

ELLINGTON FINANCIAL MANAGEMENT LLC

53 Forest Avenue
Old Greenwich, CT 06870

Tel. 203-698-1200
Fax. 203-698-0869

www.ellingtonfinancial.com
www.ellington.com

This Disclosure Brochure provides information about the qualifications and business practices of Ellington Financial Management LLC. 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 ELLINGTON FINANCIAL MANAGEMENT OR ANY PRINCIPALS OR EMPLOYEES OF ELLINGTON FINANCIAL MANAGEMENT POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.

Additional information about Ellington Financial Management is also available on the SEC's website at www.adviserinfo.sec.gov.

The date of this Disclosure Brochure is

March 30, 2012

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

No material changes have been made to this Brochure since the prior version, dated September 27, 2011.

ELLINGTON FINANCIAL MANAGEMENT
Form ADV, Part 2A Disclosure Brochure

Table of Contents

Ellington Financial's Advisory Business	4
Types of Advisory Services Offered.....	4
Client Assets Under Management	4
Fees and Compensation	5
Valuation.....	5
Expenses and Allocation of Expenses	6
Termination of Services.....	6
Performance Based Fees and Side-by-Side Management	6
Types of Clients	7
Methods of Analysis, Investment Strategies and Risk of Loss	7
Certain Risks of Mortgage-backed, Mortgage-related, and Asset-backed Strategies	8
Disciplinary Information	9
Other Financial Industry Activities and Affiliations	9
Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading	10
Code of Ethics and Personal Trading.....	10
Participation or Interest in Client Transactions	10
<i>Allocation of Investment Opportunities and Order Aggregation</i>	11
<i>Cross or Principal Transactions</i>	12
<i>Receipt of Material Non-public Information</i>	12
<i>Differing Advice</i>	12
<i>Differing Interests in an Issuer or Securitization</i>	12
<i>Investment in other Client Accounts</i>	13
<i>Joint Guarantees or Obligations</i>	13
<i>Differing Interests of Individual Investors</i>	13
<i>Other Activities and Affiliations</i>	14
Brokerage Practices	14
"Soft Dollar" Practices.....	14
Other Relationships with Brokers and Counterparties.....	15
Trade Error Policy	15
Intermediation	16
Review of Accounts	16
Client Referrals and Other Compensation	16
Custody	17
Investment Discretion	17
Voting Client Securities	17
Financial Information	18
Litigation or Regulatory Matters	18

Ellington Financial's Advisory Business

Ellington Financial Management LLC ("EFM," 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.; Duke Funding Management, L.L.C.; and Ellington Global Asset Management, LLC.

In addition, EFM'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 EFM. Please see "Other Financial Industry Activities and Affiliations" below for a further discussion of entities affiliated with EFM. These entities, together with EFM and its affiliated registered advisers and their employees, are referred to below collectively as the "Ellington Group" or simply "Ellington."

EFM has been in business since 2007 and is owned primarily by Michael Vranos indirectly through his ownership interest in EFM's majority owner EMG Holdings, L.P.

Types of Advisory Services Offered

EFM provides investment management services to Ellington Financial LLC ("EFC"), a publicly traded specialty finance company investing primarily in mortgage-related, mortgage-backed, or 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 EFM or other members of the Ellington Group are referred to below as "Clients" or "Client Accounts."

Ellington 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.

Ellington may also offer advice with respect to an extremely broad range of securities, derivatives, and other financial instruments. For further information, EFC shareholders and prospective shareholders should review the prospectus and periodic reports filed by EFC with the Securities and Exchange Commission, which are available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.

Client Assets Under Management

EFM provides discretionary investment advisory services to EFC. As of December 31, 2011, EFM provided these services to EFC with respect to approximately \$1,968,055,000 in regulatory assets under management.

Fees and Compensation

EFM is compensated for providing services to EFC pursuant to a management agreement under which EFM receives a base management fee quarterly in arrears in an amount equal to 1.50% per annum of EFC's shareholders' equity (calculated in accordance with GAAP) as of the end of each fiscal quarter (before deductions for base management fees and incentive fees payable with respect to such fiscal quarter), provided that shareholders' equity will be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between EFM and EFC's independent directors and approval by a majority of EFC's independent directors in the case of non-cash charges.

In addition to the base management fee, with respect to each fiscal quarter EFC pays EFM an incentive fee equal to the excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) EFC's adjusted net income for the incentive calculation period (which means such fiscal quarter and the immediately preceding three fiscal quarters) over (2) the sum of a hurdle amount for the incentive calculation period, over (ii) the sum of the incentive fees already paid or payable for each fiscal quarter in the incentive calculation period preceding such fiscal quarter. For further information, investors in EFC should consult the most recent periodic report prepared for the company on Form 10-K and available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.

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 or incentive fees earned by EFM depends in part upon the valuations assigned to the portfolio investments of its Clients. These portfolio investments are valued in accordance with Ellington's valuation policy, unless provided otherwise in the relevant management or governing document. Ellington's Clients and investors should be aware that many investments held in Client portfolios may be illiquid, infrequently traded, and difficult to value, and that, accordingly, under Ellington's valuation policy, many of those portfolio investments, depending upon their type and the availability of market prices, will be valued by Ellington in good faith, in some circumstances without regard to third-party price indications. Furthermore, even when third-party price indications are solicited, Ellington decides the number of price indications to be solicited for each asset or liability and which financial institutions will be solicited for such indications. In almost all cases, Ellington is deeply involved in the valuation procedures that are used to determine the net asset values of its Client Accounts. Ellington consequently may have a conflict of interest in determining the valuation of Clients' assets and liabilities, especially since higher valuations will have the effect of increasing the amount of fees paid to Ellington.

Expenses and Allocation of Expenses

In addition to fees paid to Ellington, Ellington Clients, unless provided otherwise, also pay ordinary operating expenses related to their Accounts. Such expenses include, as applicable, taxes, investment expenses (such as brokerage commissions, interest expense, custodial fees, bank service fees, stock loan 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, audit, and tax preparation expenses, withholding and transfer taxes, fees and expenses of 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 Client.

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

The management agreement between EFM and EFC has a current term that expires on December 31, 2011, and will automatically renew for a one year term each anniversary date thereafter unless notice of non-renewal is delivered by either party to the other party at least 180 days prior to the expiration of the then current term. EFC's independent directors will review EFM's performance annually and the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of EFC's independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding common shares, based upon unsatisfactory performance that is materially detrimental to EFC or a determination by EFC's independent directors that the base management and incentive fees payable to EFM are not fair, subject to EFM's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees.

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.

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

Ellington'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 Ellington to favor one or more Clients.

Types of Clients

EFM provides investment advice to EFC, a publicly traded specialty finance company. The Ellington Group generally 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.

Methods of Analysis, Investment Strategies and Risk of Loss

Ellington 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 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 Ellington 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.

Ellington’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. EFC shareholders and potential shareholders, however, should review the detailed explanation of risks included in the prospectus and periodic reports filed by the company and available through the SEC’s website at

<http://www.sec.gov/edgar/searchedgar/webusers.htm>.

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

As noted above, you should review the applicable periodic reports filed by EFC with the SEC 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 EFM’s Form ADV, available at www.adviserinfo.sec.gov.

To date, however, neither EFM 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, EFM 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 Global Asset Management, LLC, which advises an institutional managed account; and
- Duke Funding Management, L.L.C., which acts as collateral manager to certain collateralized debt obligations, or CDOs.

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 Client Accounts may invest in a special-purpose vehicle, or SPV, formed to hold 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.

EFM 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

Ellington, other 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 Ellington 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 Ellington'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.

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

Because Ellington 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

EFM 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 participating 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 those 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, Ellington, 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 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 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, Ellington 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.

Other Activities and Affiliations

EFM 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, academic, public policy, or charitable activities, even though such activities may be in competition with a Client Account or its interests 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

Ellington 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 Ellington'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 trading 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 indemnification and limitations on liability contained in the periodic reports filed by EFC with the SEC, including EFC's IPO prospectus and its most recent Form 10-K, for further discussion of indemnification arrangements between EFC and Ellington Financial. Such periodic reports are available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.

Intermediation

From time to time, Ellington may execute over-the-counter trades with a broker-dealer acting on an agency or a principal basis 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

Ellington generally reviews daily portfolio risk or similar reports for each Client Account. Periodically, and in the event of a substantial move in the relevant markets, additional risk reports and measures may be reviewed. Accounts are also customarily reviewed in light of emerging trends and developments as well as market volatility.

EFC files periodic reports with the SEC, which are available to investors through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>. Information related to press releases or other public statements by EFC is available through the company's website at www.ellingtonfinancial.com.

In some cases, Ellington 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 is deemed to have custody of the funds and securities of many of its Client Accounts.

Ellington satisfies the requirements of the Custody Rule by keeping required client funds and securities at a “qualified custodian” such as a broker-dealer or a bank, and, customarily, by arranging for delivery of annual audited financial statements to Clients or to investors in Client Accounts. No client securities or assets required to be held at a “qualified custodian” are currently held by a custodian affiliated with the Ellington Group.

Investment Discretion

Ellington customarily has and exercises discretionary investment authority over Client Accounts, and Ellington exercises such discretion with respect to EFC. Investors and potential investors should review the prospectus and periodic reports filed by EFC with the SEC for further discussion of the discretion exercised by Ellington with respect to EFC. Such reports are available through the SEC’s website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.

Voting Client Securities

In many cases, Ellington 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 EFC, do not typically invest in corporate equity securities and Ellington does not customarily vote equity proxies for such Clients.

Ellington 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.

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

Ellington 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.

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 Ellington's affiliate Duke Funding Management, L.L.C.). 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.

Investors and potential investors should review the prospectus and periodic reports filed by EFC with the SEC for periodically updated discussion of litigation or regulatory matters. Such reports are available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.