

Item 1. Cover Page

Part 2A of Form ADV: FIRM BROCHURE OF

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This brochure (“Brochure”) provides information about the qualifications and business practices of Vertical Capital, LLC and its related adviser, Vertical CDO Management Acquisition-E, LLC. If you have any questions about the contents of this Brochure, please contact us at 212-786-5300. 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.

Additional information about Vertical Capital, LLC also is available on the SEC’s website at www.adviserinfo.sec.gov

Vertical Capital, LLC is registered with the SEC. Note, however, that such registration does not imply a certain level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us (and other advisers) which are factors in your decision to hire us or to continue to maintain a mutually beneficial relationship.

Item 2. Material Changes

The following summary discloses material changes made to this Brochure since Vertical Capital LLC’s Form ADV Part 2A filed on March 2, 2012: While there have been no material changes, Vertical Capital LLC has made changes to this Brochure to reflect general updates.

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Item 4. Advisory Business

General Description of Advisory Firm

Vertical Capital, LLC (“Vertical Capital”) commenced operations as an investment adviser in June 2002 and has been registered with the SEC since August 10, 2007. Its principal owner is VCAP Partners LLC, a Delaware limited liability company.

Vertical CDO Management Acquisition-E, LLC (“Vertical CDO”) is a relying adviser to Vertical Capital, LLC’s investment adviser registration with the SEC in reliance on the position expressed in the American Bar Association, Business Law Section, SEC Staff No-Action Letter (January 18, 2012). Vertical CDO is wholly-owned by Vertical Capital and Vertical Capital controls the management and operations of Vertical CDO. In addition, Vertical Capital’s employees provide services on behalf of Vertical CDO. Vertical Capital and Vertical CDO also share a principal place of business. Therefore all references in this ADV Part 2A to Vertical Capital will be deemed to include Vertical CDO, unless otherwise indicated.

Description of Advisory Services (including any specializations)

Vertical Capital offers discretionary investment advisory services to its advisory clients who may include:

- (i) Pooled investment vehicles operating as collateralized debt obligations (collectively, the “CDOs” or the “Issuers”) for which Vertical Capital serves as collateral manager;
- (ii) Separately managed accounts (“Separately Managed Accounts”); and
- (iii) Private investment funds (“Private Investment Funds”).

It should be noted that Vertical CDO only serves as collateral manager to certain CDOs and does not advise Separately Managed Accounts or Private Investment Funds. Therefore any references herein to Vertical Capital advising Separately Managed Accounts and Private Investment Funds shall not be applicable to Vertical CDO and shall instead only apply to Vertical Capital itself.

Availability of Tailored Services for Individual Clients

Vertical Capital does not generally tailor its advisory services to the individual needs of investors in the Private Investment Funds or CDOs and generally does not accept investor-imposed investment restrictions. From time to time, with respect to the certain Private Investment Funds, Vertical Capital may enter into Other Agreements (as described in Item 10) that modify the investment guidelines or restrictions with respect to a particular investor in the Private Investment Fund.

Vertical Capital may establish separate accounts for particular clients. These accounts may be subject to investment objectives, guidelines, and restrictions, and fee arrangements and other terms that are individually negotiated with each such client. These account relationships may involve account minimums.

Wrap Fee Programs

Vertical does not participate in wrap fee programs.

Client Assets Under Management

As of December 31, 2012, Vertical Capital’s discretionary regulatory assets under management were \$1.5 billion. Vertical Capital has no non-discretionary assets under management.

Item 5. Fees and Compensation

Advisory Fees and Compensation

As further explained below, all fees charged to Vertical Capital’s advisory clients are disclosed in the relevant offering documents, with respect to the CDOs and the Private Investment Funds, or the relevant investment management agreement, with respect to the Separately Managed Accounts.

SEPARATELY MANAGED ACCOUNT AND PRIVATE INVESTMENT FUND FEES

In certain circumstances, Vertical Capital is entitled to an annual management fee equal to up to 1.5% per annum (the “Management Fee”) based on the estimated fair market value and payable in cash quarterly in arrears. Vertical Capital GP, LLC, an affiliate of Vertical Capital, currently serves as the general partner or special limited partner of Vertical Capital’s Private Investment Fund clients (“Vertical Capital GP”) and may receive a “Carried Interest” or performance-based allocation up to 30% of each distribution of distributable cash after limited partners in the Private Investment Fund have received 100% of their capital contributions to the Private Investment Fund. In some cases, the Carried Interest may be a percentage of distributions after the limited partners have also received a preferred return (with no “catch-up” provision).

Notwithstanding the above, Vertical Capital or its affiliates may, in their sole discretion, reduce the Carried Interest charged by the Private Investment Fund to certain affiliated, large or strategic Limited Partners.

CDO FEES

Vertical Capital is generally entitled to receive a number of levels of compensation for the administrative and investment advisory services that it provides to the CDOs. The basic fee schedule that Vertical Capital may receive for the advisory services provided to the CDOs is set forth below, although it should be noted that a complete description of the remuneration that each CDO will pay to Vertical Capital is set forth more fully in the offering documents (the “CDO Offering Documents”) and indenture (the “Indenture”) governing the relevant CDO. CDO fees are not negotiable.

Senior Collateral Management Fee

Vertical Capital is generally entitled to receive a senior collateral management fee, which ranges from .02% to .30% per annum of the aggregate collateral balance of the CDO (the “Senior Collateral Management Fee”). The Senior Collateral Management Fee is generally paid to Vertical Capital after the Issuers are compensated for certain fees and expenses, but prior to payment of interest on the Secured Notes.

With respect to Vertical Millbrook 2007-1, Ltd, Vertical Capital receives a management fee on a sliding scale based on the tranche risk rating of the various notes ranging from .10% to .65%. Vertical Capital does not receive a Subordinated Collateral Management Fee or Incentive Collateral Management Fee (as such terms are defined below) from this Issuer.

Subordinated Collateral Management Fee

Vertical Capital is generally entitled to receive a subordinated collateral management fee, which ranges from .02% to .35% per annum of the aggregate collateral balance of the CDO (the “Subordinated Collateral Management Fee”). The Subordinated Collateral Management Fee is generally paid according to the CDO payment hierarchy and schedule, as set forth in the Indenture.

Incentive Collateral Management Fee

Vertical Capital may receive a performance based fee as part of its compensation from a CDO. For deals that provide for a performance based fee, Vertical Capital receives a percentage of the profits (ranging from 10% to 20%) that are paid to the holders of the most junior Subordinated Securities or “equity class” (the “Incentive Collateral Management Fee”). The Incentive Collateral Management Fee is paid to Vertical Capital after the holders of the Secured Notes are paid their principal and interest, and after the holders of the most junior Subordinated Securities or “equity class” receive an internal rate of return that exceeds a predetermined benchmark rate of return.

Vertical Capital may receive an Incentive Collateral Management Fee from the following CDOs:

Vertical CDO 2003-1, Ltd.

Vertical ABS CDO 2005-1 Ltd.

Vertical ABS CDO 2006-1 Ltd.

Vertical ABS CDO 2006-2 Ltd.

Rutland Rated Investments

Vertical Millbrook 2007-1

G Street 2005-1 LTD

G Square 2007-1 LTD

G Square 2006-1 LTD

Summer Street 2005-1 LTD

Toro ABS CDO II, LTD.

Crystal Cove CDO, LTD.

E*Trade I ABS CDO Ltd.

E*Trade III ABS CDO Ltd.

E*Trade IV ABS CDO Ltd.

E*Trade V ABS CDO Ltd.

Closing Fee

Vertical Capital may also receive a closing fee (“Closing Fee”) as success based compensation related to the closing of a CDO. A Closing Fee paid to Vertical Capital generally ranges from \$100,000 to \$1,000,000.

Warehouse Carry Fee

During the period from the beginning of acquiring the CDO Collateral Securities to the issuance date of the CDO (i.e., the warehousing period) for certain CDO transactions (as disclosed in the applicable CDO Offering Documents), Vertical Capital may also receive a warehouse carry fee (the “Warehouse Carry Fee”) generally equal to the Senior Collateral Management Fee, based on the aggregate value of CDO Collateral Securities acquired during the warehousing period.

Payment of Fees

With respect to Separately Managed Accounts, Vertical Capital receives the Management Fee each quarter by instructing the custodian of the Managed Account to deduct the Management Fee.

With respect to CDOs, Vertical Capital typically receives the Closing Fees and Warehouse Carry Fees from the Placement Agent at the time of closing. Each of the Senior Collateral Management Fee, Subordinated Collateral Management Fee, and Incentive Collateral Management Fee is typically sent by the Trustee pursuant to each CDO’s payment priority schedule.

Other Fees and Expenses

In general, Separately Managed Accounts and Private Investment Funds bear other expenses including, organizational expenses, legal, tax, accounting, auditing and other professional advice and the advice of other consultants and experts on behalf of the client, fees paid for custodial services and third party technology and data information services, out-of-pocket expenses related to the sourcing, due diligence and potential acquisition of investments, regardless of whether such acquisition is actually consummated, the holding and sale of investments, and any other expenses relating to the client (e.g., insurance, the costs relating to any litigation involving the client, etc.)

In general, CDOs bear other expenses including, but not limited to, legal, tax, accounting, rating agency fees, audit and trustee expenses.

Prepayment of Fees

Pre-paid fees charged to a Separately Managed Account or Private Investment Fund will be refunded based on the number of days remaining in the quarter if a withdrawal or redemption is made before the end of a quarter.

Additional Compensation and Conflicts of Interest

Not applicable.

Item 6. Performance-Based Fees and Side-By-Side Management

Vertical Capital and its investment personnel provide investment management services to multiple portfolios for multiple clients. Vertical Capital and/or its affiliates are entitled to receive performance-based compensation by its clients, including the Private Investment Funds, Separately Managed Accounts and CDOs. Vertical Capital manages client accounts that may have higher asset-based fees or more favorable performance-based compensation arrangements than other accounts. When Vertical Capital manages more than one client account a potential exists for one client account to be favored over another client account. Vertical Capital has a greater incentive to favor client accounts that pay Vertical Capital performance-based compensation or higher fees, or in which Vertical Capital personnel have more significant investments.

Vertical Capital has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. Vertical Capital reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, Vertical Capital's procedures relating to the allocation of investment opportunities require that similarly managed accounts participate in investment opportunities pro rata based on asset size, subject to, among other factors, account size, availability of cash and suitability of investment and further require that, to the extent orders are aggregated, the client orders are price-averaged. Finally, Vertical Capital's procedures also require the objective allocation for limited opportunities to ensure fair and equitable allocation among accounts. These areas are monitored by the Vertical Capital's Chief Compliance Officer.

Item 7. Types of Clients

As described above, Vertical Capital provides investment advisory services to (1) pooled investment vehicles operating as CDOs, (2) pooled investment vehicles operating as Private Investment Funds and (3) Separately Managed Accounts.

With respect to any client that is a Private Investment Fund, any initial and additional subscription minimums are disclosed in the offering memorandum for that Private Investment Fund.

With respect to any client that is a Separately Managed Account, Vertical Capital determines the minimum investment amounts on a case-by-case basis with each client. In general, such a separately managed account involves significant minimum investments.

With respect to any client that is a CDO any investment minimums are disclosed in the CDO Offering Documents for that CDO.

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

Methods of Analysis and Investment Strategies

Vertical Capital's security analysis methods include: Fundamental, Technical and others as noted below.

SEPARATELY MANAGED ACCOUNTS AND PRIVATE INVESTMENT FUNDS:

With respect to the Private Investment Funds and Separately Managed Accounts, Vertical Capital employs a rigorous top-down and bottom-up investment process geared towards sourcing and evaluating potential investments, and a disciplined approval process which extends beyond the initial purchase decision to the ongoing surveillance of assets.

The *top-down* process is oriented to identify both focus asset sectors and subsectors to emphasize in the Private Investment Fund or Separately Managed Account's portfolio, and is based both on Vertical's macro view of the economy and credit, as well as its trading view of where relative value is available in both the primary and secondary markets.

The *bottom-up* process involves both sourcing specific securities within the target sectors utilizing its broadbased industry contacts, and in turn, a detailed analysis of the particulars of a potential investment. The latter consists of a review of the originator and/or servicer of the loans/securities, a detailed review of the collateral underlying the securities, and an extensive stresstest analysis of the cashflows to assess the ability of the securities to absorb varying degrees of losses on the underlying loan portfolio.

Vertical Capital has developed a suite of proprietary tools within its STARS (Structuring, Trading, Analytics, Reporting, and Surveillance) technology platform to assist in its analysis of potential investments.

CDOS:

Vertical Capital generally employs a top-down analytical approach combined with a bottom-up quantitative and qualitative security level analysis in making both inter and intra sector portfolio allocation decisions.

The *top-down* approach governs relative weightings among strategies/sectors of the securitized markets as well as the overall leverage of a given CDO and is based on factors including:

- (i) The absolute level of credit spreads relative to historic levels,
- (ii) The credit spread differential between sectors,
- (iii) The steepness of the credit curve within the various sectors,
- (iv) Vertical Capital's view on the direction of credit spreads and the steepness of the credit curves,
- (v) Available financing, and
- (vi) The premium cost of hedging instruments Vertical Capital deems appropriate.

The *bottom-up* approach will incorporate individual security level analysis using both proprietary technology developed by Vertical Capital, as well as thirdparty systems. The objectives in the security level analysis are threefold:

- (i) Mitigation of security specific event risk, including ratings migration par loss erosion,
- (ii) Minimization of correlation within the aggregate portfolio, and
- (iii) Total return value enhancement.

Vertical Capital has developed its own proprietary technology platform called STARS (Structuring, Trading, Analytics, Reporting and Surveillance) that is designed to facilitate credit selection and enable efficient reporting and monitoring on both a security specific and fundwide basis.

Material Risks and Risks Associated with Types of Securities that are Primarily Recommended

Securities markets fluctuate substantially over time. All investments in securities include a risk of loss of money invested (principal) and any unrealized profits (i.e., profits in the account that have not been liquidated, sometimes called “paper profits”). In addition, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets Vertical Capital manages that may be out of its control. Vertical Capital cannot guarantee any level of performance or that there will not be a loss.

Vertical Capital does not represent, warrant or imply that the methods of analysis used by Vertical Capital can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to major market corrections or crashes. No guarantees can be offered that client’s goals or objectives will be achieved. Further, no promises or assumptions can be made that the advisory services offered by Vertical Capital will provide a better return than other investment strategies.

Varied fluctuations in the price of investments are a normal characteristic of securities markets due to a variety of influences. An investment in the Private Investment Funds and/or the Separately Managed Accounts should be considered a long-term investment and thus long-term performance and performance consistency should be the principal goals.

No guarantees can be offered that clients’ goals or objectives will be achieved. Further, no promises or assumptions can be made that the advisory services offered by Vertical Capital will provide a better return than other investment strategies.

SEPARATELY MANAGED ACCOUNTS AND PRIVATE INVESTMENT FUNDS:

The Separately Managed Accounts and Private Investment Funds are principally invested in residential mortgage backed securities (“RMBS”) and may also invest in asset-backed securities

(“ABS”). The risks associated with investments in RMBS and ABS would include, but are not limited to, those discussed below:

RMBS

Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one (1) to four (4) family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and such securities issued may be guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the related mortgaged property is located, the terms of the loan, the borrower’s “equity” in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

The RMBS may be backed by non-conforming mortgage loans, which are mortgage loans that do not qualify for purchase by government-sponsored agencies such as Fannie Mae and Freddie Mac because of credit characteristics and size that do not satisfy Fannie Mae and Freddie Mac guidelines, including loans to borrowers whose creditworthiness and repayment ability do not satisfy Fannie Mae and Freddie Mac underwriting guidelines and loans to borrowers who may have a record of credit write-offs, outstanding judgments, prior bankruptcies and other negative credit items. Accordingly, non-conforming mortgage loans are likely to experience rates of delinquency, foreclosure and loss that are higher, and that may be substantially higher, than mortgage loans originated in accordance with Fannie Mae or Freddie Mac underwriting guidelines.

The mortgage loans underlying certain of the RMBS may be structured with negative amortization features. Negative amortization arises when the mortgage payment in respect of a loan is smaller than the interest due on such loan. On any such mortgage loans, if the monthly payments are not enough to cover both the interest and principal payments on the loan, the shortfall is added to the principal balance, causing the loan balance to increase rather than decrease over time. During periods in which the outstanding principal balance of any such mortgage loan is increasing due to the addition of deferred interest, the increasing principal balance of such mortgage loan may approach or exceed the value of the related mortgage property, thus increasing the likelihood of defaults as well as the amount of any loss experienced with respect to any such mortgage loan that is required to be liquidated.

Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates and, as a result, adversely affect the performance and market value of RMBS.

The terms of mortgage loans underlying RMBS may be modified by the servicer, if the loans are in default or default is reasonably foreseeable. Changes in the terms of a mortgage loan may include the capitalization of past due payments, lowering of the interest rate, conversion of an adjustable interest rate to a fixed interest rate, extension of the maturity date, the forgiveness of past due principal and/or interest payments, or other modifications, any of which will reduce or delay payment of the amount owed to the trust fund by the related borrower or delay the receipt of payments from the borrower. Any of the various possible modifications of the terms of a mortgage loan that is in default or as to which default is reasonably foreseeable may, even if beneficial to the securitization trust in the aggregate, may affect some holders of RMBS, including the Private Investment Funds and/or Separately Managed Accounts, adversely. In determining whether a particular loan modification should be made, the servicer will not consider the interests of individual classes of RMBS. Conversely, failure by the servicer to timely modify the terms of a defaulted mortgage loan may reduce amounts available for distribution to holders of RMBS in respect of that mortgage loan.

RMBS may be subordinated to one or more other senior classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. In addition, in the case of certain RMBS, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the corresponding senior classes of securities have been reduced to zero. As a result, subordinate classes of RMBS are more sensitive to risk of loss and writedowns than senior classes of RMBS.

Recent Developments in the Residential Mortgage Market

Recently, delinquencies, defaults and losses on residential mortgage loans have increased substantially and may continue to increase, which may affect the performance of RMBS, in particular RMBS that are backed by subprime and midprime mortgage loans, as well as “Alt-A” and “Alt-B” mortgage loans and second lien mortgage loans (collectively, “Non-Prime Residential Mortgage Securities”). Subprime and midprime mortgage loans are generally made to borrowers with lower credit scores and having higher loan-to-value ratios. Alt-A and Alt-B loans may also have some of the characteristics of subprime and midprime mortgage loans. Accordingly, mortgage loans backing Non-Prime Residential Mortgage Securities are more

sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans backing these securities. In addition, recently housing prices and appraisal values in many states have declined. A continued decline of those values has and may in the future result in additional increases in delinquencies and losses on RMBS generally. Higher combined loan-to-value ratios may result in lower recoveries on foreclosure, and an increase in net losses above those that would have been realized had property values remained the same or increased. A decline in property values is particularly likely to impact recoveries on any second lien mortgage loans included in the mortgage pools backing RMBS.

Current market conditions may impair borrowers' ability to refinance or sell their properties, which may contribute to higher delinquency and default rates. Borrowers seeking to avoid increased monthly payments by refinancing may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Borrowers who intended to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their property for an amount equal to or greater than the unpaid principal balance of their loans. In addition, some mortgage loans may include prepayment premiums that would further inhibit refinancing.

RMBS may provide that the servicer is required to make advances in respect of delinquent mortgage loans. However, servicers experiencing financial difficulties may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee.

Recently, a number of originators and servicers of mortgage loans have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings. These difficulties have resulted in part from declining markets for their mortgage loans and claims for repurchases by them of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims. These difficulties have been compounded by a general decline in the willingness by banks and other financial institutions to extend credit to originators and servicers in the ABS industry and the resulting disappearance of available credit and liquidity lines to such originators and servicers. Higher delinquencies and defaults may also be contributing to these difficulties by reducing the value of mortgage loan portfolios, requiring originators to sell their portfolios at greater discounts to par. In addition, the costs of servicing an increasingly delinquent mortgage loan portfolio may be rising without a corresponding increase in servicing compensation. The value of any residual interests retained by sellers of mortgage loans in the securitization market may also be declining in these market conditions. Declining real estate values may decrease the number of borrowers seeking or able to refinance their mortgage loans, resulting in a decrease in overall originations. These factors, among others, may have the overall effect of increasing costs and expenses of originators and servicers while at the same time decreasing servicing cash flow and loan origination revenues. Such financial difficulties may have a negative effect on the ability of servicers to pursue collection on

mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on sale of underlying properties following foreclosure. Many servicers have become overwhelmed by the number of defaulted loans in their servicing portfolios, and are unable or unwilling to pursue collections or other remedies, or commence foreclosure proceedings on many defaulted mortgage loans.

The rise in the rate of foreclosures of properties backing subprime loans in certain states or localities has resulted in legislators, regulators and attorney generals in such states or localities seeking measures to prevent or restrict foreclosures and bringing lawsuits against participants in the financing of subprime loans in their states or localities, including issuers and underwriters of RMBS backed by such loans and investors in such RMBS, including the Private Investment Funds and/or Separately Managed Accounts. Such trends in forestalling or limiting foreclosures may continue to increase.

The foregoing adverse changes may reduce the cashflow from RMBS or ABS CDO Securities backed by RMBS. In addition, prices are more volatile when compared to the recent past due to these adverse changes in market conditions. In the event that interest rate spreads for RMBS widen, the market value of such assets would decline and, in the case of a substantial spread widening, could decline by a substantial amount. Furthermore, these adverse changes in market conditions have resulted in a severe liquidity crisis in the market for RMBS and ABS CDO Securities and increasing unwillingness by banks, financial institutions and investors to extend credit to servicers, originators and other participants in the market for these securities and other asset-backed securities. As a result, the liquidity and/or the market value of RMBS, ABS CDO Securities and other asset-backed securities may experience further declines and may face significant lack of liquidity.

ABS

Each type of asset-backed security (“ABS”) entails unique risks depending on the type of assets involved and the legal structure used. For example, credit card receivables are generally unsecured obligations of the credit card holder and the debtors are entitled to the protection of a number of state and federal consumer credit laws. In some transactions, the value of the ABS is dependent on the performance of a third party acting as credit enhancer or servicer. There is also the possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities because of the inability to perfect a security interest in such collateral or because such collateral has been stolen or damaged. Furthermore, the ability of a consumer borrower to repay its loan (which loan secures the ABS) will depend on the income and assets of such borrower and may be effected by, among other things, job loss and acts of God.

CDOs:

CDOs hold portfolios principally composed of ABS and RMBS securities. Their performance is largely determined by the performance of ABS and RMBS that collateralize the CDOs (“CDO Collateral Securities”). The risks associated with investments in CDOs include the same risks as

described above relating to RMBS and ABS, and to a lesser degree, risks relating to other types of structured securities, including those described below:

CMBS

Commercial mortgage loans underlying commercial mortgage-backed securities (“CMBS”) are generally secured by multi-family or commercial property and may entail risks of delinquency and foreclosure, and risks of loss in the event thereof, that are greater than similar risks associated with loans secured by single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced (for example, if rental or occupancy rates decline or real estate tax rates or other operating expenses increase), the borrower’s ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things, tenant mix, success of tenant businesses, property management decisions (including responding to changing market conditions, planning and implementing rental or pricing structures and causing maintenance and capital improvements to be carried out in a timely fashion), property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property and the occurrence of any uninsured casualty at the property.

The value of an income-producing property is directly related to the net operating income derived from such property. Furthermore, the value of any commercial property may be adversely affected by risks generally incident to interests in real property, including various events which the related borrower and/or manager of the commercial property, the issuer, the depositor, the indenture trustee, the master servicer or the special servicer may be unable to predict or control, such as: changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; acts of God; environmental hazards; and social unrest and civil disturbances.

Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel’s operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements.

Furthermore, a commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable for any reason. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the

liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses.

CDOs

CDOs are limited recourse obligations of the issuer thereof payable solely from the underlying securities owned by the issuer or proceeds thereof. Consequently, holders of CDOs must rely solely on distributions on the collateral underlying such CDOs or the proceeds thereof for payment. Such assets may consist of investment grade debt securities, high yield debt securities, loans, structured finance securities, synthetic securities and other debt instruments. CDOs generally have underlying risks similar to many of the risks of CDO Collateral Securities, such as interest rate mismatches, trading and reinvestment risk and tax considerations. Each CDO Security, however, will involve risks specific to the particular CDO Security and its CDO Collateral Securities. The concentration in any particular asset type may adversely affect the Issuer's ability to make payments on the Notes.

CDO Collateral Securities underlying a CDO will often will include assets that bear interest at a fixed or floating rate of interest, and while the CDOs issued by such issuer also may bear interest at fixed or floating rates, the proportions of a CDO issuer's assets bearing interest at fixed and floating rates will typically not match the proportions to which such CDO issuer's liabilities bear interest at fixed and floating rates. As a result, there could be a floating/fixed rate or basis mismatch between such CDOs and CDO Collateral Securities which bear interest at a fixed rate, and there may be a timing or basis mismatch between the CDOs and CDO Collateral Securities that bear interest at a floating rate as the interest rate on such floating rate CDO Collateral Securities may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rates on the CDOs. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDOs.

Item 9. Disciplinary Information

Not applicable.

Item 10. Other Financial Industry Activities and Affiliations

Broker-Dealer Registration Status

Brett Graham, Beth Ferraro, Nick Rossetti and Colin Scanlon are registered representatives of VCAP Securities, LLC (formerly known as BW Capital Markets, LLC) (the "Affiliated Broker-Dealer"). Mr. Graham is also a registered principal of the Affiliated Broker-Dealer. The Affiliated Broker-Dealer's principal business is providing distressed asset liquidation services to fiduciaries (i.e., CDO trustees) and large financial institutions. This includes auctioning distressed assets (1) owned by CDOs at the direction of CDO trustees and (2) owned or controlled by financial institutions.

Commodities-Related Registration

Not applicable.

Material Relationships or Arrangements with Industry Participants

As discussed in Item 4, Vertical Capital is the parent company to Vertical CDO, which is a relying adviser of Vertical Capital. Vertical Capital controls the management and operations of Vertical CDO and Vertical Capital's employees provide services on behalf of Vertical CDO. Vertical Capital and Vertical CDO also share a principal place of business.

Vertical Capital has entered into a services agreement with the Affiliated Broker-Dealer whereby Vertical Capital provides certain infrastructure and professional services in exchange for a cost and revenue sharing agreement. Vertical Capital has also entered into a non-exclusive technology licensing agreement with Vertical Capital Management, LLC, an affiliated company, that provides Vertical Capital Management, LLC with access to Vertical Capital's proprietary analytics technology (and basic infrastructure support including, but not limited to, the use of office space).

Vertical Capital, the Affiliated Broker-Dealer, Vertical Capital GP, Vertical Capital Management, LLC and Vertical CDO are all related entities.

With respect to certain Private Investment Funds, Vertical Capital GP on its own behalf or on behalf of the Private Investment Fund may enter into side letters or similar agreements ("Other Agreements") with Limited Partners which have the effect of establishing rights, or altering or supplementing, the rights of certain Limited Partners, which will be different than the rights of other Limited Partners. Vertical Capital GP has no obligation to notify the Limited Partners that Vertical Capital GP has entered into any Other Agreement with respect to a particular Limited Partner, and the other Limited Partners will not receive the benefit of such Other Agreement.

Material Conflicts of Interest Relating to Other Investment Advisers

Not applicable.

Item 11. Code of Ethics, Participation or Interest in Client Transactions/Personal Trading

Code of Ethics

Vertical Capital has a fiduciary duty to clients to act in the best interest of the client and always place the client's interests first and foremost. Vertical Capital takes seriously its compliance and regulatory obligations and requires all staff to comply with such rules and regulations, as well as Vertical Capital's policies and procedures.

In accordance with Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the "Advisers Act", Vertical Capital has adopted its Code of Ethics and Policy regarding Insider Trading (the "Code of Ethics"). The purpose of the Code of Ethics is to establish guidelines and procedures that are reasonably designed to identify and prevent employees who may have

knowledge of Vertical Capital's investments (and investment intentions) from breaching their fiduciary duties to Vertical Capital's clients, and to address other situations that may pose a real or potential conflict of interest or the appearance of a real or potential conflict of interest.

The Code of Ethics contains provisions for standards of business conduct in order to comply with federal securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, code violations, reporting requirements, and safeguarding of material non-public information about client transactions. Further, Vertical Capital's Code of Ethics establishes Vertical Capital's expectation for business conduct.

Vertical Capital's Code of Ethics is distributed to each employee at the time of hire/contract, and, as the Code of Ethics is modified. In addition, Vertical Capital requires an annual certification by all employees/Advisors regarding their understanding and compliance with the Code of Ethics. Vertical Capital also supplements the Code of Ethics with annual training and on-going monitoring of employee activity.

A copy of our Code of Ethics will be provided to any client or prospective client upon request. Please call Vertical Capital's Chief Operating Officer/Chief Compliance Officer at (212) 786-5300 to request a copy of Vertical Capital's Code of Ethics. Furthermore, Vertical Capital strives to handle clients' non-public information with due care and confidentiality.

Client Transactions in Securities where Adviser has a Material Financial Interest

Not applicable.

Investing in Securities Recommended to Clients

Vertical Capital's Code of Ethics does not prohibit personal trading by employees (or our firm). As a result, Vertical Capital and its employees may purchase or sell the same or similar securities (or securities that are suitable for an employee or related account but not suitable for any client) at the same time that Vertical Capital places transactions for the accounts of its Clients.

Related persons of Vertical Capital (any advisory affiliate and any person that is under common control with Vertical Capital) may buy or sell securities identical to those securities recommended to clients. Therefore, related persons may have an interest or position in certain securities that are also recommended and bought or sold to clients. Related persons will not put their interests before a client's interest. Related persons may not trade ahead of their clients or trade in such a way to obtain a better price for themselves than for their clients. Vertical Capital is required to maintain a list of all securities holdings for its related persons. Further, associated persons are prohibited from trading on nonpublic information or sharing such information. Vertical Capital and its related persons are required to conduct their securities and investment advisory business in accordance with all applicable Federal and State securities regulations.

As required by Rule 204A-1 of the Advisers Act, Vertical Capital requires its Access Persons (as defined under Rule 204A-1) to report their reportable securities transactions on a quarterly basis and disclose their securities holdings on an annual basis. In addition, Vertical Capital recognizes that certain potential conflicts of interest may arise in connection with the personal trading

activities of Vertical Capital's Access Persons. As such, Vertical Capital maintains a restricted list of securities that Access Persons are generally prohibited from purchasing or selling. In addition, Access Persons are generally prohibited from trading with or against Vertical Capital's clients. Vertical Capital's personnel are required to certify their compliance with the Code of Ethics.

Conflicts of Interest Created by Contemporaneous Trading

Vertical Capital may seek to purchase investments for more than one advisory client for which it or an affiliate serves as investment adviser. Vertical Capital will have the discretion to apportion such investments among such entities; accordingly Vertical Capital cannot assure equal treatment across its advisory clients. Limiting factors may include, but are not necessarily exhaustive, of the following: accounts size constraints, account strategy (price limits, vintage specification and investment profiles) and available cash liquidity.

Vertical Capital may aggregate sales and purchase orders of securities placed with respect to the collateral with similar orders being made simultaneously for other accounts managed by Vertical Capital, if in Vertical Capital's reasonable judgment such aggregation shall result in an overall economic benefit to the investors, taking into consideration the selling or purchase price, brokerage commission and other expenses. When any aggregate sales or purchase orders occur, Vertical Capital (and any of its affiliates involved in such transactions) shall allocate the executions among the accounts in an equitable manner.

With respect to Private Investment Funds and Separately Managed Accounts, Vertical Capital may make investments for its own account contemporaneously with investments that it makes for the client. In such a case, orders for the client and Vertical Capital will be aggregated. Each account that participates in an aggregated order shall participate at the average price for all transactions of Vertical Capital in that investment on a given business day, with all transaction costs shared on a pro rata basis. The order will be allocated on a basis so that all client accounts receive fair and equitable treatment.

Finally, with respect to any Private Investment Fund that offers separate tranches, except as otherwise provided in such Private Investment Fund's confidential private offering memorandum (the "Offering Memorandum"), any investments made by the Private Investment Fund shall be allocated solely among the Open Tranches (as defined in the Offering Memorandum) at the time that such investment is made in the following manner:

- (i) first, among the Open Tranches in proportion to the amount that the aggregate capital contributions with respect to each Open Tranche bears to the aggregate capital contributions for all Open Tranches, and
- (ii) second, in the event that an Open Tranche does not have a sufficient amount of "Uninvested Capital" (as defined in the Offering Memorandum) to fund the entire amount allocated to it pursuant to clause (i), then the amount of such deficiency shall be allocated among the remaining Open Tranches. This is done in proportion to the amount of total money invested of each such remaining Open Tranche after the application of clause (i).

For purposes of allocating new investments among Open Tranches, the “Uninvested Capital” of an Open Tranche at any time means the difference between (A) the amount of the then available cash held by such Tranche; and (B) amounts which Vertical Capital GP, in its sole discretion, determines may be needed to pay future expenses of the Open Tranche. A Tranche will be an “Open Tranche” with respect to a particular investment whenever the Tranche has any Uninvested Capital and the particular Investment satisfies the Tranche’s guidelines.

Item 12. Brokerage Practices

A-1 Research and Other Soft Dollar Benefits

CDOs:

When structuring a CDO for which Vertical Capital will serve as portfolio manager, Vertical Capital has the authority to choose the broker/dealer that will serve as the underwriter and/or placement agent in the private placement of the CDO issued securities.

The Investment Committee of Vertical Capital has the discretion, subject to certain conditions and limitations as summarized below, to determine the securities to be purchased and sold for each CDO portfolio (“CDO Collateral Securities”), as well as the amounts thereof.

Prior to purchasing a CDO Collateral Security for a closed deal, Vertical Capital examines the trade to confirm it satisfies various compliance tests. If the trade passes the compliance tests, then a hypothetical trade ticket will be submitted to the Trustee for that CDO for its approval. The Trustee will then analyze the trade using its own compliance model, and if the Trustee is satisfied that the hypothetical trade passes the compliance tests, then it will approve the trade for inclusion into the deal’s portfolio and Vertical Capital will execute the trade.

Vertical Capital recognizes its duty to obtain best execution for the CDOs. Vertical Capital generally does not seek to invest in securities for which there is an open exchange market.

Vertical Capital, therefore, usually is limited in the selection of brokers, dealers or other counterparties to buy/sell securities.

Vertical Capital may receive research or brokerage from a broker-dealer and/or a third party in connection with client securities transactions. This is known as a “soft dollar” relationship. Vertical Capital has no soft dollar arrangements in place.

In situations in which a security sought for purchase may be purchased from one of a number of counterparties, Vertical Capital will generally purchase the security from the broker that offers the best price for the specific security being purchased. However, Vertical Capital may also take into account the following factors:

- The ability to effect prompt and reliable execution at favorable prices (including the applicable dealer spread or commission, if any);
- The operational efficiency with which transactions are effected;
- The financial strength, integrity and stability of the broker;

- Access to deals or instruments in which Vertical Capital wants to invest.

A-2 Brokerage for Client Referrals

Not Applicable.

A-3 Directed Brokerage

Vertical Capital does not have directed brokerage arrangements with clients.

B. Order Aggregation

Vertical Capital often purchases or sells the same security for many clients contemporaneously and using the same executing broker. It is Vertical Capital's practice, where possible, to aggregate client orders for the purchase or sale of the same security submitted contemporaneously for execution using the same executing broker. Vertical Capital will also aggregate in the same transaction, the same securities for accounts where Vertical Capital has brokerage discretion. Such aggregation may enable Vertical Capital to obtain for clients a more favorable price or a better commission rate based upon the volume of a particular transaction. When an aggregated order is completely filled, Vertical Capital allocates the securities purchased or proceeds of sale pro rata among the participating accounts, based on the purchase or sale order. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. If an aggregated order is only partially filled, Vertical Capital's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair and equitable to clients. Depending on the investment strategy pursued and the type of security, this may result in a pro rata allocation to all participating clients.

Item 13. Review of Accounts

Frequency and Nature of Review; Content and Frequency of Regular Account Reports

SEPARATELY MANAGED ACCOUNTS AND PRIVATE INVESTMENT FUNDS

Separately Managed Accounts and Private Investment Funds are monitored daily for cash reconciliation and investment guideline compliance. In addition, such accounts are reviewed monthly for:

- Security surveillance: projected payments and security losses versus projections
- Security pricing. Pricing methodologies used by Vertical Capital include Mark to Model, Market Yield and Estimated Market Price
- Principal and interest collections
- NAV
- Rate of return calculations

Surveillance. Investments are reviewed monthly by the portfolio managers using Vertical Capital's surveillance and risk management analytics. The portfolio managers discuss the performance of investments with an emphasis on deteriorating assets and which may be sold. Final sale decisions are made by the Chief Investment Officer of Vertical Capital.

Separately Managed Account Reporting. A Separately Managed Account client receives reports from Vertical Capital pursuant to the terms of each Separately Managed Account's investment management agreement.

Private Investment Fund Reporting. A Private Investment Fund's investors receive reports from the Private Investment Fund pursuant to the terms of each Private Investment Fund's offering memoranda or as otherwise described in the offering document of the client.

CDOs

The CDO portfolios are subject to ongoing performance review. The portfolio management team monitors on a regular basis (among other items) rating actions, credit protection prices, security-specific performance metrics and market trends, industry/company specific events and the portfolios' compliance with various tests including portfolio concentration limits, collateral quality tests and coverage tests.

Pursuant to the Indenture governing the Securities issued by a CDO, the trustee to the respective CDO is required to deliver to investors in the CDO monthly and other periodic reports regarding the collateral. Vertical Capital assists the trustee in preparing these reports pursuant to the Indenture and the Collateral Management Agreement (between Vertical Capital and the CDO).

Factors Prompting a Non-Periodic Review of Accounts

Please see above. Client accounts are under ongoing review.

Item 14. Client Referrals and Other Compensation

Economic Benefits Received from Non-Clients for Providing Services to Clients

Not applicable.

Compensation to Non-Supervised Persons for Client Referrals

Vertical Capital may enter into arrangements with individuals ("Solicitors") whereby the Solicitor will refer investors to Vertical Capital as candidates for the investment advisory services offered by Vertical Capital (i.e., Separately Managed Accounts and Private Investment Funds). In return, Vertical Capital or its affiliates will compensate the Solicitor subject to (1) the investor becoming an advisory client of Vertical Capital and (2) the Solicitor entering into a solicitation agreement with Vertical Capital prior to the investor's decision to become a client of Vertical Capital. Compensation to a Solicitor will be a percentage of incentive compensation received by Vertical Capital or its affiliates and/or a percentage of the initial capital contributed by the investor. Vertical Capital's referral program is in compliance with the federal regulations as set out in Rule 206(4)-3 under the Advisers Act. The solicitation/referral fee is paid pursuant

to a written agreement retained by both Vertical Capital and the Solicitor. The Solicitor is required to provide the client with a copy of Vertical Capital's Form ADV Part 2 and a Solicitor Disclosure brochure prior to, or at the time of, entering into any investment advisory contract with Vertical Capital. A Solicitor is not permitted to offer clients any investment advice on behalf of Vertical Capital. Clients' advisory fees will not be increased as a result of compensation being shared with the Solicitor.

Item 15. Custody

Not applicable.

Item 16. Investment Discretion

Vertical Capital provides investment advisory services on a discretionary basis to clients.

Prior to assuming discretion in managing a client's assets, Vertical Capital enters into an investment management agreement or other agreement that sets forth the scope of Vertical Capital's discretion.

Unless otherwise instructed or directed by a discretionary client, Vertical Capital has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines), and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held. Even client accounts that are typically managed on a pari passu basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type divided by the total assets of all accounts eligible to invest in the particular investment.

Vertical Capital may effect cross transactions between discretionary client accounts, except as otherwise noted below. Cross transactions enable Vertical Capital to effect a trade between two clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. Vertical Capital has a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. Cross transactions between client accounts are not permitted if they would constitute principal trades or trades for which Vertical Capital or its affiliates are compensated as a broker unless client consent has been obtained based upon written disclosure to the client of the capacity in which the Adviser or its affiliates will act.

If it appears that a trade error has occurred, Vertical Capital will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, Vertical Capital's error correction procedure is to ensure that clients are treated fairly and, following error correction, are in the

same position they would have been if the error had not occurred. Vertical Capital has discretion to resolve a particular error in any appropriate manner that is consistent with the above stated policy. In the event that a client account incurs a trade error as a result of Vertical Capital's fraud, intentional misconduct or gross negligence, trade errors will be corrected by Vertical Capital as soon as practicable, in a manner such that the client incurs no loss. Trade errors that result other than by breach of the standard of care above are borne by the client account.

Item 17. Voting Client Securities

Vertical Capital has adopted proxy voting policies and procedures that address how Vertical Capital votes proxies. The policy is based on the principle that Vertical Capital and its employees owe a fiduciary duty to its advisory clients. Whenever Vertical Capital receives a notice requesting Vertical Capital to exercise its voting authority with respect to a security in a client account, the Chief Compliance Officer provides all proxy related materials to the Investment Committee. The Investment Committee will make a decision on how to vote the proxy in question in accordance with the guidelines set forth in Vertical Capital's Compliance Manual.

Vertical Capital keeps a record of its proxy voting policies and procedures, proxy statements received, votes cast, all communications received and internal documents created that were material to voting decisions and each client request for proxy voting records and Vertical Capital's response for five years. Vertical Capital's advisory clients may obtain (i) a copy of Vertical Capital's proxy voting policies and procedures and/or (ii) information on how Vertical Capital has voted proxies by contacting Vertical Capital's Chief Compliance Officer, at 437 Madison Avenue, New York, New York 10022, telephone (212) 786-5300.

Item 18. Financial Information

Not applicable.