 2* — Inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. These inputs include quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, and inputs other than quoted prices that are observable for the investment, for example interest rate and yield curves, volatilities, prepayment speeds and credit risks among others. These are inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* — Inputs that are unobservable inputs for the investment that are used to measure fair value when observable inputs are not available. Unobservable inputs reflect the Partnership’s own assumptions about the assumptions that market participants would use in pricing the investment. These are inputs that are developed based on the best information available in the circumstances, which might include the Partnership’s own data and assumptions.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. The General Partner generally uses the capital balance reported by the investee funds’ manager as the primary input to its valuation; however, adjustments to the reported capital balance may be made based on various factors as deemed applicable.

Redemptions from Portfolio Investments are not permitted and the liquidity provided by the Portfolio Investments is principally dependent upon the ability of the Portfolio Investments to realize

## **SPECIAL SITUATION PARTNERS II LP**

### **NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2021 (CONTINUED)**

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transactions through their respective portfolios. The expected remaining term of each Portfolio Investment is governed by their respective legal agreements subject to the execution of amendments in accordance with such agreements.

The Partnership has established valuation processes and procedures to ensure that the valuation techniques for investments that are categorized within Level 3 of the fair value hierarchy are fair, consistent and verifiable. The Partnership has a valuation team that oversees the entire valuation process of the Partnership's Level 3 investments. The valuation team, headed by the Managing Directors of the investment team and overseen by the Chief Executive Officer, is responsible for conducting periodic reviews of the valuation policies and evaluation of the overall fairness and consistent application of the valuation policies. In determining fair values, management has, as a practical expedient, estimated fair value of Portfolio Investments within its scope using the net asset value (or its equivalent) as of September 30, 2021. Due to the inherent uncertainty of valuation, the estimated Portfolio Investments' values may differ from the value that would have been used had a ready market for these investments existed, and the differences could be material.

### **9. FINANCIAL GUARANTEES**

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 arrangements is unknown, as this would involve future claims that may be made against the Partnership that have not yet occurred. However, the Partnership expects the risk of loss to be remote. Therefore, the Partnership has not accrued any liabilities in connection with such indemnifications.

### **10. LIQUIDITY AND MARKET RISK**

Investing in the Partnership involves certain risks, including the risk that the entire amount invested may be lost. Due to the nature of the Partnership's limited partner or member interests in Portfolio Investments, the Partnership's risk with respect to these transactions is limited to its capital balance in each Portfolio Investment, as well as any remaining additional commitment. Investments in Portfolio Investments may be restricted from early redemptions or subject to fees for early redemptions as part of contractual obligations agreed to by the General Partners on behalf of the Partnership.

Portfolio Investments generally require the General Partner to provide advanced notice of its intent to redeem the Partnership's total or partial interest and may delay or deny a redemption request depending on the Portfolio Investments' governing agreements. As of September 30, 2021, 100% of the investments in Portfolio Investments by the Partnership are restricted from early redemptions.

The state of the financial market and economic conditions could have a significant impact on the Partnership's performance and financial condition, and legal and regulatory changes could occur during the duration of the Partnership which may adversely affect the Partnership or its investments.

Beginning in the first quarter of 2020, there has been a global outbreak of a coronavirus disease (COVID-19), which the World Health Organization has declared a pandemic. Unexpected events like COVID-19 can cause adverse effects on many companies, sectors, nations, regions and the market in general, in ways that cannot necessarily be foreseen. The effects of this pandemic may materially and adversely impact the value and performance of the Partnership, the Partnership's ability to source, manage and divest investments at the most recent valuations and the Partnership's ability to achieve its investment objectives.

## **SPECIAL SITUATION PARTNERS II LP**

### **NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2021 (CONTINUED)**

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#### **11. RELATED PARTY TRANSACTIONS**

As stipulated in the Administrative Services Agreement, the Advisor provides certain administrative services to the Partnership and charges an administrative fee to the Partnership which is included in professional fees in the statement of operations.

#### **12. SUBSEQUENT EVENTS**

Subsequent events for the Partnership have been evaluated through December 1, 2021, which is also the date these financial statements were available to be issued to investors and are as follows.

Management has determined that there were no other material events that would require additional disclosures in the Partnership's financial statements through December 1, 2021.

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