

## **DUKE FUNDING MANAGEMENT, L.L.C.**

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**This Disclosure Brochure provides information about the qualifications and business practices of Duke Funding Management, L.L.C. If you have any questions about the content of this brochure, please contact us at the telephone number listed above. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT DUKE FUNDING MANAGEMENT OR ANY PRINCIPALS OR EMPLOYEES OF DUKE FUNDING MANAGEMENT POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.**

**Additional information about Duke Funding Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

The date of this Disclosure Brochure is

September 27, 2011

The delivery of the Disclosure Brochure at any time does not imply that the information contained herein is correct as of any time subsequent to the date shown above.

**Material Changes to Disclosure Brochure**

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the standards and format for the disclosure document that we provide to clients as required by SEC rules. This Disclosure Brochure is a new document prepared according to the amended rules. As such, it is materially different in structure and requires certain new information that our previous brochure did not require. Because of these changes, you should review this new Brochure in its entirety.

No material changes have been made to this Brochure since the prior version, dated May 26, 2011. In this version, disclosure regarding allocation of investment opportunities to clients in “start up” or “ramp up” on page 11 has been simplified and clarified, disclosure regarding allocation of expenses among the firm and its clients on page 6 has also been clarified, and the description of Tod’s Point Capital LLC on page 10 has been updated.

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**Duke Funding's Advisory Business**

Duke Funding Management, L.L.C. ("Duke Funding," or "the firm"), a U.S. Securities and Exchange Commission ("SEC") registered investment adviser, is one of several affiliated entities in the Ellington family of companies. This family also includes three other registered investment advisers: Ellington Management Group, L.L.C.; Ellington Financial Management LLC; and Ellington Global Asset Management, LLC.

In addition, Duke Funding's principals and executive officers are also principals or executive officers of certain other partnerships or limited liability companies that serve as the general partner or managing member of pooled investment vehicles managed by Ellington Management Group, L.L.C. These principals and executive officers may also be the principals or executive officers of other entities affiliated with Duke Funding. Please see "Other Financial Industry Activities and Affiliations" below for a further discussion of entities affiliated with Duke Funding. These entities, together with Duke Funding and its affiliated registered advisers and their employees, are referred to below collectively as the "Ellington Group" or simply "Ellington."

Duke Funding has been in business since 2001 and is owned primarily by Michael Vranos indirectly through his indirect ownership interests in Duke Funding's sole owner, Ellington Management Group, L.L.C.

**Types of Advisory Services Offered**

Duke Funding serves as the collateral manager for certain collateralized debt obligations, or CDOs, investing primarily in mortgage-backed and asset-backed securities. The Ellington Group in general provides investment management services to pooled investment vehicles and institutional managed accounts investing primarily in mortgage-related or mortgage-backed securities, asset-backed securities, or equity securities. The vehicles and accounts managed by Duke Funding or other members of the Ellington Group are referred to below as "Clients" or "Client Accounts."

The Ellington Group customarily analyzes securities and markets through use of proprietary and external computer applications, and seeks to mitigate certain risks related to those securities at times through the use of derivative instruments, including swaps, options, forwards, and futures.

The Ellington Group may also offer advice with respect to an extremely broad range of securities, derivatives, and other financial instruments. Clients, prospective Clients, investors and prospective investors in Duke Funding-managed CDOs should review the applicable offering documents, indenture, or investment management or similar agreement for further information about the range of instruments with respect to which Duke Funding may advise them.

**Client Investment Guidelines**

Investment guidelines and restrictions applicable to Duke Funding's CDO clients can be complex and are described in the applicable offering document or indenture.

In some cases, other members of the Ellington Group may tailor their advisory services to the individual needs of institutional Clients for whom it manages separate accounts or dedicated investment vehicles. Such Clients may request restrictions on investing in certain securities or types or amounts of securities, or impose other guidelines with respect to the services provided to them. Individual investors in Duke Funding-managed CDOs, however, generally may not impose such restrictions. You should review the applicable offering materials or indentures for information about restrictions applicable to those funds.

**Client Assets Under Management**

Duke Funding provides discretionary investment advisory services to CDOs holding approximately \$3,153,000,000 in collateral as measured subject to the applicable governing documents at the most recent applicable quarterly measurement date.

**Fees and Compensation**

Duke Funding is compensated for providing services as set forth in the relevant offering materials, collateral management agreement, or indenture applicable to the CDO Client. Compensation usually includes a management fee based upon the net outstanding balance of collateral held by the CDO. Such fees are customarily paid quarterly in arrears. In many cases the management fee is divided into a senior management fee and a subordinated management fee that is junior to certain notes issued by the CDO. In some cases, Duke Funding may receive an incentive fee based upon performance measurements, or may receive a structuring fee in connection with the structuring of the CDO. In certain cases, equity investors in Duke Funding-managed vehicles may individually negotiate more favorable fee terms with respect to their investment in a vehicle. Please see the discussion of “Side Letters” below for further information.

Please see “Performance-Based Fees and Side-by-Side Management” below for further discussion of such fees and the conflicts of interest they can create.

**Valuation**

The amount of management fees earned by Duke Funding in some cases depends in part upon the valuations assigned to the assets of its Clients. These assets are valued in accordance with terms of the relevant CDO. To the extent provisions of the relevant governing documents permit the collateral manager to exercise discretion during the process that assigns valuations, including discretion as to the number or source of third party prices that may be solicited, Duke Funding may have a conflict of interest in exercising that discretion, especially in cases in which higher valuations will have the effect of increasing the amount of fees paid to Duke Funding. Investors in Duke CDOs should be aware that many assets in Client portfolios may be illiquid, infrequently traded, and difficult to value.

Expenses and Allocation of Expenses

In addition to fees paid to Duke Funding, Duke Funding's CDO Clients, unless provided otherwise in the relevant governing documents, also pay ordinary operating expenses related to the vehicle. Such expenses can include, as applicable, taxes, investment expenses (such as interest expenses, custodial fees, bank service fees, and expenses incurred in connection with due diligence on potential investments and surveillance of existing investments (including travel expenses of Ellington)), third-party data and software expenses, professional and consulting fees, industry association expenses, legal expenses, insurance expenses, accounting, and tax preparation expenses, withholding and transfer taxes, fees and expenses of trustees, administrators, or directors, registrar and transfer agency fees and expenses, organizational and offering expenses, and all extraordinary and other expenses associated with the operation of the CDO.

In cases in which multiple Clients of or members of the Ellington Group, including Ellington and its affiliates, use or benefit from the same service, Ellington determines how the cost of that service is allocated among them and may have a conflict of interest in making such allocations.

Termination of Services

Client CDO collateral management agreements typically provide that Duke Funding may be removed as collateral manager for cause, change of control (including change of control of Duke Funding's parent, Ellington Management Group, L.L.C) or with respect to its performance, as specified in the management agreement. Removal may be subject to certain procedures in order to assure collateral protection, such as the appointment of a successor manager by specified percentages of holders of securities issued by the CDO. In the event of such a termination, the amount of fees or expenses to be paid or refunded will be determined as provided for in the applicable agreement. You should review the applicable offering document or indenture for discussion of the conditions under which Duke Funding's services may be terminated with respect to a given CDO.

**Performance Based Fees and Side-by-Side Management.**

The Ellington Group charges certain Clients incentive fees based on the performance of the Client Account. The amount and structure of these performance-based fees differs by Client, and in some cases such fees may be paid to a company affiliated with Ellington which acts as the general partner or managing member of a pooled investment vehicle. You should review the relevant offering memorandum, indenture, or collateral management agreement for further information about any performance-based fees applicable to you.

The prospect of earning performance-based fees may create an incentive for the Ellington Group to make investments that are riskier or more speculative than it would make in the absence of a performance-based fee.

The Ellington Group's management of Client Accounts that pay performance-based fees side-by-side with Client Accounts that do not pay such fees can create conflicts of interest because Ellington may have an incentive to favor Client Accounts from which it expects to receive greater fees. For example, when allocating a limited investment opportunity among multiple Clients, Ellington may have an incentive to allocate opportunities that are expected to be more profitable preferentially to Clients who pay a performance-based fee because the firm will be expected to receive greater fees if the investment generates a positive return. Please see "Participation or Interests in Client Transactions" below for further discussion of the allocation of investment opportunities and of other circumstances in which the existence of a performance-based fee may create an incentive for the Ellington Group to favor one or more Client Accounts.

### **Types of Clients**

Duke Funding provides collateral management services to certain collateralized debt obligations. Requirements for investing in these collateralized debt obligations are described in the applicable offering memorandum.

The Ellington Group in general provides investment advice to pooled investment vehicles (e.g. hedge funds) or to institutional Clients for whom the firm manages a separate account or dedicated investment vehicle. The minimum investment amount and other requirements applicable to investment in an Ellington-managed pooled investment vehicle are described in the relevant offering memorandum. Requirements for establishing a separately managed account or dedicated investment vehicle are negotiable and may vary by strategy or Client.

### **Methods of Analysis, Investment Strategies and Risk of Loss**

The Ellington Group primarily uses proprietary and external models and computer applications to analyze mortgage-backed, mortgage-related, asset-backed, and equity securities. In addition, Ellington, through use of such models or applications, customarily seeks to identify and, where permitted under the applicable mandate, opportunistically mitigate certain risks related to such securities at times through the use of derivative instruments, including swaps, options, forwards, and futures.

Reliance on models like those used by Ellington entails significant risks, particularly in the event that the models or the data on which they rely prove to be incorrect, misleading, or incomplete. In such cases, reliance on models may lead the Ellington Group to purchase assets at prices that are too high, to sell assets at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging activities that are based on faulty models or data may prove to be unsuccessful. In addition, Ellington stores the majority of the data upon which these models rely in computer databases. The failure of such computer systems could adversely affect Client Accounts for whom such models are used.

The Ellington Group's methods and strategy differ among Client Accounts. In addition, the risks associated with the securities and strategies with respect to which the firm provides advice are complex. Certain of those risks are identified briefly in this

Brochure. You should, however, review the applicable offering memorandum for information about the strategy pursued and methods used with respect to a particular Client Account and for important explanations of these and other risks.

The securities and strategies with respect to which the firm provides advice are speculative and involve substantial risks. **Investing in securities involves risk of loss that Clients should be prepared to bear.**

Certain Risks of Mortgage-backed, Mortgage-related, and Asset-backed Strategies

You should review the applicable offering memorandum for more detailed discussion of the risks associated with investment in mortgage-backed and asset-backed securities and mortgage-related instruments. These risks include, but are not limited to, risks related to:

- Changes in interest rates;
- Rates at which borrowers default on loans backing such securities;
- Rates of recovery on loans which have defaulted or are in foreclosure or on properties owned following foreclosure;
- The frequency with which borrowers pre-pay loans backing such securities;
- The effect of changes in indices or interest rates on interest payable on variable rate securities;
- Changes in home prices;
- The structure of collateralized-mortgage obligations and mortgage-backed derivatives such as “inverse floaters” and interest-only or principal-only securities;
- Ownership of subordinated or junior securities, including securities which are leveraged with respect to defaults;
- Reliance on third-party service providers such as loan servicers;
- Ownership of distressed, unrated, non-investment-grade, “high yield,” or “junk” debt securities;
- Reliance on credit ratings;
- Direct ownership of whole loan residential mortgages;
- Direct ownership of commercial real estate loans or of securities backed by such loans;
- Direct ownership of residential or commercial real estate, including real estate acquired through foreclosure;
- Changes in government policy, including policy changes affecting guarantees provided by government-sponsored enterprises related to agency residential mortgage-backed securities;
- Dramatic or extreme falloffs in liquidity of the markets for mortgage-backed securities such as that commencing in the second half of 2007;
- Volatility in the markets for mortgage-backed and asset-backed securities;
- The use, terms, and availability of leverage or financing, including repurchase agreements;

- Correlation of performance among mortgage-backed, mortgage-related, and asset-backed securities;
- Investment in derivatives, including swaps, options, futures, and forwards;
- Investment in illiquid or infrequently traded securities;
- Concentration of exposure to derivative or financing counterparties;
- The failure of attempts to hedge or mitigate certain risks and losses related to hedging instruments; and
- The cumulative impact and mutual reinforcement of individual risks.

### **Disciplinary Information**

The Ellington Group is a long-standing, complex family of companies which, over time, has participated in civil litigation in the ordinary course of business. In addition, as discussed in more detail below in “Litigation and Regulatory Matters,” the firm has from time to time been asked to produce documents and information by various regulatory authorities. In addition, an Ellington employee who is not a management person of the firm was the subject of disciplinary action by an industry self-regulatory organization concerning events that occurred during his prior employment by another firm. Information about that action is available in the DRP Schedule of Part I of Duke Funding’s Form ADV, available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

To date, however, neither Duke Funding nor any member of the Ellington Group nor any member of Ellington’s management has been involved in any legal or regulatory action or other disciplinary event believed to be material to a Client’s evaluation of the firm.

### **Other Financial Industry Activities and Affiliations**

As noted above, Duke Funding is one of four affiliated, registered investment advisers, which also include:

- Ellington Management Group, L.L.C., which advises pooled investment vehicles and institutional managed accounts;
- Ellington Financial Management LLC, which advises Ellington Financial LLC, a publicly traded specialty finance company; and
- Ellington Global Asset Management, LLC, which advises an institutional managed account.

The Ellington Group provides advisory services to a number of pooled investment vehicles, institutional managed accounts, and dedicated investment vehicles, and companies affiliated with Ellington serve as the general partner or managing member of some of these vehicles. These advisers, Ellington’s employees, and the affiliated general partners or managing members are referred to collectively in this Brochure as “the Ellington Group” or simply as “Ellington” and their client vehicles and accounts are referred to as “Clients” or “Client Accounts.”

In some circumstances, multiple Ellington Client Accounts may invest in a special-purpose vehicle, or SPV, holding certain assets, for example residential whole mortgage loans, or formed to address certain tax, legal, accounting, regulatory or other concerns.

Members of the Ellington Group may manage or act as the general partner or managing member of such SPVs. In some cases, investment vehicles advised by Ellington are organized in a “master-feeder” structure in which feeder vehicles hold interests in a master vehicle.

Ellington Management Group, L.L.C is registered with the Commodity Futures Trading Commission, or CFTC, as a commodity pool operator and commodity trading advisor. In addition, two affiliated companies that act as general partners or managing members of pooled investment vehicles advised by Ellington are registered as commodity pool operators, and Ellington expects that other affiliates will become so registered in the future. Certain other affiliated companies rely on exemptions from CFTC registration requirements. Ellington and the other registered companies may in the future withdraw their CFTC registrations in reliance upon similar exemptions.

Duke Funding is affiliated with Tod’s Point Capital LLC, a broker-dealer registered in January 2010 which is owned indirectly by Ellington’s principals. Two of Ellington’s Managing Directors and Ellington’s Chief Compliance Officer are registered principals of Tod’s Point. They and certain other Ellington employees provide services to Tod’s Point pursuant to an operating services agreement between Ellington and Tod’s Point. Tod’s Point commenced operations in September 2011 and currently provides corporate M&A advisory services.

### **Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

#### **Code of Ethics and Personal Trading**

The Ellington Group has adopted a Code of Ethics that sets forth standards of conduct expected of all of the firm’s personnel. The Code describes key legal and fiduciary standards and requires personnel to comply with all applicable laws and regulations. The Code also includes policies addressing outside activities, giving and receiving of gifts or entertainment, and personal securities trading by personnel in their own accounts.

Under the Code, personnel are permitted to trade in their own accounts, but, with certain exceptions, are required to receive trade-by-trade pre-clearance from Ellington’s compliance group before doing so. This policy is intended to help mitigate the risk that Ellington personnel misuse inside information or otherwise engage in inappropriate trading for their own accounts.

A copy of Ellington’s Code of Ethics is available to Clients and prospective Clients upon request.

#### **Participation or Interest in Client Transactions**

Members of the Ellington Group, and Ellington’s employees and other related persons have interests in certain of Ellington’s Client Accounts. In some cases, the Ellington Group may have invested in or hold shares of a Client Account, or

may own most or all of an Account. In some cases, as explained above, members of the Ellington Group may receive performance-based fees from a Client Account.

For all of these reasons, the Ellington Group may have differing interests with respect to different Client Accounts or with respect to individual transactions or investments made by or contemplated for those Accounts. Conflicts of interest among Client Accounts, for example when they compete for limited investment opportunities, may be more pronounced because of differing direct or indirect interests of the Ellington Group or its affiliates with respect to those Accounts.

Set forth below is a summary of some of the circumstances in which such conflicts of interest may and do arise:

*Allocation of Investment Opportunities and Order Aggregation*

Ellington exercises reasonable, good faith judgment when determining which investment opportunities are appropriate for each Client Account. Investment opportunities are generally allocated on the basis of capital available for such opportunities and other relevant factors particular to an Account, including, but not limited to, the strategy pursued for the Account and applicable investment restrictions, tax considerations, ERISA and other regulatory considerations, risk parameters, a Client's pre-existing position, the desire to avoid creation of odd lot positions, and the appropriate overall composition of each Client Account.

Because many of the opportunities targeted for the Ellington Group's Clients are typically available only in specified quantities, Ellington often is not able to buy as much of any given asset as may be required to satisfy the needs of all eligible Accounts. In these cases, Ellington's investment allocation procedures typically allocate such assets to multiple Accounts in proportion to their needs and available capital. The policies permit departure from such proportional allocation when such allocation would result in an inefficiently small amount of the security being purchased for an Account. In such cases, some Accounts do not receive an allocation; Ellington's policy, however, allows for a protocol of allocating assets so that, on an overall basis, each Account is treated equitably.

The Ellington Group may at times allocate opportunities on a preferential basis to Client Accounts that are in a "start-up" or "ramp-up" phase.

Because the Ellington Group allocates investment opportunities among multiple Client Accounts, conflicts may arise when certain Client Accounts seek to sell investments when other Client Accounts hold similar or the same investments. For example, Client Accounts in liquidation or wind-down, or Client Accounts with differing liquidity or redemption terms, may seek to sell commonly held investments before other Client

Accounts. Sale by such Client Accounts of the same or similar investments, depending upon the volume of sales and the nature of the market, may affect the market value of investments that continue to be held by other Client Accounts.

Transactions executed for Client Accounts may be effected independently or on an aggregated basis. Aggregation of Client orders can achieve better execution or result in more favorable commission rates. Such aggregation of orders, however, may not always be to the benefit of every Client Account with regard to the price or quantity executed. Ellington's policy is to allocate executions of aggregated Client orders on a fair and equitable basis among participating Clients.

*Cross or Principal Transactions*

Duke Funding or a member or principal account of the Ellington Group may buy securities from or sell securities to a Client Account where consistent with the best interests of its Clients, applicable law and the governing, advisory, and other documents related to the participating Clients.

A Client Account may purchase securities from or sell securities to another Client Account where consistent with the best interests of its Clients, applicable law and the governing, advisory and other documents related to the participating Clients.

*Receipt of Material Non-public Information*

The Ellington Group may come into possession of material non-public information or other confidential information as a result of its business activities. Ellington has adopted policies with respect to insider trading and receipt of confidential information which include restrictions on trading for personal and Client Accounts in some circumstances in which the firm has received confidential information. As a consequence, the possession of such information may limit the ability of Ellington's Client Accounts to buy or sell a security or otherwise to participate in an investment opportunity.

*Differing Advice*

Client Accounts may buy or sell securities of an issuer that are also bought or sold by the Ellington Group or other Client Accounts of the Ellington Group. In this regard, Ellington may give advice and recommend securities, derivatives, and other financial instruments to a Client Account which may be identical to or may differ from advice given to or instruments recommended or bought or sold for or by other Accounts, affiliates, or employees, even though their investment objectives may be the same or similar.

*Differing Interests in an Issuer or Securitization*

Client Accounts may, from time to time, make an investment in an issuer (including a securitization of mortgages or other assets) in a different level of whose capital structure the Ellington Group or one or more other Client Accounts has invested. Such circumstances may result in a conflict among or with such Client Accounts to the extent that a Client Account holds securities with rights, preferences, or privileges with respect to an issuer that are different than those held by other Client Accounts or the Ellington Group. In such instances, the Ellington Group, in its sole discretion when acting in the best interests of each Client, may make recommendations and decisions regarding such rights or privileges for other entities that may be the same as or different from those made by or on behalf a Client Account and may take actions (or elect to take no action) in the context of these other economic interests or relationships the consequences of which may be adverse to the interests of a particular Client Account.

*Investment in other Client Accounts*

When consistent with applicable investment objectives, Client Accounts may invest in other entities managed by the Ellington Group. Such investments will only be made when Ellington determines that they are in the best interests of the participating Accounts.

For example, a Client Account may purchase interests in a structured vehicle managed by the Ellington Group, either at original issuance or in the secondary market. Ellington's policy in such circumstances is to waive or rebate for the benefit of that Client Account the relevant portion of any management or incentive fees received by the Ellington Group with respect to an interest in an Ellington-managed structured vehicle purchased by the Account at the time of the original issue. Ellington will not, however, ordinarily waive or rebate for the benefit of a Client Account any portion of any management or incentive fees received with respect to an interest in an Ellington-managed structured vehicle purchased by that Account in the secondary market.

*Joint Guarantees or Obligations*

In some cases, Client Accounts, either individually or jointly and severally with other Client Accounts, may, where permitted by the applicable governing, management, or operating agreement, provide guarantees or incur indemnification obligations to third parties in connection with the purchase or sale of certain assets or instruments. The joint nature of such guarantees or obligations can create conflicts of interest among participating Accounts.

*Differing Interests of Individual Investors*

Individual investors in CDOs and pooled investment vehicles advised by the Ellington Group may have conflicting investment, tax, or other

interests with respect to their investments. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by that Client Account, the structuring of the acquisition of such investments, or the timing of disposition of investments. In such circumstances, the Ellington Group will consider the investment and other objectives of a Client Account and its respective investors as a whole, and not the investment or other objectives of any investor individually.

*Side Letters*

In some cases, equity investors in certain Duke Funding-managed CDOs may negotiate arrangements with Duke Funding or the Ellington Group pursuant to which that investor ultimately pays different or lesser fees with respect to an equity investment in such a CDO. Such special or more favorable fee provisions are customarily reflected in a “Side Letter” agreement. The Ellington Group may typically enter into such Side Letters without notice to, or the consent of, other investors.

*Other Activities and Affiliations*

Duke Funding and the Ellington Group are not restricted from forming additional funds or vehicles, from entering into other investment advisory relationships, or from engaging in other business activities, even though such activities may be in competition with a Client Account or may involve substantial time and resources of Ellington’s principals or employees. Although Ellington and its principals and employees will devote as much of their time to the activities of Client Accounts as they deem necessary and appropriate, these other activities could be viewed as creating a conflict of interest in that the time and effort of Ellington and its related persons will be allocated among various Client Accounts and business activities.

**Brokerage Practices**

“Soft Dollar” Practices

The Ellington Group utilizes various broker-dealers to execute, settle and clear securities transactions. In selecting brokers and dealers to effect transactions for Clients, Ellington considers such factors as price, the ability of the brokers and dealers to effect the transactions, their facilities, reliability, creditworthiness and financial responsibility, and any research- or execution-related services or equipment provided by such brokers and dealers. Accordingly, if Ellington determines in good faith that the commissions charged by a broker or the prices charged by a dealer are reasonable in relation to the value of the trading and research-related services and facilities provided by such broker or dealer, a Client Account may pay commissions to such broker or prices to such dealer that are greater than those another broker or dealer might charge (even though the research services may not be for the exclusive benefit of that Client Account).

Brokers and dealers sometimes suggest a level of business they would like to receive in return for the various services they provide.

Research-related services and equipment provided by brokers and dealers through which transactions for Client Accounts are executed, settled and cleared may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities, on-line quotations or analytic tools, news and research services, and other services providing lawful assistance to the Ellington Group in the performance of its investment decision-making and execution responsibilities on behalf of its Clients. Such items are sometimes referred to as “soft dollar” items. Acceptance of such items can create a conflict of interest because they may be used by or benefit Client Accounts other than the Account that paid the commission, or may benefit the Ellington Group itself.

Section 28(e) of the U.S. Securities Exchange Act of 1934 permits the use of soft dollar items in certain circumstances, provided that Ellington determines that the commissions charged are reasonable in relation to the value of the brokerage, execution, and research-related services provided by that broker-dealer.

Other Relationships with Brokers and Counterparties

The Ellington Group may have other interests in or business arrangements with brokers and dealers used to execute transactions for Client Accounts.

Certain brokers or other counterparties for the Ellington Group’s Client Accounts may offer capital introduction services. Capital introduction is a service designed to introduce fund managers to potential investors, typically through individual meetings or in a conference format. Although capital introduction is customarily offered as a free service, various conflicts of interest are presented by such arrangements. Ellington may, for example, have an incentive to use the services of a specific broker due to the broker’s ability to raise capital for management by Ellington or another member of the Ellington Group.

The Ellington Group may have other business arrangements with brokers and dealers used to execute transactions for Clients. For example, brokerage firms and their affiliates and representatives may also be Ellington Clients or invest in pooled investment vehicles managed by the Ellington Group. Brokerage firms may also provide financing or other services to the Ellington Group or other Client Accounts.

Brokerage firms and their employees may offer gifts to Ellington’s employees, and may invite employees to entertainment and social events. Acceptance of such gifts and entertainment is subject to policies set forth in Ellington’s Code of Ethics. Ellington policy prohibits consideration of factors such as receipt of gifts and entertainment when selecting brokers and counterparties to execute transactions for Client Accounts.

Please also see “Client Referrals and Other Compensation” below.

**Trade Error Policy**

Unless provided otherwise in the offering memorandum or investment management, partnership, or operating agreements applicable to a Client Account, **any negative or positive results of trading errors generally will be borne by the affected Client Account rather than by the Ellington Group so long as the error was not the result of fraud, bad faith, gross negligence or willful misconduct.** Trading errors may include, for example, erroneous trade executions due to a mistake by an employee in communicating an order to a broker or trade counterparty.

This policy with respect to trading errors, however, will not be construed so as to provide for the exculpation of the Ellington Group for any liability (including liability under Federal securities laws which, under certain circumstances, impose liability even on persons that act in good faith), to the extent (but only to the extent) that such liability may not be waived, modified or limited under applicable law, but will be construed so as to effectuate the foregoing policy to the fullest extent permitted by law.

You should review the discussion of trading errors, and of the liability of and indemnification of Duke Funding or the Ellington Group, in the applicable offering memorandum, indenture, or collateral management agreements.

**Intermediation**

From time to time, the Ellington Group may execute over-the-counter trades on an agency or a principal basis with a broker-dealer who in turn transacts with another broker-dealer or market maker. The use of an intermediating broker-dealer can provide anonymity in connection with a transaction. In addition, the broker-dealer may, in certain cases, have greater expertise or greater capability in connection with both accessing the market and executing a transaction. Ellington believes that the use of an intermediating broker-dealer in such instances is consistent with obtaining best execution for its Client Accounts.

**Review of Accounts**

Generally, Duke Funding, in its capacity as collateral manager, reviews reports related to collateral held by client CDOs. The nature and frequency of reviews may vary depending upon the terms of the relevant indenture and the status of the CDO client.

Periodic reports concerning the performance of notes issued by CDO clients and the collateral held by those clients are prepared and made available by the relevant trustee.

From time to time investors and prospective investors in pooled investment vehicles contact the Ellington Group with questions concerning a vehicle or their investment in it. In addition, certain investors may periodically contact the Ellington Group with due diligence or similar questions, or meet with Ellington as part of a periodic due diligence

or similar review process. Depending upon the nature and timing of such questions, Ellington's response may result in the possession of information by certain investors in a vehicle that is not then possessed by other investors and that may not ultimately be received by investors who do not conduct similar reviews or seek similar information.

In some cases, the Ellington Group advises institutional managed accounts or dedicated investment vehicles that pursue strategies similar to or that overlap with those of other Ellington pooled investment vehicles or that are intended to parallel such vehicles. These Clients typically have access to detailed information about their Accounts, including current portfolio holdings, which Ellington does not customarily make available to investors in pooled investment vehicles. Because of this, such Clients may be able to take action, including more timely action, with respect to their Accounts that investors in pooled vehicles with similar or parallel strategies cannot take.

#### **Client Referrals and Other Compensation**

The Ellington Group may use independent, third-party solicitors to refer Clients to the firm, and may engage underwriters, brokers, or dealers as placement agents to assist in the offering of interests in pooled investment vehicles managed by the Ellington Group. As compensation, such solicitors and placement agents may receive a portion of Ellington's fees related to Clients they refer or investors they introduce. Ellington may engage and has engaged placement agents that are or are affiliated with a broker-dealer used to execute or clear transactions on behalf of a Client Account or act as counterparty to transactions for a Client Account.

#### **Custody**

With certain exceptions, Rule 206(4)-2 under the Investment Advisers Act, commonly known as the "Custody Rule," requires registered investment advisers who are deemed to have custody of client funds and securities to satisfy certain requirements. An adviser is deemed to have custody of client assets when it has the authority to obtain possession of them. Under this standard, the Ellington Group does not have custody with respect to Duke Funding-managed CDOs.

#### **Investment Discretion**

The Ellington Group customarily has and exercises discretionary investment authority over Client Accounts. The circumstances in which Duke Funding is authorized to exercise investment discretion with respect to Duke's CDO Clients are described in the relevant offering memorandum, indenture, or collateral management agreement. Such discretion may be limited to a certain period of time such as an initial investment or re-investment period, is typically constrained by applicable investment restrictions, and is very limited in some circumstances. You should review the applicable memorandum, indenture, or agreement in order to understand the discretion that Duke Funding may exercise with respect to a given Client Account.

#### **Voting Client Securities**

In many cases, the Ellington Group has authority to vote securities on behalf of the pooled investment vehicles it advises. Institutional Clients for whom Ellington manages separate accounts or dedicated investment vehicles may retain authority to vote securities or may grant authority to vote them to Ellington. Most Client Accounts advised by the Ellington Group, however, including Duke Funding-managed CDOs, do not typically invest in corporate equity securities and Ellington does not customarily vote equity proxies for such Clients.

The Ellington Group has adopted a policy regarding the voting of proxies as required under Rule 206(4)-6 under the Advisers Act. Under that policy, Ellington will vote proxies for Client Accounts that take long equity positions as a material part of their strategy when Ellington has determined that the benefit of voting proxies exceeds the cost of voting them. When, however, Ellington has determined that the cost of voting proxies for a particular strategy or Client Account exceeds the benefit to that Client Account, Ellington may not vote such proxies.

When voted, equity proxies are in most cases voted through the use of a third party proxy service, though such proxies may be voted internally from time to time.

Upon request, Ellington will provide to any Client or investor in a Client Account at no cost a copy of its proxy policy and information about the way in which proxies, if any, have been voted for that Client Account. Those wishing to receive this information should contact Ellington by telephone during normal business hours.

#### **Financial Information**

Duke Funding is not currently aware of any financial condition affecting the firm that is reasonably likely to impair its ability to meet its contractual commitments to its Clients.

#### **Litigation or Regulatory Matters**

The Ellington Group may be subject to regulatory inquiries or proceedings from time to time. At any time, industry-wide or company-specific regulatory inquiries or proceedings can be initiated and we cannot predict when or if any such regulatory inquiries or proceedings will be initiated that involve us or our affiliates. For example, in the last several years, as described below, Ellington and its affiliates have received, and we expect in the future may receive, inquiries and requests for documents and information from various federal, state and foreign regulators, including the following:

In March 2008, Ellington received a subpoena from the SEC requesting documents and other information relating primarily to CDOs underwritten during 2007 and 2008 by a particular investment bank and for which an Ellington affiliate acted as collateral manager. Ellington provided an initial response to the subpoena in April 2008 and finished its production in May 2009. Ellington has had no communication with the SEC on the matter since that time.

In August 2009, Ellington and one of its affiliates received subpoenas from the SEC seeking documents and information regarding certain structuring, sales and marketing

practices in the CDO market. The subpoenas sought documents and details regarding CDOs in which Ellington or its affiliates participated during 2006 and 2007. Ellington finished its production in response to the subpoenas in November 2009, responded to subsequent requests by the SEC for clarifications with respect to some of the information that Ellington produced to the SEC, and intends to cooperate with any further requests.

In May 2010, Ellington received a request for documents and responses to interrogatories from the Financial Crisis Inquiry Commission, or the FCIC, a commission formed to examine the causes of the current financial and economic crisis in the United States and report thereon to the Congress and the President, relating to Ellington's CDO business during the period from January 2000 through the present. Ellington produced documents on May 28, 2010 in response to the FCIC's request. The operations of the FCIC concluded on February 13, 2011 after the delivery of its report issued on January 27, 2011.

Ellington is not aware that any material legal proceeding against Ellington or its affiliates is contemplated in connection with any of the foregoing inquiries or requests. However, since the beginning of the current financial crisis, there has been intense scrutiny of CDO market participants (including large CDO collateral managers such as Duke Funding). We believe this scrutiny increases the risk of additional inquiries and requests from regulatory or enforcement agencies. Ellington cannot provide any assurance that these inquiries and requests will not result in further investigation of or the initiation of a proceeding against Ellington or its affiliates or that, if any such investigation or proceeding were to arise, it would not materially adversely affect the firm.