

**PMF ADVISORS, LLC**

**FORM ADV PART 2A BROCHURE**

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**This brochure provides information about the qualifications and business practices of PMF Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (855) 653-4300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.**

**Registration with the SEC does not imply a certain level of skill or training.**

**Additional Information about PMF Advisors, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 2: MATERIAL CHANGES**

PMF Advisors, LLC's ("PMFA") has not been previously registered as an investment adviser with the SEC pursuant to the Investment Advisers Act of 1940, as amended (the "Advisers Act"). As such, this Part 2 of Form ADV (the "Brochure") will be the first to be filed with the SEC.

On July 28, 2010, the SEC published "Amendments to Form ADV" which amends the disclosure document that PMCA is required to provide to clients. This Brochure is prepared according to the SEC's new requirements and rules. PMFA urges clients and investors to read this entire Brochure.

### **ITEM 3: TABLE OF CONTENTS**

#### **Contents**

ITEM 2: MATERIAL CHANGES .....	ii
ITEM 3: TABLE OF CONTENTS.....	iii
ITEM 4: ADVISORY BUSINESS .....	1
ITEM 5: FEES AND COMPENSATION .....	2
ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT.....	4
ITEM 7: TYPES OF CLIENTS.....	5
ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .	5
ITEM 9: DISCIPLINARY INFORMATION.....	12
ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	12
ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	14
ITEM 12: BROKERAGE PRACTICES.....	15
ITEM 13: REVIEW OF ACCOUNTS .....	18
ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION .....	18
ITEM 15: CUSTODY .....	18
ITEM 16: INVESTMENT DISCRETION .....	18
ITEM 17: VOTING CLIENT SECURITIES .....	19
ITEM 18: FINANCIAL INFORMATION .....	19

#### **ITEM 4: ADVISORY BUSINESS**

PMF Advisors, LLC's ("PMFA") is a Delaware limited liability company formed on March 29, 2011. PMFA intends to manage and serve as a discretionary investment adviser to Provident Mortgage Capital Associates, Inc. (the "REIT"). The REIT is a real estate finance company that acquires residential mortgage loans, residential mortgage-backed securities ("RMBS") and other mortgage-related assets. The REIT plans to qualify to be taxed as a real estate investment trust for U.S. federal income tax purposes commencing with what PMFA anticipates to be the REIT's taxable year ending December 31, 2012. PMFA intends to enter into a management agreement (the "Management Agreement") with the REIT in the future.

PMFA's sole principal owner is Craig Pica.

The REIT does not intend to impose any limits on the total amount that PMFA may invest on the REIT's behalf without seeking prior approval from the REIT's board of directors (the "Board") (other than restrictions that may be set forth in financing or other agreements that the REIT may enter into in the future), however, PMFA believes it will be required to manage the REIT's business affairs in conformity with the policies and the asset acquisition guidelines that are approved and monitored by the REIT's Board.

As of the date this Part 2 was submitted, PMFA has not managed any of the REIT's assets on a discretionary or non-discretionary basis and has no other clients of any kind.

PMFA will be responsible for, among other duties: (1) determining investment criteria in conjunction with, and subject to the supervision of, the REIT's Board, (2) sourcing, analyzing and executing asset acquisitions, sales and securitizations, and (3) performing asset and liability management duties, including hedging and financing. In conjunction with those duties, PMFA will perform (or cause to be performed) such services and activities relating to the REIT's assets and operations as may be appropriate, which may include, without limitation, the following:

- serving as the REIT's consultant with respect to the periodic review of the asset acquisition guidelines and other policies for the REIT's acquisitions of assets, financing activities and operations, any modification to which must be approved by a majority of the REIT's independent directors;
- investigating, identifying, analyzing, evaluating and selecting possible opportunities and negotiating, acquiring, financing, retaining, monitoring, selling, restructuring, hedging or disposing of assets consistent with the Management Agreement;
- with respect to prospective purchases, sales or exchanges of assets, conducting negotiations on the REIT's behalf with sellers, purchasers and brokers and, if applicable, their respective agents and representatives;
- advising the REIT on and negotiating and entering into, on the REIT's behalf, repurchase agreements, warehouse facilities, securitizations, bank credit facilities (including term loans and revolving facilities), credit finance agreements, commercial paper agreements, interest rate swap agreements and other hedging instruments, and all other agreements and engagements required for the REIT to conduct its business;
- assisting the REIT in developing criteria for asset purchase commitments that are specifically tailored to the REIT's objectives and strategies and making available to the REIT PMFA's

knowledge and experience with respect to RMBS, MSRs<sup>1</sup> (and/or participation interests in MSRs), mortgage loans, real estate, real estate-related securities and other real estate-related assets;

- serving as the REIT's consultant with respect to arranging for the issuance of RMBS from pools of mortgage loans or with respect to RMBS owned by the REIT;
- representing and making recommendations to the REIT in connection with the purchase and finance of, and commitment to purchase and finance, RMBS, MSRs (and/or participation interests in MSRs), mortgage loans (including on a portfolio basis), real estate, real estate-related securities and other real estate-related assets, and the sale and commitment to sell such assets;
- evaluating and recommending to the REIT's Board hedging strategies and engaging in hedging activities on the REIT's behalf, consistent with the REIT's qualification as a real estate investment trust and with the asset acquisition guidelines;
- counseling the REIT regarding the maintenance of the REIT's qualification as a real estate investment trust and monitoring compliance with the various real estate investment trust qualification tests and other rules set out in the Internal Revenue Code and Treasury regulations thereunder and using commercially reasonable efforts to cause the REIT to qualify for taxation as a real estate investment trust;
- counseling the REIT regarding the maintenance of the REIT's exemption from the status of an investment company required to register under the Investment Company Act of 1940, as amended (the "1940 Act"), monitoring compliance with the requirements for maintaining such exemption and using commercially reasonable efforts to cause the REIT to maintain such exemption from such status;
- furnishing reports and statistical and economic research to the REIT regarding the REIT's activities and services performed for the REIT by PMFA;
- monitoring the operating performance of the REIT's assets and providing periodic reports with respect thereto to the Board, including comparative information with respect to such operating performance and budgeted or projected operating results;
- deploying and redeploying any moneys and securities of the REIT's (including acquiring short-term investments pending the acquisition of other assets, payment of fees, costs and expenses, or payments of dividends or distributions to the REIT's stockholders and partners) and advising the REIT as to the REIT's capital structure and capital raising;
- placing, or facilitating the placement of, all orders pursuant to PMFA's investment determinations for the REIT either directly with the issuer or with a broker or dealer (including any affiliated broker or dealer);
- performing such other activities relating to the REIT's assets and business as the REIT's Board shall reasonably request or PMFA shall deem appropriate under the particular circumstances; and
- assisting the REIT with entering into, or on the REIT's behalf, MSR subservicing arrangements.

## **ITEM 5: FEES AND COMPENSATION**

### **Base management fee.**

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<sup>1</sup> "MSR" means mortgage servicing rights.

PMFA anticipates receiving a base management fee under the Management Agreement with the REIT, calculated and payable quarterly in arrears, equal to 1.5% per annum of the REIT's stockholders' equity.

For purposes of calculating the base management fee, the REIT's stockholders' equity means the sum of the net proceeds from all issuances of the REIT's equity securities since inception (allocated on a pro rata basis for such issuances during the fiscal quarter of any such issuance), plus the REIT's retained earnings at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less any amount that the REIT will pay for repurchases of the REIT's common stock since inception, and excluding from stockholders' equity any common stock issued to PMFA in respect of its incentive fee and any unrealized gains, losses or other items that do not affect realized net income (regardless of whether such items are included in other comprehensive income or loss, or in net income). This amount will be adjusted to exclude one-time events pursuant to changes in GAAP, and certain non-cash items (such as depreciation and amortization) after discussions between PMFA and the REIT's independent directors and approved by a majority of the REIT's independent directors.

The base management fee shall be calculated within 30 days after the end of each fiscal quarter and such calculation shall be promptly delivered to the REIT. The amount due will be paid in cash after approval of the calculation by the REIT.

#### **Reimbursement of expenses.**

Because PMFA's personnel perform certain legal, accounting, due diligence tasks and other services that outside professionals or outside consultants otherwise would perform, PMFA anticipates that it will be paid or reimbursed for the documented cost of performing such tasks, provided that such costs and reimbursements are in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis.

PMFA anticipates that the REIT also will pay all operating expenses, except those specifically required to be borne by PMFA under the Management Agreement. The expenses that PMFA anticipates will be required to be paid by the REIT include, but are not limited to:

- expenses in connection with the issuance and transaction costs incident to the acquisition, disposition and financing of the REIT's assets;
- costs associated with the purchase, financing, sale or other disposition of an asset, the establishment and maintenance of any of the REIT's repurchase agreements, warehouse facilities, securitizations and bank credit facilities (including term loans and revolving facilities) or other indebtedness of the REIT's (including commitment fees, transaction fees, accounting fees, legal fees, negotiating, closing and other similar costs) or any of the REIT's securities offerings;
- expenses incurred by managers, officers, personnel and agents of PMFA for travel on the REIT's behalf and other out-of-pocket expenses incurred by managers, officers, personnel and agents of PMFA in connection with the purchase, financing, refinancing, sale or other disposition of an asset or establishment and maintenance of any repurchase agreements, warehouse facilities,

securitizations, bank credit facilities (including term leases and revolving facilities) or any of the REIT's or the REIT's subsidiaries' securities offerings;

- costs and expenses incurred with respect to Bloomberg and other market data information systems and publications, research publications and materials, and settlement, clearing and custodial fees and expenses;
- compensation and expenses of the REIT's custodian and transfer agent, if any;
- the costs of maintaining compliance with all federal, state and local rules and regulations or any other regulatory agency including the cost associated with the compliance of and all SEC filing requirements;
- all taxes and license fees;
- expenses relating to any office(s) or office facilities, including, but not limited to, disaster backup recovery sites and facilities, maintained for the REIT or the REIT's assets separate from the office or offices of PMFA;
- expenses incurred in connection with obtaining and maintaining "errors and omissions" insurance coverage and other insurance coverage which is customarily carried by property, asset and investment managers performing functions similar to those of PMFA in an amount which is comparable to that customarily maintained by other managers or servicers of similar assets; and
- all other expenses actually incurred by PMFA, which are reasonably necessary for the performance by PMFA of its duties and functions under the Management Agreement.

## **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

PMFA anticipates that it will be entitled to an incentive fee at the end of each quarter in an amount equal to 20.0% of the dollar amount by which Core Earnings<sup>2</sup> for the most recently completed fiscal quarter before the incentive fee received in relation to such fiscal quarter exceeds a quarterly hurdle which shall be determined at a later date.<sup>3</sup>

The incentive fee shall be calculated within 30 days after the end of each quarter and such calculation shall promptly be delivered to the REIT. It is anticipated that the REIT shall be obligated to pay the incentive fee 100% in restricted common stock, subject to the REIT maintaining its qualification as a real estate investment trust, in which case a portion may be paid in cash.

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<sup>2</sup> "Core Earnings" is defined as GAAP net income (loss) excluding the incentive fee and non-cash equity compensation expense (but including any expense as a result of the base management fee), excluding any unrealized gains, losses or other items that do not affect realized net income (regardless of whether such items are included in other comprehensive income or loss, or in net income). This amount will be adjusted to exclude one-time events pursuant to changes in GAAP and certain non-cash items after discussions between PMFA and the REIT's independent directors and approved by a majority of the REIT's independent directors. Core Earnings is a non-GAAP financial measure.

<sup>3</sup> "Quarterly hurdle" is the product of (1) the weighted average of the issue price per share of common stock in all of the REIT's offerings multiplied by the weighted average number of shares of common stock outstanding during the Current Quarter and (2) a hurdle percentage that shall be determined at a later date, expressed on a quarterly basis.

It is anticipated that the shares of restricted common stock payable to PMFA, quarterly, shall vest over a three-year period following the quarter in which such fee was earned, with 60% vesting at the end of two years and the remaining 40% vesting at the end of three years. No incentive fee shall be accrued or earned by PMFA in respect of the initial four fiscal quarters following the anticipated closing of the REIT's initial public offering. The holder of these shares of restricted common stock shall be entitled to receive dividends on such shares of restricted common stock prior to the time that such shares have vested.

To the extent that ownership of the incentive fee to PMFA in shares of the REIT's common stock in respect of any fiscal quarter would result in a violation of the stock ownership limits set forth in the REIT's charter (and taking into account the 10.75% excepted holder limit applicable to PMFA), all or a portion of the incentive fee payable to shares in respect of such fiscal quarter will be paid in cash to the extent necessary to avoid such violation. In such a situation, PMFA will not receive the cash payment until such time as the shares of common stock that would have been issued would have vested as described above. For purposes of determining the common stock ownership of PMFA, as described above, any common stock owned by Craig Pica, Doug Pica, Ralph Pica and any other members of the Pica family, whether directly or through certain other entities, will be attributed to PMFA.

The fact that the REIT intends to also pay PMFA incentive fees based on Core Earnings may lead PMFA to place undue emphasis on the maximization of Core Earnings, including through the use of leverage, at the expense of other criteria, such as preservation of capital, to achieve higher incentive fees. Assets with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of the REIT's portfolio of assets. Please refer to Item 10 herein for a discussion of conflicts.

## **ITEM 7: TYPES OF CLIENTS**

PMFA was formed to provide investment advice to the REIT, and it does not have any additional clients at this time, although it may in the future. The REIT is a newly formed real estate finance company and plans to qualify to be taxed as a real estate investment trust for U.S. federal income tax purposes commencing with the REIT's taxable year ending December 31, 2012.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

*All references in this section to the REIT will be deemed to refer to actions expected to be taken or assets expected to be acquired based on PMFA's investment and asset management advice unless the context otherwise requires.*

### **Investment Strategies.**

The REIT's asset acquisition strategy will focus on acquiring a diversified portfolio of residential mortgage loans, RMBS and other mortgage-related assets that appropriately balances the risk and reward opportunities the REIT observes in the marketplace. The REIT expects to initially focus on acquiring primarily Agency RMBS<sup>4</sup> and, to a lesser extent, Jumbo loans.<sup>5</sup> Given the REIT's long-term view that the

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<sup>4</sup> "Agency RMBS" means government agency RMBS, which are mortgage pass-through certificates backed by pools of mortgage loans issued or guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac. The collateral for Agency RMBS consists of conforming loans. The REIT's Agency RMBS may also consist of Agency CMOs, which are securities that are structured by a U.S. government agency, or federally chartered corporation-backed mortgage pass through certificates.

market for non-conforming residential mortgage loans including, in particular, Jumbo loans, will grow, the REIT expects its portfolio to become increasingly focused on this asset class over time.

The REIT intends to use substantially all of the net proceeds of its initial public offering, the concurrent private placement and borrowings under repurchase agreements to acquire an initial portfolio consisting primarily of shorter duration Agency RMBS and IO Strips.<sup>6</sup> Following the acquisition of the REIT's initial portfolio, it intends to opportunistically supplement its portfolio of Agency RMBS and Jumbo loans with Non-Agency RMBS,<sup>7</sup> other non-conforming residential mortgage loans and other mortgage-related assets including MSR's, subject to its asset acquisition guidelines and to the extent consistent with maintaining its real estate investment trust qualification.

PMFA's expertise will be used in identifying target assets and efficiently financing those assets. PMFA will make decisions based on a variety of factors, including expected risk-adjusted returns, credit fundamentals, liquidity, availability of adequate financing, borrowing costs and macroeconomic conditions, as well as maintaining the REIT's real estate investment trust qualification and its exemption from registration under the 1940 Act. The REIT intends, subject to market conditions, to follow a predominantly long-term buy and hold strategy with respect to the assets that it acquires.

The REIT expects to use leverage to increase potential returns to its stockholders. Subject to maintaining the REIT's exemption from registration under the 1940 Act and its qualification as a real estate investment trust, the REIT expects to use a number of sources to finance its assets, including repurchase agreements, warehouse facilities, securitizations and bank credit facilities (including term loans and revolving facilities). The amount of leverage the REIT may employ for particular assets will depend upon the availability of particular types of financing and the REIT's assessment of the credit, liquidity, price volatility and other risks of those assets and financing counterparties. Although the REIT is not required to maintain any particular leverage ratio, including the maximum amount of leverage the REIT may use, the REIT expects initially, to deploy, on a debt-to-equity basis, up to 8:1 leverage on Agency RMBS, up to 5:1 leverage on residential mortgage loans and up to 3:1 leverage on IO Strips. The REIT does not expect, initially, to deploy leverage on non-Agency RMBS or MSRs. In addition, the REIT intends to rely on short-term financing such as repurchase transactions under master repurchase agreements, the duration of which is typically 30 to 60 days.

### **Material Risks of Investment Strategy.**

Investing in securities and derivatives involves a risk of loss that the REIT and investors should be prepared to bear. The REIT will rely on the discretionary market judgment of PMFA. The following is a summary of some of the material risks associated with PMFA's investment strategies. This summary does not attempt to describe all of the risks associated with PMFA's strategies.

***General Risks of Investments in Real Estate Securities; Volatility.*** Difficult and volatile conditions in the mortgage and residential real estate markets as well as the broader financial markets may cause the REIT to experience market losses related to the REIT's asset portfolio and there can be no

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<sup>5</sup> "Jumbo loans" means residential mortgage loans with an original principal balance in excess of the maximum amount permitted by the Agency underwriting guidelines.

<sup>6</sup> "IO Strips" are a type of stripped security. Stripped securities are RMBS structured with two or more classes that receive different distributions of principal or interest on a pool of Agency certificates, whole loans or private pass-through RMBS.

<sup>7</sup> "Non-Agency RMBS" means RMBS that are not issued or guaranteed by an Agency, including investment grade (AAA through BBB rated) and non-investment grade (BB rated through unrated) classes.

assurance that the REIT will be successful in implementing the REIT's business strategies amidst these conditions.

**Regulatory Risk.** Actions of the U.S. government, including the U.S. Congress, Federal Reserve, U.S. Treasury and other governmental and regulatory bodies for the purpose of stabilizing or reforming the financial markets, or market response to those actions, may not achieve the intended effect or benefit the REIT's business, and may adversely affect the REIT's business.

**Loan Modification and Refinance Risk.** Mortgage loan modification and refinance programs, future legislative action, changes in the requirements necessary to qualify for refinancing mortgage loans with Fannie Mae, Freddie Mac or Ginnie Mae and other actions and changes may adversely affect the value of, and the returns on, the assets in which the REIT intends to acquire.

**Changes in Laws.** The increasing number of proposed U.S. federal, state and local laws may affect certain mortgage-related assets which the REIT intends to acquire and could increase the REIT's cost of doing business.

**Changes in the Relationship between the U.S. Government and Fannie Mae and Freddie Mac.** The conservatorship of Fannie Mae and Freddie Mac, their reliance on the U.S. government for solvency and any changes in laws and regulations affecting Fannie Mae and Freddie Mac and their relationship with the U.S. government may adversely affect the REIT's business.

**Market Illiquidity.** Many of the REIT's assets may be illiquid, which may adversely affect the REIT's business, including PMFA's ability to value and sell the REIT's assets.

**Leverage Risk.** PMFA expects to use leverage in executing the REIT's business strategy, which may adversely affect the REIT's return on the REIT's assets and may reduce cash available for distribution to the REIT's stockholders, as well as increase losses when economic conditions are unfavorable.

**Financing Risk.** The REIT may depend on repurchase agreements, warehouse facilities, securitizations and bank credit facilities (including term loans and revolving facilities) to execute the REIT's business plan, and the REIT's inability to access funding could have a material adverse effect on the REIT's results of operations, financial condition and business. The REIT intends to rely on short-term financing and thus are especially exposed to changes in the availability of financing.

**Collateral Risk.** The repurchase agreements, warehouse facilities, securitizations and bank credit facilities (including term loans and revolving facilities) that PMFA may enter into to finance the REIT's asset acquisitions may require it to provide additional collateral and may restrict it from leveraging the REIT's assets as desired. The REIT may be subject to margin calls as a result of the REIT's financing activity.

**Increased Borrowing Costs.** An increase in the REIT's borrowing costs relative to the interest the REIT receives on its leveraged assets may adversely affect the REIT's profitability and the REIT's cash available for distribution to its stockholders.

**Hedging Risk.** PMFA may enter into hedging transactions that could expose the REIT to contingent liabilities in the future.

**Servicer Risk.** The failure of Provident or any other servicer to effectively service the REIT's portfolio of mortgage loans would materially and adversely affect it.

***Jumbo Loan Shortage.*** PMFA may face difficulties in acquiring, financing and selling Jumbo loans on behalf of the REIT.

***Mortgage Default Risk.*** The mortgage loans that PMFA intends to acquire on behalf of the REIT, and the mortgage loans underlying the Non-Agency RMBS that PMFA intends to acquire on behalf of the REIT, are subject to delinquency, foreclosure and loss.

***Credit risk.*** PMFA expects the REIT to be subject to varying degrees of credit risk in connection with its assets. Although PMFA does not expect to encounter credit risk in the Agency RMBS, PMFA does expect to encounter credit risk related to Jumbo and other non-conforming residential mortgage loans the REIT may acquire. Additionally, PMFA does expect to be subject to varying degrees of credit risk in connection with its other target assets. PMFA also expects that the REIT will have exposure to credit risk on the underlying mortgage loans in any RMBS, including Non-Agency RMBS, it may acquire, as well as other mortgage-related assets, it may acquire.

***Interest rate risk.*** Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond PMFA's control. PMFA anticipates that the REIT will be subject to interest rate risk in connection with its assets and its related financing obligations.

*Interest rate effect on net interest income.*

The REIT's operating results will depend in large part on differences between the income earned on the REIT's assets and the REIT's cost of borrowing and hedging activities. The cost of the REIT's borrowings will generally be based on prevailing market interest rates. During a period of rising interest rates, the REIT's borrowing costs generally will increase (1) while the yields earned on the REIT's leveraged fixed-rate mortgage assets will remain static and (2) at a faster pace than the yields earned on any leveraged adjustable-rate and hybrid mortgage assets the REIT may have acquired, which could result in a decline in the REIT's net interest spread and net interest margin. The severity of any such decline would depend on the REIT's asset/liability composition at the time as well as the magnitude and duration of the interest rate increase. Further, an increase in short-term interest rates could also have a negative impact on the market value of the REIT's target assets. If any of these events happen, the REIT could experience a decrease in net income or incur a net loss during these periods, which could adversely affect liquidity and results of operations.

*Changes in market interest rates.*

With respect to the REIT's proposed business operations, general increases in interest rates over time may cause: (1) the interest expense associated with the REIT's borrowings to increase; (2) the value of the REIT's mortgage loans to decline; (3) the value of any RMBS the REIT may hold to decrease; (4) coupons on any adjustable-rate and hybrid mortgage loans and RMBS to reset, although on a delayed basis, to higher interest rates; (5) prepayments on the REIT's mortgage loan portfolio and any RMBS to slow, thereby slowing the amortization of the REIT's purchase premiums and the accretion of the REIT's purchase discounts; and (6) to the extent PMFA enters into hedging instruments, on the REIT's behalf, including interest rate swap agreements, interest rate cap agreements, interest rate floor agreements, IO Strips or other financial instruments, that PMFA deems appropriate, as part of its hedging strategy, the value of these agreements to increase. Conversely, general decreases in interest rates over time may cause: (A) the interest expense associated with the REIT's borrowings to decrease; (B) the value of the REIT's mortgage loans to increase; (C) the value of any RMBS the REIT may hold to increase; (D) coupons on any adjustable-rate and hybrid mortgage loans and RMBS to reset, although on a delayed basis, to lower interest rates; (E) prepayments on the REIT's mortgage loan portfolio and any RMBS to

increase, thereby accelerating the amortization of the REIT's purchase premiums and the accretion of the REIT's purchase discounts, and (F) to the extent PMFA enters into hedging instruments, on the REIT's behalf, including interest rate swap agreements, interest rate cap agreements, interest rate floor agreements, IO Strips or other financial instruments that PMFA deems appropriate, as part of its hedging strategy, the value of these agreements to decrease. Since changes in interest rates may significantly affect the REIT's activities, the REIT's operating results will depend, in large part, upon PMFA's ability to effectively manage interest rate risks and prepayment risks while maintaining the REIT's real estate investment trust qualification and the REIT's exclusion from the 1940 Act.

*Interest rate cap risk.*

PMFA may, on the REIT's behalf, acquire adjustable-rate and hybrid mortgage assets. These are assets in which the underlying mortgages are typically subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the security's interest yield may change during any given period. However, the REIT's borrowing costs pursuant to the financing agreements will not be subject to similar restrictions. Therefore, in a period of increasing interest rates, interest rate costs on the REIT's borrowings could increase without limitation by caps, while the interest-rate yields on the REIT's adjustable-rate and hybrid mortgage assets would effectively be limited. This issue will be magnified to the extent PMFA acquires adjustable-rate and hybrid mortgage assets, on the REIT's behalf, that are not based on mortgages which are fully indexed. In addition, adjustable-rate and hybrid mortgage assets may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in the REIT's receipt of less cash income on such assets than the REIT would need to pay the interest cost on the REIT's related borrowings. These factors could lower the REIT's net interest income or cause a net loss during periods of rising interest rates, which would harm the REIT's financial condition, cash flows and results of operations.

*Interest rate mismatch risk.*

The REIT may fund a portion of its acquisition of adjustable-rate and hybrid mortgages and RMBS assets with borrowings that are based on the London Interbank Offered Rate ("LIBOR") while the interest rates on these assets may be indexed to LIBOR or another index rate, such as the one-year Constant Maturity Treasury ("CMT") index, the Monthly Treasury Average ("MTA") index or the 11th District Cost of Funds Index ("COFI"). Accordingly, any increase in LIBOR relative to one-year CMT rates, MTA or COFI will generally result in an increase in the REIT's borrowing costs that is not matched by a corresponding increase in the interest earnings on these assets. Any such interest rate index mismatch could adversely affect the REIT's profitability, which may negatively impact distributions to the REIT's stockholders. To mitigate interest rate mismatches, PMFA may utilize the hedging strategies, on the REIT's behalf, discussed below.

***Prepayment risk.*** Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, causing the return on an asset to be less than expected. Hedging techniques are partly based on assumed levels of prepayments of the REIT's target assets. If prepayments are slower or faster than assumed, the life of the investment will be longer or shorter, which would reduce the effectiveness of any hedging strategies the REIT may use and may cause losses on such transactions. Hedging strategies involving the use of derivative securities are highly complex and may produce volatile returns. As the REIT receives prepayments of principal on its assets, premiums paid on such assets will be amortized against interest income. In general, an increase in prepayment rates will accelerate the amortization of purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates will accelerate the accretion of purchase discounts, thereby increasing the interest income earned on the assets.

### *Prepayment speeds.*

Prepayment speeds may be affected by a number of factors including, but not limited to, the type of investment, interest rates, the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, possible changes in tax laws, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors, none of which can be predicted with any certainty. Generally, when interest rates rise, borrowers find it relatively less attractive to refinance their mortgage loans and, as a result, prepayment speeds tend to decrease. This may extend the period over which the REIT earns interest income, while conversely, the period over which the REIT earns interest income may decrease when interest rates fall and prepayment speeds tend to increase. PMFA also expects that over time any adjustable-rate and hybrid mortgage loans and RMBS PMFA may acquire, on the REIT's behalf, will experience higher prepayment rates than do fixed-rate mortgage loans and RMBS, as PMFA believes that homeowners with adjustable-rate and hybrid mortgage loans exhibit more rapid housing turnover levels or refinancing activity compared to fixed-rate borrowers. In addition, PMFA anticipates that prepayments on adjustable-rate mortgage loans will tend to significantly accelerate as the coupon reset date approaches.

***Spreads on RMBS versus U.S. Treasuries and Funding Costs.*** The spread between U.S. Treasuries and RMBS has recently been volatile. Over the past several years spreads on non-treasury, fixed income assets including RMBS moved sharply wider due to the difficult credit conditions. The poor collateral performance of the subprime mortgage sector coupled with declining home prices had a negative impact on investor confidence. As the prices of securitized assets declined, a number of investors and a number of structured investment vehicles faced margin calls from dealers and were forced to sell assets in order to reduce leverage. The price volatility of these assets also impacted lending terms in the repurchase market as counterparties raised margin requirements to reflect the more difficult environment.

The spread between the yield on the REIT's assets and funding costs will affect the performance of the REIT's strategy. Wider spreads imply greater income on new asset purchases, but may have a negative impact on the stated book value. Wider spreads may also negatively impact asset prices. In an environment where spreads are widening, counterparties may require additional collateral to secure borrowings which may require PMFA to reduce leverage in the REIT's portfolio by selling assets. Conversely, tighter spreads imply lower income on new asset purchases, but may have a positive impact on the stated book value. Tighter spreads may have a positive impact on asset prices. In this case, PMFA may be able to reduce the amount of collateral required to secure the REIT's borrowings.

***Extension Risk.*** If prepayment rates decrease in a rising interest rate environment, the life of the fixed-rate portion of the related RMBS could extend beyond the term of the interest swap agreement or other hedging instrument. This could have a negative impact on the REIT's results from operations, as borrowing costs would no longer be fixed after the end of the hedging instrument while the income earned on the hybrid or fixed-rate RMBS would remain fixed. This situation may also cause the market value of the REIT's hybrid or fixed-rate RMBS to decline, with little or no offsetting gain from the related hedging transactions. In extreme situations, PMFA may be forced to sell assets to maintain adequate liquidity, which could cause the REIT to incur losses.

This analysis of risks is based on PMFA's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of decisions by PMFA may produce results that differ significantly from the estimates and assumptions used in PMFA's models.

### **Risk Management.**

Risk management is a component of PMFA's strategy to deliver consistent risk-adjusted returns to the REIT and its stockholders. Because the REIT intends to acquire primarily fixed income securities, losses from credit defaults, interest rate volatility or other risks can meaningfully reduce or eliminate the REIT's distributions to stockholders. In addition, because PMFA expects to employ financial leverage in funding a portion of the REIT's portfolio, mismatches in the maturities of the REIT's assets and liabilities creates risk in the need to continually renew or otherwise refinance the REIT's liabilities. The REIT's net interest margins are dependent upon a positive spread between the returns on the REIT's asset portfolio and the REIT's overall cost of funding. In order to minimize the risks to the REIT, the REIT expects to employ security-specific risk measurement and management processes. PMFA's risk management tools include software and services licensed or purchased from third parties, in addition to proprietary analytical methods developed by PMFA. There can be no guarantee that these tools will protect the REIT from market risks.

***Interest Rate Risk Management.*** PMFA intends to use short-term leverage to increase potential returns to the REIT's stockholders. Subject to maintaining the REIT's exemption from registration under the 1940 Act and the REIT's qualification as a real estate investment trust. Under the U.S. federal income tax laws applicable to real estate investment trusts, the REIT generally will be able to enter into certain transactions to hedge indebtedness that the REIT may incur, or plan to incur, to acquire or carry real estate assets, although the REIT's total gross income from interest rate hedges that do not meet this requirement and other non-qualifying sources must generally not exceed 5% of the REIT's gross income.

PMFA also expects to attempt to reduce interest rate risks and to minimize exposure to interest rate fluctuations through the use of match funded financing structures, when appropriate, whereby it may seek (1) to match the maturities of the REIT's debt obligations with the maturities of the REIT's assets and (2) to match the interest rates on the REIT's assets with like-kind debt (i.e., the REIT may finance floating rate assets with floating rate debt and fixed-rate assets with fixed-rate debt), directly or through the use of hedging instruments, including interest rate swap agreements, interest rate cap agreements, interest rate floor agreements, IO Strips or other financial instruments that the REIT deems appropriate, or through a combination of these strategies. PMFA expects these instruments will allow it to minimize, but not eliminate, the risk that the REIT has to refinance its liabilities before the maturities of the REIT's assets and to reduce the impact of changing interest rates on the REIT's earnings. PMFA anticipates that its hedging strategy will be modeled on a loan-by-loan basis using loan-level data from Provident's integrated platform with more than 400 fields of data per loan.

***Credit Risk Management.*** PMFA will seek to manage any credit risk relating to RMBS, conforming mortgage loans or Jumbo and other non-conforming residential mortgage loans it may acquire by focusing on higher-quality mortgage loans and by conducting due diligence that allows it to remove loans that do not meet its credit standards based on loan-to-value ratios, borrower's credit scores, debt-to-income ratio, income and asset documentation, property valuation and other criteria that it believes to be important indications of credit risk. PMFA's analysis of residential mortgage loans will include borrower profiles, as well as valuation and appraisal data. PMFA will seek to obtain representations and warranties from each seller stating that each loan was underwritten to PMFA's requirements or, in the event underwriting exceptions were made, informing PMFA of the exceptions so that it may evaluate whether to accept or reject the loans. Credit risk on the REIT's residential mortgage loan portfolio will also be addressed through PMFA's active asset surveillance.

PMFA will seek to manage credit risk relating to any Non-Agency RMBS or other assets it may acquire by performing a credit analysis of potential assets. PMFA will evaluate the credit characteristics of potential RMBS assets based on their underlying collateral profiles, including, but not limited to, loan balance distribution, documentation, geographic concentration, property type, periodic and lifetime interest rate caps, weighted-average loan-to-value and weighted-average credit score. Qualifying assets

will then be analyzed based on expectations of prepayments, defaults, losses, vintage, as well as structural nuances. Base case scenarios will be stressed utilizing credit risk-based models. Credit risk will also be addressed through PMFA's on-going surveillance, as securities will be monitored for variance from expected prepayments, defaults, severities, losses and cash flow on a periodic basis.

***Extension Risk Management.*** PMFA will compute the projected weighted-average life of the REIT's assets based on assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. In general, when RMBS secured by hybrid or fixed-rate loans are acquired with borrowings, PMFA may, but is not required to, enter into interest rate swap agreements or other hedging instruments, on behalf of the REIT, that effectively fixes its borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the RMBS. This strategy is designed to protect the REIT from rising interest rates because the borrowing costs are fixed for the duration of the fixed-rate portion of the RMBS.

## **ITEM 9: DISCIPLINARY INFORMATION**

Neither PMFA nor any of its advisory affiliates have been the subject of any legal or disciplinary events related to their investment advisory business.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

*See also "Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.*

Colorado Federal Savings Bank ("CFSB"), an FDIC-insured federal savings bank regulated by the Office of the Comptroller of the Currency (formerly, the Office of Thrift Supervision), is a related person under common control with PMFA.

Provident Reciprocal Insurance Exchange, a Vermont domiciled monoline captive reinsurance company, is a related person under common control with PMFA.

Each of the REIT's officers and non-independent directors will also be an employee, or owner, of PMFA, Provident or one of their affiliates. PMFA, Provident and the REIT's officers may have conflicts between their duties to the REIT and their duties to, and interests in, PMFA, Provident and their respective affiliates. PMFA is not required to devote a specific amount of time or the services of any particular individual to the REIT's operations, and PMFA is not prohibited from serving as manager or advisor to another entity. PMFA's officers and personnel engage in other business and provide services to other parties, and PMFA will compete with these other parties for PMFA's and Provident's resources and support. During turbulent conditions in the mortgage industry, distress in the credit markets or other times when PMFA will need focused support and assistance from PMFA's personnel, entities for which they also act will likewise require greater focus and attention, placing their resources in high demand. In such situations, PMFA may not receive the necessary support and assistance the REIT requires or would otherwise receive if PMFA were internally managed or if PMFA's personnel did not act for other entities. The ability of PMFA, Provident and their officers and personnel to engage in other business activities may reduce the time they spend advising the REIT.

There may also be conflicts in allocating assets that are suitable for the REIT and other entities advised by or affiliated with PMFA, Provident and their respective affiliates. Other clients of PMFA, Provident and their respective affiliates may, subject to the REIT's strategic alliance agreement, compete

with the REIT with respect to certain assets which PMFA may want to acquire and, as a result, PMFA may either not be presented with that opportunity or have to compete with such other clients to acquire these assets. For example, two such affiliates of Provident are Provident Mortgage Trust, Inc ("PMT"), an internally-managed private mortgage REIT that invests in Agency RMBS, Non-Agency RMBS, IO Strips and mortgage loans (primarily fixed-rate home equity term loans), 85% of the outstanding common stock of which is owned by Craig Pica, chairman of the REIT's Board, and CFSB, which is 89% owned by Mr. Pica. Provident has a mortgage loan purchase and servicing agreement with PMT pursuant to which Provident may sell, subject to the REIT's strategic alliance agreement, mortgage loans to PMT, from time to time through specific commitments, and Provident retains all of the servicing rights and services the mortgage loans. In addition, Provident has a fulfillment agreement with CFSB. Under this agreement, CFSB has the right to underwrite and fund loans where the borrower has locked their interest rate with Provident. In addition, under the fulfillment agreement, Provident performs loan processing and secondary marketing services, including making the sole decision on the sale of such loans. Although CFSB owns the loans, under the REIT's strategic alliance agreement, Provident must first offer such loans to the REIT before offering such loans to any other fund or investment vehicle managed or advised by Provident or one of its affiliates. However, if CFSB decides to retain such loans for investment, then PMFA will not be given the opportunity to purchase such loans. In addition, it is possible in the future that Provident, PMFA and their respective affiliates, including PMT and CFSB, may compete directly with the REIT for opportunities.

#### **Strategic Alliance Agreement.**

The REIT, PMFA and Provident have established certain policies and procedures that are designed to manage potential conflicts of interest between the REIT, PMFA and Provident and their respective affiliates. Pursuant to the terms of the REIT's strategic alliance agreement, Provident will be required to offer any loan, RMBS or MSRs (and/or participation interests in MSRs) originated or owned by Provident to the REIT before offering any such loan, security or right to any other fund or investment vehicle managed or advised by Provident or one of its affiliates. In addition, Provident will not purchase any loan, RMBS or MSRs (and/or participation interests in MSRs) from any other fund or investment vehicle managed or advised by Provident or one of its affiliates, unless such loan, security or right is first offered to the REIT.

To the extent that PMFA purchases assets from Provident or any such fund or investment vehicle, under the terms of the REIT's strategic alliance agreement, such assets will be purchased at fair value. In addition, pursuant to the terms of the REIT's strategic alliance agreement, Provident will also have the right, subject to certain exceptions, to act as sub-servicer with respect to any loan that PMFA purchases from Provident or any other third party on a servicing-released basis or any MSR that PMFA purchases from Provident or any other third party. In general, at the time Provident offers the REIT an asset, Provident will be required to provide PMFA with information, to the extent available, relating to any bids received or bids available on Bloomberg, Tradeweb or a similar service. After reviewing any such information, PMFA will, on the behalf of the REIT, make an offer to purchase such asset from Provident and Provident will decide whether to sell the asset to the REIT. If Provident decides not to sell the asset to the REIT, Provident may not sell the asset to another entity for equal to or less than the price offered by the REIT without first re-offering the asset to the REIT. To the extent such a price quote is not available, the assets will be purchased by the REIT at prices validated by an independent third party selected from time to time by a majority of the REIT's independent directors, which selection will be subject to Provident's reasonable consent. There can be no assurance that the policies and procedures that have been established by the REIT, PMFA and Provident will be effective in managing potential conflicts of interest. In addition, it is possible in the future that Provident, PMFA and their respective affiliates may have clients that compete directly with the REIT for opportunities.

PMFA will follow broad asset acquisition guidelines established by the REIT's Board and will have significant latitude within those guidelines to determine the assets that are appropriate for the REIT. The REIT's Board will periodically review the REIT's asset acquisition guidelines and its portfolio of assets. However, the REIT's Board will not review every decision. Furthermore, in conducting its periodic reviews, the REIT's Board will rely primarily upon information provided to the Board by PMFA and its affiliates.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics.**

PMFA intends to adopt a Code of Ethics pursuant to Advisers Act Rule 204A-1. The Code of Ethics will include PMFA's policies as they relate to personal investment and trading by PMFA management and employees, and includes a requirement that securities holdings be reported and approval procedures for certain transactions. The Code of Ethics will describe material and nonpublic information and the restrictions on trading on any material and nonpublic knowledge and sets forth the responsibilities of all supervised persons relative to insider trading. The Code of Ethics will include policies and procedures on issues of security as they relate to sensitive and confidential materials and record retention of all documents and electronic information.

All officers and employees of PMFA will acknowledge understanding and agree to comply with the Code of Ethics and certify on an annual basis that they have read and understand the Code of Ethics and have complied with it.

To address the conflicts of interest posed by this type of trading, PMFA anticipates implementing a Code of Ethics, that requires, among other things, that PMFA personnel:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of the client, and the interests of PMFA above one's own personal interests;
- Adhere to the fundamental standard that they should not take inappropriate advantage of your position;
- Conduct all personal securities transactions in a manner consistent with the Code of Ethics;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;

- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

PMFA's Code of Ethics will also require its personnel to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide PMFA with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

PMFA's Code of Ethics will be available to clients and investors and potential investors upon request.

### **Conflicts of Interest.**

In addition to the conflicts relating to PMFA's receipt of performance-based compensation, which are discussed above in Items 6 and 10 above and conflicts relating to choosing broker-dealers to effect transactions for clients as described in Item 12 below, clients are subject to additional conflicts of interest. Some of these conflicts are summarized herein, but this summary does not attempt to describe all of the conflicts of interest associated with an investment in the REIT. Investors in the REIT should carefully consider the conflicts of interest described herein before deciding to invest.

PMFA does not intend to have a policy that expressly prohibits its directors, officers, securityholders or affiliates from engaging for their own account in business activities of the types conducted by the REIT. However, PMFA's Code of Ethics will contain a conflicts of interest policy that prohibits its directors, officers and employees from engaging in any transaction that involves an actual conflict of interest with the REIT.

### **Other Activities.**

PMFA may engage in a wide variety of business transactions with parties that provide services to the REIT as well as parties that trade in the same markets as the REIT. The business dealings between the servicing parties and the REIT will be on what PMFA believes to be an arm's-length basis, but PMFA will not necessarily give third parties an opportunity to provide such services on a competitive basis. To the extent that PMFA deems necessary or advisable, PMFA may, from time to time, propose to retain one or more additional entities for the provision of sub-advisory services to PMFA in order to enable it to provide the services to the REIT specified by the Management Agreement; provided that any such agreement (i) shall be on terms and conditions substantially identical to the terms and conditions of the Management Agreement or otherwise not adverse to the REIT, and (ii) shall be approved by the REIT's independent directors.

Although PMFA will devote a significant amount of time to the REIT in order to carry out its responsibilities, PMFA will be required to devote only such time and attention to the business and affairs as it determines to be necessary or advisable. PMFA may manage additional REITs or other clients in the future. These entities may compete for the time of PMFA. No client will be entitled to any of the profits from these other activities.

## **ITEM 12: BROKERAGE PRACTICES**

### **Selection of Broker-Dealers.**

In selecting broker-dealers and negotiating commission rates, PMFA may also take into account the financial stability and reputation of the broker, and the quality of the investment research, investment strategies, special execution capabilities, clearance, settlement, custody, recordkeeping and other services provided by such broker (as described more fully below), even though a client may or may not in any particular instance be the direct or indirect beneficiary of the research or other services provided.

In selecting brokers, dealers, and futures commissions merchants to effect transactions in financial instruments, PMFA will consider factors such as general ability to obtain best execution, price, and the brokers and dealers' facilities, reliability, credit quality, and financial responsibility. PMFA does not intend to receive certain "soft dollar" research and other services from clients' brokers and therefore, PMFA does not believe that clients will pay commissions higher than those charged by brokers for "execution only" transaction commissions.

PMFA will not consider, in selecting or recommending broker-dealers, whether PMFA or a related person receives client referrals from a broker-dealer or third party.

PMFA personnel may occasionally speak at conferences and programs sponsored by prime brokers for investors interested in hedge funds. These conferences and programs can provide PMFA with an introduction to potential investors. PMFA generally will not compensate prime brokers for providing access to "capital introduction" opportunities. However, when deciding which prime brokers to use among prime brokers that provide the client with the same approximate quality of services and pricing, PMFA may take into account access to capital introduction opportunities and other services that such prime brokers offer.

#### **Directed Brokerage.**

PMFA does not intend to engage in directed brokerage. PMFA clients may request PMFA to utilize specific broker-dealers, and such requests are merely suggestions and not mandates. PMFA will retain ultimate discretion with respect to brokerage.

#### **Aggregation of Purchase or Sale Orders.**

PMFA may aggregate sales and purchase orders of securities placed for one client with similar orders being made simultaneously for other clients, including affiliated clients, where PMFA believes this to be appropriate, in the best interest of the client accounts, and consistent with applicable legal requirements. It will be PMFA's policy to make all allocations of aggregated trades among participating accounts on a fair and equitable basis over time, to the extent practicable, without favoring any account or type of account or client over another over a period of time. In addition, in making its investment decisions for each account, PMFA will use its best judgment on behalf of each client taking into consideration the investment guidelines for the account and other factors.

#### **Best Price and Execution Policy.**

PMFA's ability to determine the securities to be bought or sold, the amount to be bought or sold, and the broker to be used will be limited by the parameters set forth in each client's organizational documents, offering materials, and/or the Management Agreement with the REIT.

## **Principal Trades.**

PMFA may effect principal trades between itself and a client when PMFA, exercising its judgment in good faith, determines that a principal trade is beneficial to the client, and is fair and equitable. In certain cases, a client of PMFA, may be deemed to be a proprietary account of PMFA for principal trade purposes. Whenever possible, PMFA will effect a principal trade at or with reference to the market price of the securities involved, and may effect such principal trade via a broker dealer or other third party market participant. In effecting a principal trade, PMFA may not intentionally favor itself over a client. Principal trades will only be done in accordance with, and as permitted by, applicable law, including the Advisers Act; principal trades are not allowed when the client involved is a "plan assets" fund under ERISA. PMFA's Chief Compliance Officer will be required to approve all principal trades in advance. Notwithstanding the foregoing, every principal trade will involve a potential conflict of interest among the parties to the transaction and PMFA, particularly the conflict between acting in its own best interests and assisting its clients by selling or purchasing a particular security.

## **Cross Trades.**

PMFA or any of its affiliates may effect cross trades between clients managed by PMFA or its affiliates when PMFA, exercising its judgment in good faith, determines that a cross trade is mutually beneficial to a client and such other party and is fair and equitable. Whenever possible, PMFA will effect a cross trade at or with reference to the market price of the securities involved, and may effect such cross trade via a broker-dealer or other third party market participant. In effecting a cross trade, PMFA will not intentionally favor one party to the transaction over the other, however in hindsight a cross trade may appear to have favored one party over the other.

PMFA and its affiliates will not receive commissions, or otherwise profit, from cross trades. Cross trades will be effected by PMFA and its affiliates only to the extent permitted by applicable law; with limited exceptions, cross trades are not allowed when one or both of the clients involved is a "plan assets" fund under ERISA.

PMFA's Chief Compliance Officer will be required to approve all cross trades in advance. Notwithstanding the foregoing, every cross trade involves a potential conflict of interest among the parties to the cross trade and PMFA. In any cross trade, PMFA will have a potentially conflicting division of loyalties and responsibilities regarding both clients that are parties to a particular cross trade.

## **Trade Error Correction Policy.**

PMFA will strive to ensure that trades are executed in a timely and accurate manner. Yet, in the course of carrying out trading and investing responsibilities on behalf of clients, PMFA's personnel may make trade errors. Trade errors include: (a) trades that should not have occurred (e.g., trades that are not legally permitted, not within a client's mandate or not authorized by a client's governing documents), (b) trades that were erroneously entered into (e.g., incorrect security, quantity, price, terms or allocation), or (c) trades that should have occurred but did not (e.g., an order was erroneously not placed). If a trade error occurs, PMFA will take appropriate action to rectify or limit the consequences of the trade error, which may include: (x) allocating any profit resulting from such trade error for the benefit of the relevant client; and (y) reimbursing the client for any losses resulting from such trade error.

### **ITEM 13: REVIEW OF ACCOUNTS**

PMFA expects to establish a risk management committee and implemented a risk management policy in order to formalize risk management controls and ensure appropriate independence for its risk management function. PMFA's investment and risk management personnel will monitor the REIT on a continuous basis to assess systemic, portfolio-level and position-specific risks. PMFA expects to use both proprietary and commercially-licensed computer systems to assist in monitoring, analyzing and managing the risks inherent in the REIT's investments. PMFA may modify any of its risk management techniques at any time.

PMFA expects to reconcile positions and cash details directly with the custodians on a daily basis. PMFA expects to also engaged an independent public accounting firm to conduct an annual audit of the REIT. As part of the annual audit process, the accounting firm will independently verify security prices and positions of the REIT, and will confirm the REIT's ownership of investment assets.

### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

PMFA does not expect to receive economic benefits for providing investment advice or other advisory services, except from its clients. Neither PMFA nor any of its related persons directly or indirectly will compensate any person who is not a supervised person of PMFA or its related persons for client referrals.

### **ITEM 15: CUSTODY**

PMFA generally does not expect to maintain custody of client assets. PMFA may, however, be deemed to have custody of client assets when it enters into arrangements with clients that allow it to debit client accounts for the payment of management fees. These and other arrangements that grant PMFA authority to withdraw money from client accounts should be explicitly stated in the management agreements or other contractual arrangements at the time the relationship is established or modified.

### **ITEM 16: INVESTMENT DISCRETION**

Subject to oversight of the REIT's Board, PMFA expects to have full discretionary authority to conduct the trading activities and manage the assets of the REIT within the parameters of its investment objectives and strategies, pursuant to the Management Agreement including the asset acquisition guidelines (some of which impose restrictions on the investment authority of PMFA).

## **ITEM 17: VOTING CLIENT SECURITIES**

PMFA expects to adopt written proxy voting guidelines and procedures ("Proxy Voting Guidelines") in accordance with Rule 206(4)-6 of the Advisers Act. In voting proxies for clients, PMFA's goal is to act prudently and in the best interest of the clients. PMFA will seek to consider all positive and negative consequences its vote could have on the value of the investment. When PMFA votes proxies, it will do so in a manner that it believes will be consistent with efforts to maximize the value of the client positions. In its discretion, PMFA may choose not to vote on a particular proxy.

When a client authorizes PMFA to vote proxies on its behalf, PMFA generally will not accept instructions from the client regarding how to vote proxies. In furtherance of PMFA's goal to vote proxies in the best interests of clients, PMFA will seek to identify and address material conflicts that may arise between PMFA's interests and those of the clients before voting proxies on behalf of the clients. PMFA's judgment concerning the manner in which the best economic interest of the clients is achieved may change over time based on additional information, further analysis, and changes in the economic environment. Accordingly, PMFA's Proxy Voting Guidelines may be revised in PMFA's discretion. PMFA's senior investment personnel will oversee and manage the process by which it votes proxies. Investors will be able to obtain a copy of PMFA's Proxy Voting Guidelines and a record of PMFA's voting on behalf of a particular client by contacting PMFA by telephone at (855) 653-4300 or in writing to PMF Advisors, LLC, 851 Traeger Avenue, Suite 380, San Bruno, California 94066.

## **ITEM 18: FINANCIAL INFORMATION**

Registered investment advisers are required in this Item to provide investors with certain financial information or disclosures about PMFA's financial condition. PMFA has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.