

December 5, 2012

RESOURCE FINANCIAL FUND MANAGEMENT, INC.

ONE CRESCENT DRIVE, SUITE 203  
NAVY YARD CORPORATE CENTER  
PHILADELPHIA, PA 19112

p. (215) 546-5005; f. (215) 561-6246

[www.resourceamerica.com](http://www.resourceamerica.com)

[www.trapezafunding.com](http://www.trapezafunding.com)

This brochure provides certain information about the qualifications and business practices of Resource Financial Fund Management, Inc. If you have any questions about the contents of this brochure, please contact us at (215) 546-5005. This brochure has not been approved by the Securities and Exchange Commission or any state securities authority. Registration with the Securities and Exchange Commission as an Investment Adviser does not imply a certain level of skill or training.

**Resource Financial Fund Management, Inc.**

**Form ADV Part II – Table of Contents**

**CONTENTS**

<b>ITEM</b>	<b>PAGE</b>
4. ADVISORY BUSINESS .....	1
5. FEES AND COMPENSATION .....	2
6. PERFORMANCE BASED FEES AND SIDE BY SIDE MANAGEMENT....	2
7. TYPES OF CLIENTS.....	3
8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	3
9. DISCIPLINARY INFORMATION.....	7
10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	7
11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	9
12. BROKERAGE PRACTICES.....	11
13. REVIEW OF ACCOUNTS .....	12
14. CLIENT REFERRALS AND OTHER COMPENSATION .....	13
15. CUSTODY.....	13
16. INVESTMENT DISCRETION .....	13
17. VOTING CLIENT SECURITIES .....	13
18. FINANCIAL INFORMATION .....	14

**Item 4:**      Advisory Business

- (A) Resource Financial Fund Management, Inc. (“RFFM”), a Delaware corporation, is a wholly owned subsidiary of Resource America, Inc. (NASDAQ: REXI) and was formed on May 30, 2002.
- (B) RFFM is primarily engaged in the business of providing portfolio management services to issuers of collateralized debt obligations (“CDOs”) through the Trapeza Program, as described below. These vehicles are each governed by an indenture that sets forth the manner in which each CDO is to be managed including: eligible collateral, investment objectives, and risk criteria. RFFM’s advisory services are provided through its participation in the Trapeza Program.<sup>1</sup> RFFM, as a joint venture partner with FSI Group, LLC (“FSI”), also administers five Trapeza limited partnerships in addition to the Trapeza CDOs (the limited partnerships and CDOs collectively “Clients”). The limited partnerships are static entities and have never traded subsequent to a one time initial acquisition of subordinated CDO securities. CDOs managed by RFFM primarily hold investments in trust preferred securities issued by banks, thrifts and financial institutions and also trust preferred securities issued by real estate investment trusts, real estate operating companies and homebuilders. CDOs may also invest in surplus notes issued by insurance companies. Investment partnerships managed by RFFM hold investments in the preferred securities (the most subordinated class) issued by CDOs for which RFFM and its affiliates provide investment advisory services. RFFM’s investment advisory services are limited to the Trapeza Program.
- (C) Investment advisory services provided through the Trapeza Program are conducted pursuant to the terms of a collateral management agreement and indenture. These documents are negotiated prior to the close of a CDO and are tailored to the investment objectives of the CDO. CDOs for which RFFM provides investment advisory services, through the Trapeza Program, impose restrictions on the types of securities in which RFFM may invest. Each CDO is governed by an indenture which places significant restrictions on the types of securities that may be purchased for the CDO. The limited partnerships for which RFFM provides administrative services are static and have not traded subsequent to a one-time acquisition of equity securities issued by CDOs.
- (D) RFFM does not participate in wrap fee programs.
- (E) As of September 30, 2012 RFFM had \$3,642,239,251 of assets under management. All assets under management for Trapeza CDOs are managed on a discretionary basis.

---

<sup>1</sup> The Trapeza Program, comprised of 13 CDOs to date, is managed by Trapeza Capital Management, LLC (“TCM”) and Trapeza Management Group, LLC (“TMG”), joint ventures between RFFM and unaffiliated third parties. FSI Group, LLC is RFFM’s joint venture partner in Trapeza Capital Management, LLC. FSI and Suntrust Equity Funding, LLC are RFFM’s joint venture partners in Trapeza Management Group, LLC. TCM is the collateral manager for Trapeza CDO I, LLC; Trapeza CDO II, LLC; Trapeza CDO III, LLC; Trapeza CDO IV, LLC; Trapeza CDO V, LLC; Trapeza CDO IX, Ltd.; Trapeza CDO X, Ltd.; Trapeza CDO XI, Ltd.; Trapeza CDO XII, Ltd.; and Trapeza CDO XIII, Ltd. TMG is the collateral manager for Trapeza CDO VI, Ltd. and Trapeza CDO VII, Ltd. TCM and Principal Global Investors, LLC serve as collateral manager for Trapeza Edge CDO, Ltd. (TCM and TMG collectively referred to herein as “Trapeza Management”)

Trapeza Management provides administrative services to the Trapeza limited partnerships, but does not provide discretionary management services to these entities.

**Item 5:**        Fees and Compensation

- (A) For clients that are issuers of CDOs, Trapeza Management is entitled to receive base management fees between .10% to .25% of assets under management, however some portions of Trapeza Management's fees may be payable only after certain levels of payments have been made to the holders of securities issued by a the CDO. In addition, Trapeza Management may receive a subordinated management fee of between .10% and .20% and may also charge a performance fee, in accordance with Rule 205-3 of the Investment Advisors Act of 1940, of between .15% and .25% per annum, payable when the equity class of securities for each CDO has achieved a specified return on investment. For limited partnerships that are administered by the Trapeza Program, Trapeza Management charges administration fees of between .75% and 1.5%. Trapeza Management negotiates fees with its Clients at the outset of the commencement of the advisory agreement. However, such fees are not negotiable at any time thereafter.
- (B) All fees attributable to CDOs managed by RFFM are paid quarterly to RFFM by an independent trustee for the CDO in accordance with the terms of the applicable indenture. Management fees attributable to CDOs are calculated by the trustee and confirmed by RFFM. Partnership administration fees payable by the limited partnerships are deducted from partnership bank accounts on a semi-annual basis. However, RFFM does not currently receive management fees from the limited partnerships and does not anticipate receiving such fees in the future.
- (C) Clients of RFFM may be responsible for fees payable to independent third parties including, but not limited to, organizational fees, legal fees, accounting and auditing fees, research fees, trustee fees, custodial fees, bank service fees, director's fees and brokerage and commission fees. See Item 12 below for additional details on RFFM's brokerage practices please.
- (D) RFFM's clients are not required to pay management fees in advance.
- (E) Neither RFFM nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or other fees from the sale of mutual funds.

**Item 6:**        Performance Based Fees and Side by Side Management.

RFFM charges both asset based fees and performance based fees (fees based on a share of capital gains on or capital appreciation of assets) to certain advisory clients as indicated in the above fee schedule. Further, RFFM's supervised persons may manage other accounts to which performance fees are charged.

While potential conflicts of interest may exist in instances in which RFFM, through its participation in the Trapeza Program, or its affiliates determine that a specific security transaction is appropriate for a specific account, including proprietary accounts, based upon numerous factors including, among other things, investment objectives, investment strategies or restrictions, while other accounts including proprietary accounts and accounts for which RFFM charges a performance based fee may hold or take the opposite position in the security in accordance with those accounts' investment objectives, strategies and restrictions. However, all securities transactions in the Trapeza Program are executed by FSI pursuant to a memorandum of understanding. Further, the Trapeza CDOs are primarily static, with procedures for the sale of credit risk and defaulted securities and strict reinvestment guidelines, in each case closely governed by an indenture. In the event that a security is held by more than one CDO, FSI will execute the sale in a manner that does not favor one CDO over another.

**Item 7:**       Types of Clients.

RFFM provides investment advice to collateralized debt obligations and other collective investment vehicles for investors that are “accredited investors” and “qualified purchasers” as those terms are defined under the Securities Act and the Investment Company Act.

**Item 8:**       Methods of Analysis, Investment Strategies and Risk of Loss.

(A) In analyzing investments, RFFM employs a fundamental analysis of each portfolio company issuing securities that are placed in the CDOs managed by RFFM through the Trapeza Program. RFFM analysts review a variety of sources for information on portfolio companies including, but not limited to, financial newspapers and magazines; inspections of and meetings with portfolio companies; third party research materials; corporate rating services; company press releases; and corporate regulatory filings. RFFM also conducts a review of core customer deposit franchises, loan portfolios, and local market stability for each portfolio company that is a bank, thrift or other financial services company. Offering memoranda for each CDO and limited partnership managed by RFFM contain specific disclosures on the risk of loss which clients should be prepared to bear. RFFM investment programs are illiquid and are only suitable for investors prepared to hold such investment for an indefinite period of time. Further, there is no guarantee that any investment program managed by RFFM will be successful, that its investment objectives will be achieved, that investors will receive their initial investments under the investment program or that they will receive any return (or avoid any loss, including total loss) on their investment.

(B) RFFM generally seeks, on behalf of its Clients, to generate total investment return through a combination of both current income and capital appreciation and employs a long bias. For risk factors associated with RFFM's strategy, please see Item 8A above and Item 8C below.

(C) Clients for whom RFFM provides investment advisory services invest primarily in trust preferred securities issued by banks, thrifts and financial institutions and also trust preferred securities (“TPS”) issued by real estate investment trusts (“REITS”), real estate operating companies (“REOCS”) and homebuilders. CDOs may also invest in surplus notes issued by insurance companies. Investment partnerships managed by RFFM hold investments in the

preferred securities (the most subordinated class) issued by CDOs for which RFFM and its affiliates provide investment advisory services. Partnerships for which RFFM provides investment advisory services invest in the equity tranches of CDOs managed by RFFM. Material risks associated with these investment programs are more fully explained in the offering documents of each investment program and may include the following:

#### Below Investment-Grade Assets

Assets managed on behalf of CDO clients will generally consist of non-investment grade securities, which generally have greater credit, insolvency and liquidity risk than investment-grade assets. The lower rating of such securities reflects a greater possibility that adverse changes in the financial condition of the obligor (or the issuer of the subordinated debentures held by a trust preferred securities issuer) or general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings or disruptions in the financial markets) or both may impair the ability of the obligor to make payments of principal and interest. Below investment-grade securities have historically experienced greater default rates than has been the case for investment grade securities.

#### Trust Preferred Securities

Trust preferred securities may be subject to interest rate risk, prepayment risk, credit risk, liquidity risk, market risk, legal risk and reinvestment risk. Each TPS will be issued by a trust that is sponsored by a holding company of a bank, thrift, insurance company, REIT/REOC and homebuilder, and the sole asset of each such trust will generally be junior subordinated debentures issued by the sponsoring holding company. Thus, payments on each TPS will be dependent upon the receipt of dividends, fees and other payments from subsidiaries of the related sponsoring holding company. Generally, the sponsoring holding company will have the ability to defer interest payments on its junior subordinated debentures for up to five years, whereupon the related TPS issuer will defer payments on its TPS. Deferring or defaulted TPS may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate or a substantial write-down of principal. The price of a TPS, if required to be sold, may be subject to substantial market and liquidity risks at the time of sale.

#### Bank and Thrift Debt

Bank and thrift debt may be subject to interest rate risk, prepayment risk, credit risk, liquidity risk, market risk, legal risk and reinvestment risk. Banks and thrifts are subject to various limitations on their ability to make payments on their indebtedness and distributions to their parent companies. These limitations may affect the ability of subordinated debenture issuers to make certain payments on their subordinated debentures and on the ability of subsidiaries of bank or thrift holding companies to make distributions to their parent companies (and, correspondingly, may affect the ability of the holding companies to make payments on the junior subordinated debentures held by the sponsored TPS issuers). The price of bank or thrift debt, if required to be sold, may be subject to substantial market and liquidity risks at the time of sale.

## Insurance Surplus Notes

Insurance surplus notes may be subject to interest rate risk, prepayment risk, credit risk, liquidity risk, market risk, legal risk and reinvestment risk. Payments on surplus notes may be subject to various legal and regulatory limitations and restrictions. Regulation and authority for the issuance of surplus notes are governed by the laws of the states having jurisdiction over the respective surplus notes issuer. In most states, regulators have broad discretion in determining the amount of, and the manner in which, payments will be made on surplus notes. Accordingly, there can be no assurance that a surplus notes issuer will be able to make payments on its surplus notes. The price of surplus notes, if required to be sold, may be subject to substantial market and liquidity risks at the time of sale.

## REIT TPS

REIT TPS may be subject to interest rate risk, prepayment risk, credit risk, liquidity risk, market risk, legal risk and reinvestment risk. In addition, investments in TPS sponsored by REITs may present risks related to the assets of the REIT issuer. At least 75% of the value of the assets of a qualifying REIT must be in “real estate assets” (including interests in real property, mortgages on real property and shares in other REITs), cash, cash items and government securities, in addition to other restrictions on activities of a REIT. REITs are subject to inherent risks associated with such investments, including, among other things: declines in value of real estate, adverse changes in national economic conditions, changes in interest rates, adverse changes in local market conditions due to changes in general or local economic conditions and neighborhood characteristics, increased competition from other properties, obsolescence of property, overbuilding, extended vacancies of properties, changes in the availability, cost and terms of mortgage funds, defaults by borrowers, risks associated with leverage or debt, the impact of present or future environmental legislation and compliance with environmental laws, environmental remediation or liability costs, the ongoing need for capital improvements, particularly in older properties, changes in real estate tax rates and other operating expenses, regulatory and economic impediments to raising rents, adverse changes in governmental rules and fiscal policies, dependency on management skills, the relative illiquidity of real estate investments, civil unrest, acts of God, including earthquakes and other natural disasters (which may result in uninsured losses), acts of war or terrorism, casualty or condemnation losses and adverse changes in zoning laws. The price of REIT TPS, if required to be sold, may be subject to substantial market and liquidity risks at the time of sale. Further, REITs are not subject to regulatory oversight. Unlike banks, thrifts and insurance companies, REITs are not subject to regulatory oversight and therefore are not periodically examined by governmental regulators. Weaknesses in the management or financial condition of a REIT are not subject to discovery or remedial action by outside governmental authorities.

## Interest Rate Risk

RFFM, on behalf of its Clients, generally invests in a combination of floating rate and fixed income securities. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends

to increase. This risk will be greater for long-term securities than for short-term securities. The value of equity securities is also affected by changes in interest rates. RFFM may or may not attempt to minimize the exposure of the portfolio to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. Even if RFFM does attempt to do so, there can be no guarantee that it will be successful in mitigating the impact of interest rate changes.

### Leverage

RFFM may, on behalf of its Clients, utilize leverage through margin borrowing and through certain financial transactions. Leverage increases returns to Clients if the Client earns a greater return on leveraged investments than the Client's cost of such leverage. However, the use of leverage exposes the Client to additional levels of risk including (i) greater losses from investments than would otherwise have been the case had the Client not borrowed to make the investments, (ii) margin calls or changes in margin requirements may force premature liquidations of investment positions, (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Client's cost of leverage related to such investments and (iv) fluctuations in interest rates on the Client's borrowings, which may have a negative effect on the Client's profitability. In case of a sudden, precipitous drop in value of a Client's assets, the Client might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying the losses incurred by the Client.

### Investing in Non-U.S. Assets

RFFM may, on behalf of its Clients, invest in Non-U.S. Assets. Investing in securities issued outside of the United States involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of foreign tax laws (e.g., the imposition of withholding taxes on dividend, interest or other payments) or confiscatory taxation may also affect investment in non-U.S. securities. Higher expenses may result from investment in non-U.S. securities than would from investment in U.S. securities because of the costs that must be incurred in connection with conversions between various currencies and foreign brokerage commissions that may be higher than the United States. Non-U.S. securities markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States. Investments in non-U.S. countries could be affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

### Currency Risks

Investments in securities or other instruments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level

of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

#### Lack of Liquidity of Assets, Valuation

A Client's assets may, at any given time, include securities and other financial instruments or obligations that are thinly traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value accurately any such investments. Securities to be held by Clients may routinely trade with bid-ask spreads that may be significant. At times, third-party pricing information may not be available for certain positions held by the Client. RFFM is entitled to rely, without independent investigation, upon pricing information and valuations furnished to RFFM by third parties, including any independent third party pricing services selected by RFFM.

#### **Item 9:**        Disciplinary Information.

In 2004, while employed with Cohen Bros. & Company, an unaffiliated broker-dealer, Jeffrey Blomstrom, the President of RFFM was found by the NASD (the precursor to FINRA) to be in violation of NASD Rule 2110. Cohen Bros. & Company was found to be in violation of SEC Rule 15c2-4 by accepting portions of the sales prices for securities being distributed and failing to promptly deposit the funds in a separate bank account as agent or trustee for the purchasers. As Cohen Bros. & Company's Senior Vice President for Investment Banking, Mr. Blomstrom was responsible for ensuring its compliance with SEC Rule 15c2-4.

#### **Item 10:**       Other Financial Industry Activities and Affiliations.

(A) Darshan Patel, the Chief Legal Officer, Chief Compliance Officer and Secretary of RFFM, is a registered representative of Resource Securities, Inc., a FINRA registered broker-dealer affiliate of RFFM.

(B) Neither RFFM nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

(C) RFFM is a wholly owned subsidiary of Resource America, Inc., a specialized asset management company that focuses, through its wholly owned subsidiaries and joint ventures, on the commercial finance, real estate and financial fund management sectors. Each of these subsidiaries focuses on unique asset classes and investment strategies.

1. Resource Securities, Inc. ("RSI"), a wholly owned subsidiary of Resource America, Inc., is a FINRA licensed broker-dealer engaged in (i) the underwriting of direct participation programs and real estate investment trusts on an "all or none," "part or none," and/or "best efforts" basis; (ii) the wholesaling with other broker/dealers of direct participation programs and REITs; and (iii) the sale in private placements of certain tranches of CDO and

CLO debt securities including CRE CDO securities, ABS CDO securities as well as CMBS and CMBS CDO securities, trust preferred securities of REITs, insurance companies and other financial service companies, and subordinated debt to institutional investors.

From time to time, RFFM may utilize the services of RSI to purchase or sell securities for its clients. In order to avoid any conflict of interest in utilizing the services of an affiliated broker-dealer, in no event will RSI charge any brokerage fee or mark-up/mark-down to an RFFM Client. Additionally, in certain instances, RFFM may utilize the services of RSI to obtain valuations on Client securities. The conflict of interest in having an affiliated broker-dealer provide valuations for investments held by RFFM Clients is mitigated by the fact that the RSI personnel responsible for providing these valuations are not compensated in any way by RFFM or its Clients.

2. Affiliates of RFFM may manage pooled investment vehicles including, but not limited to, collateralized debt obligations, private equity funds and hedge funds. However, each affiliate of RFFM focuses on distinct asset classes and therefore does not trade in the same securities or loans that are purchased and sold on behalf of RFFM Clients. These relationships do not cause any material conflict of interest.
3. CVC Credit Partners, LLC, a joint venture between Resource America, Inc. and CVC Capital Partners SICAV-FIS, S.A., is a registered investment advisor that is primarily engaged in the business of providing portfolio management services to issuers of CDOs that primarily hold investments in senior secured leveraged loans, second lien loans, and corporate and high yield bonds. CDOs managed by CVC do not invest in the same asset classes as CDOs managed by RFFM. This relationship does not cause any material conflict of interest.

Ischus Capital Management, LLC, a wholly owned subsidiary, is a registered investment adviser that specializes in managing CDOs that primarily hold investments in structured finance products with a focus on ABS, RMBS and CMBS securities. CDOs managed by Ischus generally do not invest in the same asset classes as the investment vehicles managed by RFFM. This relationship does not cause any material conflicts of interest.

Resource Real Estate, Inc., an affiliate of RFFM is a registered investment adviser that provides investment advisory services to CDOs, which invest primarily in mortgage loans and/or participation interests in mortgage loans secured by commercial real estate properties, commercial mortgage backed securities, and other real estate debt instruments. CDOs managed by Resource Real Estate, Inc. generally do not invest in the same asset classes as the investment vehicles managed by RFFM. This relationship does not cause any material conflict of interest.

4. RFFM does not have any relationship or arrangement with any related persons that are futures commission merchants, commodity pool operators or commodity trading advisors.
5. RFFM does not have any relationship or arrangement with any related entity that is a banking or thrift institution.
6. Related persons of RFFM are employed in the ordinary course of business by Resource America, Inc. and its subsidiaries as accountants. The relationship between RFFM and such related persons does not cause any material conflict of interest.
7. Related persons of RFFM are employed in the ordinary course of business by Resource America, Inc. and its subsidiaries as lawyers. The relationship between RFFM and such related persons does not cause any material conflict of interest.
8. RFFM does not have any relationship or arrangement with any related entity that is an insurance company or agency.
9. RFFM does not have any relationship or arrangement with any related person that is a pension consultant.
10. RFFM does not have any relationship or arrangement with any related person that is a real estate broker or dealer.
11. Related persons of RFFM may serve as sponsors or syndicators of limited partnerships. Clients of RFFM are not solicited to invest in these limited partnerships and such limited partnerships do not transact with RFFM. The relationship between RFFM and such related persons does not cause any material conflict of interest.

**(D)** RFFM does not recommend or select other investment advisors for its Clients.

**Item 11:**      Code of Ethics.

**(A)** In recognition of RFFM's fiduciary duty to its clients and its desire to maintain its high ethical standards, RFFM has adopted a Code of Ethics containing provisions designed to prevent improper personal trading, identify conflicts of interest and provide a means to resolve any actual or potential conflicts in favor of the RFFM client. Adherence to the Code of Ethics and the related restrictions is considered a basic condition of employment by RFFM.

It is the responsibility of each employee of RFFM to ensure that a particular securities transaction being considered for his or her own personal account is not subject to a restriction contained in the Code of Ethics or otherwise prohibited by any applicable laws.

RFFM employees are prohibited from executing any personal securities transactions of any kind in any securities on the company's restricted list. This list will contain the names of companies for which RFFM has material non-public information. RFFM employees are required to provide the Compliance Officer with copies of all brokerage statements and trade confirmations for all accounts in which securities are held. All such statements will be reviewed on a regular basis and compared against the restricted list by the Compliance Officer.

RFFM employees may not acquire beneficial ownership in any securities in any private placement of securities or investment opportunity of limited availability unless the Compliance Officer has given express prior written approval.

RFFM employees may not serve as a director (or similar position) on the board or a member of a credit committee of any company unless the employee has received written approval from the Compliance Officer. Authorization will be based on a determination that the board service would not be inconsistent with the interest of any client account.

RFFM employees are prohibited from using their position with RFFM to obtain an item of value from any person or company that does business with RFFM. Employees are prohibited from accepting any gift greater than \$300 in value from any person or company that does business with RFFM or a private investment vehicle managed by RFFM. Unsolicited business entertainment is permitted if: a) it is not so frequent or of such high value as to raise a question of impropriety and b) the person providing the entertainment is present at the event.

RFFM's management, with the advice of legal counsel, at their discretion, will consider reports made to them and upon determining that a violation of the Code of Ethics has occurred, may impose such sanctions or remedial action as they deem appropriate or to the extent required by law.

A copy of Resource Financial Fund Management, Inc.'s Code of Ethics is available to any investor or potential investor on request.

**(B)** RFFM is a joint venture partner in Trapeza Funding, LLC, Trapeza Funding II, LLC, Trapeza Funding III, LLC, Trapeza Funding IV, LLC and Trapeza Funding V, LLC. Trapeza Funding, LLC is the general partner of Trapeza Partners, L.P.; Trapeza Funding II, LLC is the general partner of Trapeza Partners II, L.P.; Trapeza Funding III, LLC is the general partner of Trapeza Partners III, L.P.; Trapeza Funding IV, LLC is the general partner of Trapeza Partners IV, L.P.; and Trapeza Funding V, LLC is the general partner of Trapeza Partners V, L.P. Trapeza Partners L.P. was formed for the purpose of investing the equity tranche of Trapeza CDO I, LLC. Trapeza Partners II, LLC invested in the equity tranches of Trapeza CDO II, LLC and Trapeza CDO III, LLC. Trapeza Partners III, L.P. invested in the equity tranche of Trapeza CDO IV, LLC. Trapeza Partners IV, L.P. invested in the equity tranche of Trapeza CDO IV, LLC. Trapeza Partners V, L.P. invested in the equity tranche of Trapeza CDO V, Ltd. Each of these partnerships was formed for the sole purpose of investing in and holding equity securities issued by CDOs for which RFFM receives investment management fees and have not traded subsequent to the one-time acquisition of those securities and each partnership's investment in these securities was fully disclosed to the partnerships and the investors therein at the time of

formation. RFFM and its affiliates do not currently recommend to clients, or buy and sell for client accounts, securities in which RFFM or its affiliates have a material financial interest.

(C) While RFFM and its related persons are permitted to invest in the same securities that it recommends to Clients, the securities purchased for Client accounts generally contain purchase restrictions that would prevent their purchase by RFFM personnel. Further, the indentures place significant restrictions on RFFM's ability to purchase and sell securities through the Trapeza Program on behalf of the CDO clients, and thus the CDOs managed by RFFM are largely static and, barring credit impairment or default, do not trade subsequent to an initial acquisition of securities. In managing related proprietary accounts, RFFM or its affiliates may purchase or sell securities for their related accounts, which they may also recommend to their clients. RFFM and its affiliates have adopted internal allocation procedures governing such transactions that require, among other things, that: (i) all trades for the related proprietary accounts be reviewed by portfolio management and compliance personnel, and (ii) that RFFM maintain records as to the activity and position in the related proprietary accounts and any transaction allocations involving related proprietary accounts and client accounts. Neither RFFM nor its affiliates will have any obligation to purchase or sell for any Client, or to recommend for purchase or sale by any Client, any security that RFFM, its affiliates, its principals or employees may purchase or sell for themselves, for their proprietary account or for any other Client. Potential conflicts of interest may also exist in instances in which RFFM or its affiliates determine that a specific transaction in a security is appropriate for a specific account, including proprietary accounts and accounts for which RFFM charges a performance based fee, based upon numerous factors including, among other things, investment objectives, investment strategies or restrictions, while other accounts including proprietary accounts and accounts for which RFFM charges a performance based fee may hold or take the opposite position in the security in accordance with those accounts' investment objectives, strategies and restrictions.

RFFM has a fiduciary duty to clients to act solely for the benefit of its Clients. All employees of RFFM, including directors and officers, must put the interests of RFFM's Clients before their own personal interests and must act honestly and fairly in all respects in dealings with Clients.

(D) Please see the response to Item 11(C) above.

**Item 12:**      Brokerage Practices.

(A) All trades on behalf of the Trapeza CDOs are executed by FSI pursuant to the memorandum of understanding adopted by RFFM and FSI. Trades executed by FSI on behalf of the CDOs are generally done due to credit deterioration or the need to reinvest proceeds from a sale or issuer call. FSI retains discretionary authority to select broker-dealers in connection with all portfolio transactions; however, with respect to CDO clients, discretionary authority to purchase or sell securities or loan investments in Client accounts may be limited by the terms of the applicable indentures and other governing agreements, which may impose quality, liquidity, concentration, diversification and other requirements. All trades executed by FSI are reviewed by the CCO to ensure that best execution was obtained by FSI. When making this determination, the CCO shall consider a number of factors including quality of execution, ability of the broker-dealer to commit capital to provide liquidity, financial responsibility and market-making

capabilities. When an error is made on behalf of a client account, Trapeza Management will use its best efforts to break or otherwise correct the trade.

1. RFFM may, from time to time, receive unsolicited market and industry research from broker-dealers. In no instance does RFFM seek to obtain research or other soft dollar benefits in exchange for directing client brokerage to the broker or bank producing such materials. All decisions related to selection of RFFM's trading counterparties and broker-dealers servicing client accounts are made based on best execution.
2. RFFM and its related persons do not receive client referrals from broker-dealers or third parties that provide order execution on behalf of client accounts
3. RFFM does not routinely recommend, request or require Clients to direct RFFM to execute transactions through specified broker-dealers.

(B) From time to time, it may be appropriate for RFFM to aggregate Client orders for the purchase or sale of securities. RFFM will generally follow the guidelines set forth below in aggregating Client orders for securities, including any orders placed for private investment vehicles: (1) no Client will be favored over any other Client; (2) each Client that participates in an aggregated order will participate at the average share price for all of RFFM's transactions in that security on a given business day and transaction costs will be shared pro rata based on each Client's participation in the transaction; (3) if the aggregated order is filled in its entirety, it will be allocated among Clients in accordance with the RFFM's general policy; and (4) if the aggregated order is partially filled, it will be allocated among Clients pro rata. Notwithstanding the foregoing, an aggregated order may be allocated on a basis different from that specified above, if the reason for the different allocation is explained in writing and approved by the Compliance Officer no later than the close of trading on the day on which the order was executed. Reasons for allocation on a basis different from that specified in the allocation statement may include, but are not necessarily limited to: a Client's investment guidelines and restrictions; available cash; liquidity requirements; legal and regulatory reasons; or to avoid odd lots.

Notwithstanding the foregoing, all trades executed on behalf of the CDO clients are done by FSI pursuant to a letter agreement as per the disclosures above.

**Item 13:**        Review of Accounts.

(A) Investments held by Trapeza CDOs are reviewed daily by the Vice President of Trapeza Management. This review primarily focuses on an analysis of each investment's financial performance, a review of each investment's capital structure and a review of each investment's industry prospects. Individual CDO deal metrics are also reviewed on a daily basis.

(B) The Vice President of Trapeza Management and the Credit Committee for Trapeza Management review CDO investments as necessary in the event of investment defaults, investment interest payment deferrals and other corporate actions.

(C) CDO clients receive access to monthly trustee reports which contain information on portfolio performance and composition. Trapeza limited partnerships receive quarterly valuation reports from RFFM which contain information on portfolio composition and valuation. RFFM also provides K-1s and audited financial statements to investors in the Trapeza partnerships.

**Item 14:**      Client Referrals and Other Compensation.

(A) RFFM does not receive any economic benefit from any party that is not a Client in connection with the provision of investment advice or other advisory services to RFFM clients.

(B) Neither RFFM nor its related persons directly or indirectly compensates any person who is not one of its supervised person for client referrals,

**Item 15:**      Custody.

RFFM does maintain custody of funds for the five Trapeza limited partnerships. All funds for these partnerships are held with a qualified custodian. RFFM does not maintain custody of any CDO funds or securities. Limited partnerships for which RFFM provides investment advisory services each receive statements from the qualified custodian at which their accounts are maintained. Clients should always compare statements received by RFFM to those received by the qualified custodian in order to ensure their accuracy.

**Item 16:**      Investment Discretion.

The applicable indentures for each of the CDOs managed by RFFM place significant restrictions on RFFM's ability to buy and sell collateral debt securities on behalf of its CDO clients. Pursuant to the terms of these indentures, RFFM has limited discretionary authority over client accounts. CDO indentures generally restrict RFFM from selling collateral debt securities unless such securities have experienced specified credit deterioration, ratings downgrades, or events of default. Also, RFFM may generally only purchase collateral debt securities to replace those that have been sold. In some instances, RFFM is permitted by the terms of a CDO indenture to trade a small portion of the CDO account on a discretionary basis. The partnerships managed by the Trapeza Program are static and have never traded subsequent to a one time initial acquisition of subordinated CDO securities.

**Item 17:**      Voting Client Securities.

(A) The Trapeza Program's CDO portfolios are comprised of various trust preferred and other debt securities. Generally, the holders of these securities are not entitled to vote on corporate matters. If a corporate action notification is received and neither joint venture party reasonably determines that its interests conflict with the best interests of the client when determining how to vote, the decision on how to vote or respond for the security will be made by the Trapeza Program's credit committee, which consists of representatives of RFFM and FSI. If one of the joint venture partners reasonably determines that it has such a conflict, the decision on how to vote or respond for the security will be made by the credit committee members appointed by the

other joint venture partner. In the event that both joint venture partners reasonably determine that they have a conflict, RFFM may retain the services of an independent 3<sup>rd</sup> party.

In all cases, FSI's collateral administration personnel will be tasked with implementing the committee's decision. Additionally, FSI's collateral administration personnel will maintain a written record of the Trapeza Program's actions on all corporate action notifications, including with respect to each voted proxy, (a) the name of the issuer, (b) the proposal voted upon and (c) how the Trapeza Program voted on the security.

**Item 18:**      Financial Information.

(A) RFFM does not require or solicit prepayment of more than \$1200 in fees per client, six months or more in advance.

(B) There are no financial conditions that are reasonably likely to impair RFFM's ability to meet its contractual commitments to its clients.

(C) RFFM has not been the subject of a bankruptcy petition at any time during the past ten years.