



## **THE PALISADES GROUP, LLC**

### **PART 2A DISCLOSURE BROCHURE**

**OCTOBER 10, 2012**

**[www.palisades.us.com](http://www.palisades.us.com)**

#### **ITEM 1 – COVER PAGE**

This Disclosure Brochure provides information about the qualifications and business practices of The Palisades Group, LLC. If you have any questions about the contents of this Brochure, please contact us at (949) 526-5251. 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.

The Palisades Group, LLC is registered as an investment adviser with the Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

Additional information about The Palisades Group, LLC and our investment adviser representatives is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

**ITEM 2 – MATERIAL CHANGES**

The Palisades Group, LLC is a new registrant. Therefore, this is its initial “Disclosure Brochure.” Future Disclosure Brochure filings will address “material changes” since the date of this filing which will either be delivered, or offered for delivery, to our Clients. A copy may also be downloaded from the SEC website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

**ITEM 3 – TABLE OF CONTENTS**

Item 1 – Cover Page .....	1
Item 2 – Material Changes .....	2
Item 3 – Table of Contents.....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	7
Item 6 – Performance-Based Fees and Side-By-Side Management .....	8
Item 7 – Types of Clients.....	9
Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss.....	9
Item 9 – Disciplinary Information .....	11
Item 10 – Other Financial Industry Activities and Affiliations .....	12
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	13
Item 12 – Brokerage Practices .....	14
Item 13 – Review of Accounts.....	16
Item 14 – Client Referrals and Other Compensation.....	16
Item 15 – Custody .....	16
Item 16 – Investment Discretion .....	16
Item 17 – Voting Client Securities.....	17
Item 18 – Financial Information.....	17

**ITEM 4 – ADVISORY BUSINESS****A. Principal Owners and Background**

The Palisades Group, LLC, (the “Palisades”) a Delaware limited liability company, is a privately-held, independent real estate, mortgage credit and fixed income investment firm founded by its principals in 2012.

**Principals:**

Stephen M. Kirch  
Jack L. Macdowell, Jr.

Co-President and Chief Executive Officer  
Co-President and Chief Investment Officer

The principals have a long track record and extensive experience in residential mortgage and consumer credit, including acquiring and managing loans and real estate-related assets through a variety of credit cycles and market conditions. Additionally, the principals have been a trusted counterparty to money-center banks, mortgage loan servicers, specialty finance companies, government organizations and large private investment funds.

**Mr. Kirch** is the Co-President, Chief Executive Officer, and a member of The Palisades Group, LLC. From 2009 through 2012, Mr. Kirch was the President of Carrington Investment Services, an SEC registered broker dealer, and from 2010 through 2012 he was also President of Carrington Capital Management, an SEC registered investment advisor, where he oversaw the acquisition and management of over \$3.0 billion of residential mortgage loans. Previously, Mr. Kirch co-founded Bonds Direct where he worked until its sale to Jefferies in 2005. Mr. Kirch has focused on the origination, distribution, trading and management of fixed income and mortgage securities throughout his 32 years on Wall Street. During that time, he worked at A.G. Becker & Co, Morgan Stanley, Paine Webber and Chase Manhattan Bank.

**Mr. Macdowell** is the Co-President, Chief Investment Officer, and a member of The Palisades Group, LLC. Mr. Macdowell served as the Chief Investment Officer of Carrington Capital Management, an SEC registered investment advisor, where he oversaw the teams responsible for investment strategies, quantitative analysis, mortgage credit analytics, valuation, hedging, trading and risk management of residential mortgages. Previously, Mr. Macdowell was a Senior Portfolio Manager at Old Hill Partners where he was responsible for the firm’s investments in mortgage-backed and asset backed securities including all portfolio management and risk management activities. He served as a Vice President in the Asset Securitization Group at RBC Capital Markets and worked in the Asset Securitization Group at Credit Suisse First Boston. Mr. Macdowell earned his BBA from University of Texas at Austin, is a CFA charterholder, member of the CFA Institute, Stamford CFA Society and the New York Society of Securities Analysts.

CFA Charterholder is an international professional certification offered by the CFA Institute to financial analysts who complete a series of three examinations. To become a CFA Charterholder a candidate must pass each of three six-hour exams, possess a bachelor's degree from an accredited institution (or have

equivalent education or work experience) and have 48 months of qualified, professional work experience.

## **B. Types of Advisory Services**

The advisory business of Palisades will primarily consist of providing investment advisory services to financial institutions and a real estate investment trust ("REIT") (collectively "Clients") whose strategies are focused on making direct investments in residential mortgages, real estate, and real estate-related assets. Palisades also provides investment advice regarding the acquisition and management of mortgage loans and real estate-related assets including sourcing, valuation, analytical services, and portfolio and risk management strategies. As part of the normal course of managing certain mortgage loan portfolios, Palisades performs due diligence on mortgage loan servicing partners, negotiates terms of servicing arrangements and retains certain rights to direct the servicers' activities, and transfer the servicing duties with or without cause.

Palisades primarily provides investment advice with respect to investments located in North America. In connection with the consummation of certain investments on behalf of Clients, Palisades may employ hedging techniques designed to protect the Client against adverse market movements, including interest rate swap agreements, interest rate cap agreements, interest rate floor or collar agreements, futures, options or any other financial instruments that we deem appropriate for our Clients.

With respect to an expected REIT Client of Palisades, we will perform certain duties pursuant to a management agreement with the REIT (the "Management Agreement"), subject to oversight by the REIT's board of directors. Palisades will be responsible for, among other duties: (1) performing all of the REIT's day-to-day functions, (2) determining investment criteria in conjunction with, and subject to the supervision of, the REIT's board of directors, (3) sourcing, analyzing, valuing and executing asset acquisitions, sales and securitizations, (4) performing asset, liability and risk management duties, including hedging and financing and (5) performing financial and accounting management.

In conjunction with those duties, we will perform (or cause to be performed) such services and activities relating to the assets and operations of the REIT as may be appropriate, which may include, without limitation, the following:

- (i) serving as the REIT's manager with respect to the periodic review of the investment and borrowing criteria and parameters for investments subject to the investment terms set forth in the Management Agreement and the REIT's offering documents;

- (ii) investigating, identifying, analyzing, evaluating and selecting on a discretionary basis possible investment opportunities and negotiating, acquiring, financing, retaining, monitoring, selling, restructuring, hedging or disposing of assets consistent with the REIT's asset management guidelines;

- (iii) negotiating and entering into, on the REIT's behalf, any type of financing arrangement, including credit facilities (including term loans and revolving credit facilities), securitizations, warehouse facilities, repurchase agreements, and all other agreements and engagements required for the REIT to conduct its business;

(iv) evaluating and engaging in hedging activities on the REIT's behalf, consistent with its qualification as a real estate investment trust and with the asset and risk management guidelines;

(v) engaging and supervising independent contractors or other parties that provide real estate, investment banking, mortgage brokerage, mortgage loan servicing, appraisal, securities brokerage, underwriting review, due diligence, insurance, legal and accounting and other, legal or administrative financial services, and all other services as may be required relating to the REIT's operations and assets;

(vi) performing any other management services as may be required from time to time and other activities relating to the REIT's assets and business as its board of directors shall reasonably request or we shall deem appropriate; and

Similar services may be offered to other Clients in the future.

### **C. Tailoring of Advisory Services**

Palisades tailors its investment advisory services in accordance with the investment objectives and strategies of its Clients. With respect to its REIT client, Palisades will have full discretionary authority with respect to investment decisions made on behalf of the REIT and will make and manage each investment in accordance with the purposes, terms, restrictions and limitations set forth in the governing documents of the REIT, consisting principally of the Management Agreement and REIT public offering documents. Palisades will not tailor advisory services to the needs of any particular investor in the REIT. Further, the REIT will be subject to certain investment restrictions for the purpose of preserving (i) its treatment as a real estate investment trust for federal income tax purposes and (ii) its exemption from registration under the Investment Company Act.

Investment advisory services provided to financial institutions on a non-discretionary basis are tailored to the particular Client's investment needs and objectives.

### **D. Wrap Fee Programs**

Palisades does not participate in wrap fee programs.

### **E. Assets Under Management**

As of October 8, 2012, Palisades was actively advising a financial institution on a non-discretionary basis and had no discretionary assets under management.

**ITEM 5 – FEES AND COMPENSATION****A. Our Compensation for Advisory Services**

For investment advisory services managed on a discretionary basis, Palisades may be compensated by one or more of the following investment management fees.

Base Fee

A base management fee will be based on the Client's total assets. The base management fee is generally payable to Palisades monthly in arrears, in cash. The fee will either be deducted from Client's accounts or billed to the Client.

Incentive Fee

A performance-based fee that is payable quarterly, or more or less frequently pursuant to the applicable agreement, based on a share of income and/or capital appreciation above a specified threshold and subject to the Client account achieving certain specified returns.

The types and amounts of, and the related limitations and restrictions on, fees charged by Palisades may not be uniform among Clients and may be affected by the extent of services to be provided or the size of the account. Therefore, Palisades does not maintain a fee schedule. The fees and expenses related to pooled investment Clients will be fully specified in the offering materials related to each Client. These materials are available from Palisades upon request. Our fees are negotiable.

**Analytical Services Fees**

Palisades may also receive fees for performing analytical services for Clients, including reviews and analysis of Client portfolios. Such fees are transaction based and are negotiated by the parties in advance. Generally, these fees are not based on a formula relating to assets under management and do not fluctuate based upon the future performance of Client assets.

**B. How We Collect Fees**

Applicable advisory agreements (including the anticipated Management Agreement in the case of the REIT) will generally provide that payment of base management fees are paid solely from (i) capital contributions from investors in the Client, (ii) distributable proceeds from investments, or (iii) borrowings under credit facilities, with fees generally deducted from Client accounts.

Non-discretionary advisory services and Analytical Services Fees may be paid directly by the Client pursuant to applicable advisory agreements.

**C. Other Fees and Expenses**

Clients will generally bear all costs and expenses in maintaining their operations and investments, including legal and accounting expenses, brokerage fees, fees for outside services, the cost of annual audits, custodial fees, insurance and litigation expenses, and taxes, fees, and other governmental charges. Please refer to Item 12 for our brokerage practices.

Reimbursement of Expenses

Clients will pay or reimburse Palisades for certain expenses incurred in connection with its services. These reimbursed expenses include other expenses actually incurred by Palisades which are reasonably necessary for the performance of its duties and functions under the operative investment advisory agreement.

Clients will not reimburse Palisades for the salaries and other compensation of its personnel.

Termination Fee

In some instances, Palisades may collect a termination fee to the extent a Client chooses to terminate Palisades as the investment advisor prior to the stated termination date of the Management Agreement.

**D. Advance Payment**

Base Fees and Incentive Fees payable by Clients to Palisades are paid in arrears.

In certain instances, for analytical services Palisades may receive upfront retainer payments that are offset against fees owed upon the completion of such mandate.

**E. Compensation for Sales of Securities**

Neither Palisades nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

**ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As referenced above in Item 5, we will be entitled to a performance fee with respect to certain Clients and expect to enter into fee arrangements that provide for performance fees in the future. The use of performance-based compensation generally may create an incentive for us to choose an investment strategy that may carry a higher degree of risk. In addition, if in the future we were to manage portfolios for Clients that are not charged an incentive-based fee, we may have an incentive to favor Client accounts which have a performance fee. We will implement procedures to allocate investment opportunities fairly among our Clients if in the future we were to manage assets for Clients using the same investment strategy that are not charged a performance based fee.



**ITEM 7 – TYPES OF CLIENTS**

Palisades provides investment advice to financial institutions and an expected REIT client. In particular, Palisades focuses on Clients that invest in residential mortgage and real estate related assets, including residential mortgage loans and residential mortgage-backed securities (RMBS), real estate owned properties and mortgage servicing rights. Currently, Palisades' only active Client is a financial institution which Palisades advises on a non-discretionary basis with respect to its residential mortgage loan portfolio. The REIT is currently not actively investing. Palisades may offer its services to other institutional investors in the future. Palisades does not generally offer its services to the public.

**ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS****A. Method of Analysis**

Palisades utilizes proprietary and licensed analytical tools to make investment decisions and manage portfolio risk. These tools include mortgage credit risk modeling that focuses on borrower credit attributes, loan characteristics and econometric trends that are specific to a property's geography. Mortgage loans and related assets are evaluated under a variety of scenarios which may include varying home price forecasts, interest rate environments and other factors that may influence prepayment potential, default probability, loss mitigation techniques and loss severity.

Palisades' investment process considers and evaluates the following fundamental criteria and attributes when assessing the appropriateness of any investment:

- Acquisition Price. An acquisition price that is at a considerable discount to current property value in distressed situations; and for all investments, which we believe is attractive relative to intrinsic risk of the investment.
- Seller Motivation. Existence of motivated or disinterested seller.
- Sources of Competitive Edge. Ability to control asset performance through loan servicing or other market inefficiencies and informational arbitrage.
- Appropriate Risk/Reward Profile. Investments with actual or potential cash flow characteristics with downside protection and upside potential.
- Underwriting and Due Diligence. Ability to perform loan level diligence, obtain and reconcile asset valuations and review borrower credit attributes and servicing notes.
- Financing Alternatives. Ability to secure prudent leverage and flexibility of financing structures available for the assets.
- Quality of Loan Servicing Partners. Previous experiences with management; unique industry expertise; aligned interests and commitment to integrity of relationship.
- Control. Ability to determine or influence the direction of the investment, a financing edge and/or the resolution or exit strategy.

As it relates to certain investment strategies, Palisades performs, or causes to be performed, various functions prior to investment:

- Sourcing assets from key relationships, including but not limited to banks, broker dealers, and other financial institutions;
- Analyzing investments and deriving a top down view as to the appropriateness of the assets within the context of the overall Client portfolio;
- Valuing investment opportunities using a variety of quantitative econometric variables, home price estimates;
- Preparing trade strategies with counterparties; and
- Performing loan level due diligence, including but not limited to, compliance reviews, title searches and property value reconciliations; and

## **B. Investment Strategy**

Palisades' investment approach is driven by a discipline focused on identifying areas with below market risk relative to potential for above market returns. The objective is to secure risk-adjusted returns that provide attractive, secure dividend distributions and capital appreciation in a variety of market conditions and economic cycles. Additionally, Palisades focuses on investments whose value may be enhanced through strict oversight of mortgage loan servicing functions and strategic borrower outreach and resolution campaigns. Palisades believes it maintains a competitive advantage with respect to its knowledge of mortgage loan servicing, its loan servicing partnerships and the transparency it has into the daily connectivity with each borrower. With respect to the REIT, Palisades makes investments in first lien mortgage loans, as well as other types of mortgage loans, mortgage-backed securities, real estate owned properties and mortgage servicing rights.

In order to execute the Client's investment strategies, Palisades continually analyzes relevant market, property and borrower data. We make use of proprietary data as well as licensed information from key statistical sources. Such data is used to define new investment targets as well as observe and manage potential concentration risk.

## **C. Risk of Loss**

Investing in residential mortgage loans, real estate and real estate related assets as well as securities (including both public and private companies) involve the risk of loss. While Palisades' ultimate goal is to provide attractive returns over a long period of time, there can be no assurance we will achieve this goal. With respect to the REIT, Palisades may not be able to successfully operate the REIT's business or generate sufficient revenue to make or sustain distributions to REIT stockholders. Investments made by Palisades on behalf of Clients may involve a high degree of business and financial risk that can result in substantial or even total losses.

Other risks associated with Palisades' services to Clients, including the REIT, include:

- Competition. Palisades operates in a competitive market, and competition may result in reduced risk-adjusted returns. In particular, while Palisades believes that meaningful investment opportunities in residential mortgage and real estate-related assets exist, these opportunities may become scarce as additional knowledgeable investors enter the market for such assets.

- Economic Slowdown. Palisades believes the risks associated with its strategies will be more severe during periods of economic slowdown or recession, especially if these periods are accompanied by declining real estate values.
- Limited History. While Palisades' principals have significant experience investing in residential mortgage and real estate related assets, Palisades itself has a limited operating history.
- Loan Modification and Government Intervention Initiatives. Mortgage loan modification and refinancing programs and future legislative action may adversely affect the value of, and the returns on, the portfolios of Clients. In particular, Palisades cannot at the present time predict the consequences and market distortions that may stem from anticipated far-ranging governmental intervention in the economic and financial system or from regulatory reform related to the oversight of financial markets.
- Default & Liquidity Risk. Mortgage related assets are subject to delinquency, foreclosure and loss. Many of these assets may be illiquid, which may adversely affect Palisades' ability to value and sell its assets and accordingly the asset's performance.
- Hedging. Palisades may enter into hedging transactions that could expose its Clients to contingent liabilities in the future.
- Real Estate Investment Trust. Due to Palisades's limited history, the firm has no experience with respect to the management of a REIT (including maintaining a REIT's exemption from registration under the 1940 Act). There is risk that the REIT loses its qualification as a REIT or is unable to maintain its 1940 Act exemption.
- Suitable Investments. Palisades may not be able to source suitable investments on favorable terms that satisfy the Client portfolio objectives.
- Due Diligence. Palisades' due diligence of investment opportunities may not identify all pertinent risks, which could materially affect the performance of Client assets.

## ITEM 9 – DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a Client's or prospective Client's evaluation of an adviser or the integrity of its management. Palisades does not have any such legal or disciplinary events and thus has no information to disclose with respect to this Item 9.

**ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS****A. Broker-Dealer Registration**

Palisades is not registered as a broker-dealer or registered as a representative of a broker-dealer, nor does it have any pending application to register. In addition, Palisades and its management persons are not affiliated with any broker-dealer.

**B. Futures and Commodities Registration**

Neither Palisades nor any of its management persons is registered as a futures commission merchant, commodity pool operator, commodity trading adviser, or associated party of any of those, nor does it have any pending application to register as such.

**C. Related Persons**

Pursuant to an Advisory Services Agreement between Palisades and a financial institution for which the principals have provided certain loan portfolio advisory and other transactional services (the “Bank”), the Bank will have the exclusive right to provide any and all administrative, management support (including finance and legal), loan servicing and related operational and business-related services required by Palisades or Palisades’ expected REIT client, under terms and conditions which are customary for such services at prevailing market rates, but no less than 1.0% of assets under management. The Bank is also a Client.

The Bank has the right to appoint one member of Palisades’ Board of Directors, but has not exercised the right to request the appointment of a representative. In addition, subject to regulatory approvals, an affiliate of the Bank may obtain the right to acquire ownership of Palisades, but such approvals are not guaranteed and the Bank’s affiliate has not exercised such right.

Except for the foregoing, Palisades has no current relationships that are material to its advisory business or to its Clients with any related person listed below:

1. Broker-dealer, municipal securities dealer, or government securities dealer or broker;
2. Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund);
3. Other investment adviser or financial planner;
4. Futures commission merchant, commodity pool operator, or commodity trading advisor;
5. Banking or thrift institution;
6. Accountant or accounting firm;
7. Lawyer or law firm;
8. Insurance company or agency;
9. Pension consultant;

- 10. Real estate broker or dealer; or
- 11. Sponsor or syndicator of limited partnerships.

#### **D. Conflicts of Interest**

Palisades is not compensated for recommending or selecting other investment advisers for its Clients. Palisades also has no other business relationships with such advisers that create any material conflict of interest.

Our relationship with the Bank could create conflicts of interest. While we retain the right to approve or deny the use of sub-servicer arrangements, we are required pursuant to our agreement with the Bank to use the Bank to service the assets we manage. The Bank is also a Client.

During turbulent conditions in the market, distress in the credit markets or other times when Clients will need focused support and assistance from Palisades' personnel, any Clients for which they also act will likewise require greater focus and attention, placing our resources in high demand. In this situation, Clients may not receive the necessary support and assistance it requires or would otherwise receive if it were Palisades' only Client, or if Palisades' personnel did not act for other entities. The ability of Palisades and its personnel to engage in other business activities may reduce the time it spends advising certain Clients.

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

Palisades has a fiduciary responsibility to treat Clients fairly and avoid actual or potential conflicts of interest. The employees of Palisades have an obligation to act solely in the best interests of Clients, and to make full and fair disclosure of all material facts, particularly where the Clients' interests may conflict with the interests of Palisades or its employees.

#### **A. Code of Ethics**

Palisades has adopted, and requires all employees to understand, acknowledge and follow, a Code of Ethics. The fiduciary principles that govern personal investment activities of employees are, at a minimum, the following: (1) the duty at all times to place the interests of Clients first; (2) the requirement that all personal securities transactions be conducted in a manner that is consistent with Rule 204A-1 of the Advisers Act and in such a manner so as to avoid any actual or potential conflict of interest, or any abuse of an individual's position of trust and responsibility; and (3) the fundamental standard that personnel providing services to Clients should not take inappropriate advantage of their positions. Palisades' policy is that the interest and privacy of Clients always comes first and all employees will conduct themselves in accordance with the highest standards of integrity, honesty and fair dealing. Palisades monitors compliance with the Code on an ongoing basis, and employees may be subject to disciplinary actions as severe as dismissal for certain infractions. Palisades' Code of Ethics is available to its Clients and prospective Clients upon request.

**B. Participation or Interest in Client Transactions**

The initial assets of the REIT, to consist of approximately \$110,000,000 of seasoned, performing, first lien residential real estate loans, will be contributed to the REIT by another Palisades' Client in exchange for cash and an equity interest in the REIT. While Palisades has advised both Clients with respect to such transfer in each case, this transfer will be independently approved by the board of directors of each of the REIT (including a majority of independent directors) and the Client contributing the mortgage loans. For purposes of determining the fair market value of such initial assets, the Clients engaged an independent valuation firm(s) to establish a value of such assets to satisfy the transfer pricing requirements of each Client.

In addition to the foregoing, Palisades may, to the extent permitted under applicable law, effect other Client cross-transactions where Palisades causes a transaction to be effected between accounts advised by it or any of its affiliates. Palisades recognizes that certain such transactions are subject to the disclosure and consent requirements of Section 206(3) of the Advisers Act and intends to satisfy such requirements, including through use of an independent representative.

**C. Personal Securities Investing**

Principals of Palisades may invest in similar securities, assets, investments, or mortgage loans as its Clients; however, we will adopt personal trading policies and procedures to prevent conflicts of interest with its Clients.

**D. Personal Securities Trading**

Palisades will adopt personal trading policies and procedures to prevent conflicts of interest with its Clients. Palisades will maintain a restricted list of securities that its employees may not trade in order to avoid the misuse of material non-public information or confidential Client information. However, the principals may be personally invested alongside Clients to align our interest with those of our Clients.

**ITEM 12 – BROKERAGE PRACTICES****A. In General**

Palisades may select dealers or brokers to execute the purchases and sales of Clients' investments. If any dealers or brokers are used in connection with the purchase or sale of any investments, Palisades will seek best execution for each transaction that provides the most favorable cost or proceeds reasonably obtainable under the circumstances.

Best execution may be measured over time through several transactions rather than a single transaction. Clients generally do not pay commissions on investment transactions as substantially all transactions are on a principal basis with dealers or directly with the sellers which may or may not include a markup or a markdown. No Client will be favored over any other Client that participates in an aggregated order. Our Clients will participate at the average price for all of Palisades' transactions in that specific transaction. Transaction costs are shared on a pro rata basis depending upon each Client's participation in the transaction. Palisades may execute transactions on an aggregated basis and the investment will be allocated at all times on a fair and equitable basis, which is generally based on the available investment capacity for each Client.

In the case of *pro rata* purchases of pools of loans where the pool is allocated among Client accounts, Palisades, at the time of purchase, seeks to allocate the individual mortgage loans in the pools among Client accounts such that the overall allocation of acquired mortgage loans in the pools will target reasonable symmetry of borrower credit attributes, loan characteristics and geographic distribution.

As the investment programs of the various entities and accounts managed by Palisades change and develop over time, additional issues and considerations may affect Client allocation policy and Client's expectations with respect to the allocation of investment opportunities among the various entities and accounts managed. Notwithstanding Palisades' intention to effect fair and equitable allocations of investment opportunities, it is expected that performance will differ from the performance of each Client account for many reasons, including differences in the legal or regulatory characteristics, or tax classification, of the entities or accounts or due to differing fee structures or the idiosyncratic differences in the outcome of individual mortgage loans.

Palisades does not effect any principal or agency cross securities transactions for Client accounts; however, it may effect cross-trades between Client accounts. Principal transactions are generally defined as transactions where an adviser or an account in which Palisades and or its principals and control persons own more than 25% of the account, acting as principal, buys from or sells any security to any advisory Client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory Client and for another person on the other side of the transaction. Should Palisades ever decide to effect principal trades or cross-trades in Client accounts, other than those already described herein, it will comply with the provisions of Section 206(3) of the Advisers Act and the rules thereunder.

## **B. Soft Dollars**

While Palisades does not currently use "soft dollars", Palisades has the option to use "soft dollars" generated by Client transactions to pay for the research and non-research related services described above. The term "soft dollars" refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for Clients of the investment adviser. In the event that Palisades decides to use soft dollars in the future, it intends to stay within the so-called 28(e) safe harbor for soft dollars. The availability of soft dollar benefits may influence Palisades to select one broker rather than another to perform services for Client accounts. In

addition, the use of soft dollars may result in a Client paying for products and services that are not exclusively for the benefit of such Client and that may be primarily or exclusively for the benefit of Palisades. In other words, soft dollars can create a conflict of interest. Nevertheless, Palisades will attempt to assure either that the fees and costs for services provided to any Client by brokers offering these benefits are not materially greater than they would be if the services were performed by equally capable brokers not offering such services or that such Client also will benefit from the services.

### **ITEM 13 – REVIEW OF ACCOUNTS**

Portfolios and portfolio positions are monitored on a daily basis, or as frequently as reasonably possible depending on the asset type. Portfolios are reviewed for performance, concentration limits, risk factors and other metrics to ensure conformity with Client investment guidelines. Palisades will provide monthly reports with respect thereto to Clients, including comparative information with respect to such operating performance and budgeted or projected operating results. The monthly unaudited reports will contain evaluations of the portfolio and other material Palisades believes are relevant to evaluate the portfolio. Additionally, Clients will receive no less than annually audited reports either electronically or through a secured website.

As a result of a securities offering of the REIT, the REIT will become subject to the information and reporting requirements of the Exchange Act and will file periodic reports and proxy statements with the SEC and will make available to its stockholders annual reports containing audited financial information for each year and quarterly reports for the first three quarters of each fiscal year containing unaudited interim financial information.

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

Palisades does not currently have any relationship with any third-party firm or individual whose purpose is marketing and/or gathering assets for us. Palisades may in the future enter into arrangements for third-party marketing services although none are contemplated at this time. Any solicitation arrangements will comply with Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, pursuant to which persons introducing new Client accounts to Palisades may receive a portion of the advisory fee generated by the account for a period of time that varies on a case by case basis. Any and all such arrangements would be disclosed to potential Clients and current Clients.

### **ITEM 15 – CUSTODY**

Because, as manager of the REIT, Palisades will have the legal capacity to access REIT funds and securities, Palisades may be deemed to have custody of Client assets. Assets for which we have custody are held only at qualified custodians and in accordance with applicable regulations. These regulations require us to maintain Client assets with a qualified custodian in a separate account for each Client. Clients either receive quarterly account statements from the custodian; or the accounts are subject to an annual audit and these audited financial statements are distributed to each Client.

### **ITEM 16 – INVESTMENT DISCRETION**



REIT. In the case of the REIT, Palisades will have investment discretion to manage Client assets. The Management Agreement with the REIT will generally provide Palisades with the ability to select investment assets to be bought and sold. Palisades may make investment decisions, without consultation with the REIT or its board of directors, regarding the sourcing of assets, the analysis and valuation of such assets, determining the appropriate price for such assets, the negotiating and executing the acquisition of such assets, the disposition strategy or strategies with regard to such assets, the strategies used to finance the assets or the broker-dealers, if any, with which orders are placed for execution and the commission rates at which investment transactions are effected.

Palisades' asset acquisition guidelines will prohibit any investment that would cause Palisades REIT to fail to qualify as a REIT and any investment that would cause it to be regulated as an investment company under the 1940 Act.

Non-Discretionary Advisory Services. Palisades provides non-discretionary investment advisory services to financial institutions. The selection of assets acquired and price paid for such assets is determined solely by the financial institution. Palisades' advisory services are limited to sourcing and analyzing investment assets, and in the execution of the acquisition, resolution and disposition of such assets.

## **ITEM 17 – VOTING CLIENT SECURITIES**

In accordance with Rule 206(4)-6 of the Advisers Act, Palisades has adopted securities voting policies and procedures to address how we will vote any voting securities managed by Palisades on behalf of Clients. The policy is designed to ensure that securities are voted in the best interest of our Clients, including procedures that apply when there may be material conflicts of interest in voting securities. Palisades does not expect to invest in securities that have conventional voting rights.

A copy of our Voting Policies and Procedures and information about how we voted securities may be obtained by contacting Palisades.

## **ITEM 18 – FINANCIAL INFORMATION**

Palisades does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. Palisades does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to Clients, and has not been the subject of a bankruptcy proceeding.