

## **Item 1**

### **Cover Page**

Part 2A of Form ADV: Firm Brochure

Raith Capital Partners, LLC

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This brochure provides information about the qualifications and business practices of Raith Capital Partners, LLC (“**Raith**”). If you have any questions regarding the contents of this brochure, Please contact us at 212-938-6990. 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.

From time to time in this and other documents Raith may refer to itself as a “registered investment advisor” by virtue of its registration with the SEC. This title does not imply any level of training or skill.

Additional information about Raith is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2**

### **Material Changes**

This brochure dated March 4, 2013 has been prepared by Raith in accordance with the SEC's requirements and rules pertaining to Form ADV, Part 2A. Inasmuch as Raith is a new registered investment adviser, there are no material changes to discuss. In the future, this Item will identify and summarize any material changes in this narrative brochure from one year to the next. It will also reference the date of the last annual update of the brochure.

### **Item 3**

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## Item 4

### Advisory Business

Raith Capital Partners, LLC (“**Raith**”), a Delaware limited liability company, was founded in 2012 and is headquartered in New York, NY. Raith is wholly owned by its two founding principals, William W. Landis III and Nelson Hioe. Currently, Raith has four employees, three of whom perform investment advisory functions.

Raith currently serves as a non-discretionary investment adviser to a single, separate account (the “**Account**”). The Account is jointly managed by Raith and an unaffiliated, SEC-registered investment adviser and investment decisions for the Account are approved by a joint investment committee. Raith is responsible, in its advisory capacity, for all other aspects of the Account’s investment program. These responsibilities include all research, diligence, risk analysis, return analysis and valuation applied to each investment made by the Account. Subsequent to the investments being made, Raith, in its advisory capacity, monitors the performance of each investment and provides quarterly updates.

Raith’s advisory and investment business is focused on investing in a range of debt-related instruments, including distressed whole loans, commercial mortgage backed securities (“**CMBS**”), and value-add investment opportunities, including asset management, workout and turnaround situations. Raith’s goal is to provide superior, risk-adjusted returns for its Clients by focusing on real estate opportunities that meet Raith’s targeted returns and arise from 1) dislocations in the U.S. real estate markets and the eventual restructuring and recapitalization of those markets, and 2) the re-emergence of commercial real estate lending opportunities. Raith seeks to deliver these returns through its abilities to source, underwrite, price, work out, and ultimately monetize distressed real estate assets in markets across the United States.

Raith may in the future provide investment advisory services to additional separate accounts and private investment funds on a discretionary or non-discretionary basis (each such account, including the Account, and each private investment fund, a “**Client**” and together the “**Clients**”).

The terms for each separate account or private investment fund will be disclosed in detail in the relevant offering or account documents that are provided to prospective investors prior to investment. The Account is, and all future Clients will be, managed in accordance with the investment objectives, strategies and guidelines and the terms and conditions of investment, set out in their respective private placement memoranda, organizational, governing and other related account documents, as applicable (together, the “**Governing Documents**”). A prospective investor must consider whether a separate account or private investment fund is an appropriate investment, including with respect to such investor’s investment objectives and risk tolerance.

Raith does not participate in wrap fee programs.

As of December 31, 2012, Raith directly managed approximately \$45.6 million of regulatory assets under management on a non-discretionary basis.

## Item 5

### Fees and Compensation

Pursuant to the Account's Governing Documents, Raith is compensated for its advisory services on a percentage of assets invested (the "**Asset Management Fee**") and is entitled to a performance based fee or allocation (the "**Incentive Fee**") paid on realized gains from investments that exceed a performance benchmark.

Pursuant to the Account's Governing Documents, Raith deducts its Asset Management Fees directly from the Client's assets on a quarterly basis in advance. Asset Management Fees are calculated as a percentage of equity invested and outstanding. The Asset Management Fee will be pro-rated when Raith provides services for less than a full quarter.

Pursuant to the Account's Governing Documents, Incentive Fees, if applicable, are deducted directly from the Account's assets as directed by the unaffiliated investment adviser, and not on a pre-determined schedule. The Incentive Fee is paid on a monthly basis once the Account receives its required preferred return and full return of invested capital.

For future Clients, asset management and incentive fees will be subject to negotiation and may not necessarily match the terms shown in this Form ADV for the Account.

The Account generally bears its own expenses, such as investment expenses (e.g., custodial fees, interest expenses, consulting and other professional fees relating to particular investments, research related to investments and travel expenses incurred in connection with due diligence and monitoring, other out-of-pocket expenses directly related to the investigation of investment opportunities (whether or not consummated), acquisition and ownership expenses including all expenses relating to the servicing or monitoring of investments post-acquisition), legal expenses, systems and technology, audit and tax preparation expenses, organizational expenses and extraordinary expenses. The Account may incur brokerage and other transaction costs. Please see Item 12 "Brokerage Practices" for more information. Raith generally will bear its own overhead expenses, including any expenses associated with the employment of any at-will employees.

Future Clients will generally be expected to bear similar expenses in accordance with their applicable Governing Documents.

Neither Raith nor any of its supervised persons receive, directly or indirectly, any compensation from the sale of securities or other investment products.

**It is critical that prospective investors refer to the relevant account's or private investment fund's Governing Documents for a complete understanding of how Raith is compensated for its advisory services. The information contained in this Item 5 is a summary only and is qualified in its entirety by the relevant Governing Documents.**

## **Item 6**

### **Performance-Based Fees and Side-By-Side Management**

Raith may be entitled to receive an Incentive Fee, which is based on realized gains from investments above a performance benchmark. The Incentive Fee may create an incentive for Raith to recommend to Clients certain investments that are riskier or more speculative than those which would be made under a different fee arrangement. However, Raith is committed to fulfilling its fiduciary duty to its Clients to act at all times in the best interests of Clients, regardless of the fee arrangement. To this end, Raith has implemented internal controls to address the potential conflicts associated with performance-based fees.

Raith presently provides investment advisory services to the Account. Raith may establish one or more separate accounts or funds in the future that employ a similar investment strategy and which may have different fees arrangements than those of the Account. In such event, Raith would adopt appropriate procedures for the allocation of investments to ensure that all Clients are treated on a fair and equitable basis.

## Item 7

### Types of Clients

Raith currently provides investment advice to the Account, which is a separately managed account.

In the future, Raith may advise private investment funds, and various other separate accounts. Investors in these funds and accounts may include institutional investors, high net worth individuals, public pension funds, endowments, and other qualified investors. Investors will need to meet the requirements set forth in an account's or fund's Governing Documents, including any subscription agreement.

This brochure may be provided to current or prospective investors, together with the applicable Governing Documents, prior to or in connection with such prospective investor's consideration or execution of an investment in a separate account or private investment fund, and may subsequently be provided periodically to an investor. Investors and other recipients should be aware that while this brochure may include information about the accounts or private investment funds, as necessary or appropriate, it should not be considered to represent a complete discussion of the features, risks or conflicts associated with any account or fund. More complete information about the accounts and funds is included in the Governing Documents, which may be provided to current and eligible prospective investors only by Raith or another authorized party.

**In no event should this brochure be considered to be an offer of interests or shares in a private investment fund or relied upon in determining whether to invest. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.** Rather, this brochure is designed solely to provide information about Raith for the purpose of compliance with certain obligations under the Advisers Act and, as such, responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided in the Governing Documents. **To the extent that there is any conflict between discussions herein and similar or related discussions in any of the Governing Documents, the Governing Documents shall control.**

## Item 8

### Methods of Analysis, Investment Strategies and Risk of Loss

Investing in securities involves the risk of loss that investors should be prepared to bear. Investors could lose some or all of their investment.

Raith's advisory and investment business is focused on investing in a range of debt-related instruments, including distressed whole loans, commercial mortgage-backed securities ("CMBS"), and value-add investment opportunities, including asset management, workout and turnaround situations. Raith's goal is to provide superior, risk-adjusted returns for its investors/clients by focusing on real estate opportunities that meet Raith's targeted returns and arise from 1) dislocations in the U.S. real estate markets and the eventual restructuring and recapitalization of those markets, and 2) the re-emergence of commercial real estate lending opportunities. Raith seeks to deliver these returns through its abilities to source, underwrite, price, work out, and ultimately monetize distressed real estate assets in markets across the United States.

Raith invests in two primary strategies, subordinate CMBS and distressed or value-add investment opportunities. Raith utilizes a ground-up fundamental asset level analysis that draws on its principals' decades of experience analyzing and valuing real estate. In the distressed strategy, Raith may invest in notes purchased at a discount to their face-value and then applies its asset management techniques to that investment with a goal of maximizing the ultimate realization from the asset.

In the subordinate CMBS strategy, Raith acquires securities from newly-issued CMBS securitizations.

The distressed opportunities are generated from general market dislocations in the U.S. real estate capital markets resulting from the broad economic recession and financial crisis that occurred in 2008 and 2009. The period of excessive growth leading up to the downturn was fueled by aggressive lending by financial institutions creating over leveraged assets which eventually collapsed in value when they were unable to produce the cash flows necessary to support such high debt levels.

Raith seeks to mitigate risk by relying on a well developed set of principles and disciplines honed from years of experience in the real estate capital markets as well as the broader financial markets. Although each real estate downturn has different characteristics and any recovery can take very different paths Raith believes it will be able draw upon the experience of its senior management to identify and access new opportunities and maximize returns while effectively managing downside risk.

Raith's workout and asset management expertise combined with its ability to value a broad range of asset types in different geographic regions across the U.S. allows for the construction of a well diversified investment pool.

Any Client in Raith's investment program needs to be aware that it is speculative and entails substantial risks, including risk of loss of the entire investment. There can be no assurance that a Client's investment objectives will be achieved, and actual investment results may vary substantially. Investors should be prepared to bear these risks. In particular, any loans that Raith acquires pose significant risks, including risks related to the time and capital required for the foreclosure process; potentially faulty or insufficient loan documentation that could result in the loss of collateral as security for the loan; various risks



associated with owning real estate, i.e. loss of tenants, economic downturns, insurance, repairs, new development and competition, potential litigation from borrowers, etc.

The success of any Client's investment activities depends to a significant degree on Raith's ability to identify and capitalize on inefficiencies in the markets. No assurance can be given that Raith will be able to source investment opportunities that match the Client's investment objectives. In addition, once loans or assets are acquired, the ultimate success of the investment may depend upon Raith's ability to successfully manage the underlying real estate, manage the loan workout process with borrowers, or pursue legal remedies. Raith may ultimately be unsuccessful in these activities, which could act to limit the success of the investment.

A Client's investments may be materially affected by conditions in the mortgage market, the commercial real estate market, the credit markets, the financial markets and the economy generally. Although a Client's investments may be acquired at favorable prices that may reflect opportunistic circumstances in the commercial real estate and CMBS markets, further deterioration in these markets or the economy in general may nonetheless cause the investments to experience losses.

Raith may acquire property subject to existing financing or may obtain new financing and may incur secured or unsecured indebtedness at the asset level if it believes it is appropriate. Should Raith obtain substantial leverage for a Client's account, such leverage will increase the Client's exposure to adverse economic factors such as significantly rising interest rates, severe economic downturns, further real estate downturns or deteriorations in the condition of its investments or one or more geographic markets in which investments are located. In the event an investment is unable to generate sufficient cash flow to meet principal and interest payments on the indebtedness, the return on its investments would likely be significantly reduced or even eliminated. Moreover, the presence of debt creates significant additional risks, such as: (i) lending institutions may have rights to participate in certain decisions relating to the management of the investments; (ii) financial obligations of the interests; and (iii) cash flow from operations may be insufficient to pay the debt service, potentially resulting in capital calls being made on the investors or foreclosure on the collateral by the lender. Any inability of the Client to repay such borrowings could result in a reduction or complete loss on the investment.

The concentration of investments only in the real estate industry may increase the volatility of the returns and will increase the exposure to the risk of downturns in this industry to a greater extent than if the portfolios also included other sectors of the economy. As a result, further distress in the real estate industry could adversely affect returns to Raith's Clients and may result in the loss of principal.

Lack of liquidity in the investments may also adversely affect performance. Many of the investments will have limited market liquidity or may be subject to legal or other restrictions on transfer. Raith cannot predict the length of time needed to find a willing and suitable purchaser for many of the investments. The sale of illiquid assets and restricted securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. In addition, Raith may become subject to legal or contractual restrictions that prevent a Client from disposing of an investment at a time it might otherwise seek to do so, and, in times of extreme market disruption, there may be no market at all for one or more investments, potentially resulting in the inability of Raith to dispose of the assets for an indefinite period of time. Any of these circumstances could prevent or delay the disposition

of investments held in a Client's account, or reduce the amount of proceeds that it might have otherwise realized, which may adversely affect returns to any of Raith's Clients or cause a loss of all or a portion of investors' investments.

Raith is expected to invest directly in commercial mortgage loans and may indirectly invest in commercial mortgage loans by purchasing CMBS and/or interests in other pools of commercial mortgage loans. CMBS evidence interests in, or are secured by, pools of commercial mortgage loans. Accordingly, the CMBS and other pools of commercial mortgage loans that Raith may invest in on behalf of its Clients are subject to all of the risks of the respective underlying commercial mortgage loans.

## **Investment Risks**

### *Loans and Other Direct Debt Instruments*

Direct debt instruments are interests in amounts owed by a borrower to lenders or lending syndicates (loans and loan participations). These instruments involve a risk of loss in case of default or insolvency of the borrower and may offer less legal protection to the purchaser in the event of fraud or misrepresentation, or there may be a requirement that a fund supply additional cash to a borrower on demand.

Purchasers of loans and other forms of direct indebtedness depend primarily upon the creditworthiness of the borrower for payment of interest and repayment of principal. If scheduled interest or principal payments are not made, the value of the instrument may be adversely affected. Loans that are fully secured provide more protections than an unsecured loan in the event of failure to make scheduled interest or principal payments. However, there is no assurance that the liquidation of collateral from a secured loan would satisfy the borrower's obligation, or that the collateral could be liquidated. Indebtedness of borrowers whose creditworthiness is poor involves substantially greater risks and may be highly speculative. Borrowers that are in bankruptcy or restructuring may never pay off their indebtedness, or may pay only a small fraction of the amount owed.

Investments in loans through direct assignment of a financial institution's interests with respect to a loan may involve additional risks. For example, if a loan is foreclosed, the purchaser could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that under emerging legal theories of lender liability, a purchaser could be held liable as a co-lender. Direct debt instruments may also involve a risk of insolvency of the lending bank or other intermediary.

A loan is often administered by a bank or other financial institution that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. Unless, under the terms of the loan or other indebtedness, the purchaser has direct recourse against the borrower, the purchaser may have to rely on the agent to apply appropriate credit remedies against a borrower. If assets held by the agent for the benefit of a purchaser were determined to be subject to the claims of the agent's general creditors, the purchaser might incur certain costs and delays in realizing payment on the loan or loan participation and could suffer a loss of principal or interest.

Direct indebtedness may include letters of credit, revolving credit facilities, or other standby financing commitments that obligate purchasers to make additional cash payments on demand. These commitments

may have the effect of requiring a purchaser to increase its investment in a borrower at a time when it would not otherwise have done so, even if the borrower's condition makes it unlikely that the amount will ever be repaid.

Loans and other forms of direct indebtedness generally are not traded on exchanges. The over-the-counter market may be illiquid and there may be times when no counterparty is willing to purchase or sell certain instruments. The nature of the market may make valuations difficult or unreliable.

#### *Below Investment Grade Securities*

Raith may invest or hold securities rated lower than Baa by Moody's, BBB by Standard & Poor's, or the equivalent rating of another nationally recognized statistical rating organization, which are considered below investment grade, or in comparable unrated securities. It also may continue to hold previously acquired securities that subsequently become rated below investment grade. Below investment grade securities are commonly known as "high yield" or "junk bonds." Securities which are in the lower-grade categories generally offer a higher current yield than is offered by higher-grade securities of similar maturities, but they also generally involve greater risks, such as greater credit risk, greater market risk and volatility, and greater liquidity concerns.

High yield securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than investment grade securities. The prices of high yield securities have in the past been found to be less sensitive to interest-rate changes than higher-rated investments, but more sensitive to adverse economic downturns or individual corporate developments. A projection of an economic downturn or of a period of rising interest rates, for example, could cause a decline in high yield security prices because the advent of a recession could lessen the ability of a highly leveraged company to make principal and interest payments on its debt securities. If an issuer of high yield securities defaults, in addition to risking payment of all or a portion of interest and principal, a purchaser may incur additional expenses to seek recovery. In the case of high yield securities structured as zero-coupon or pay-in-kind securities, their market prices are affected to a greater extent by interest rate changes, and therefore tend to be more volatile than securities which pay interest periodically and in cash.

The markets for high yield securities may be less liquid than the markets for investment grade securities. To the extent that there is no established retail market for high yield securities in which a purchaser may invest trading in such securities may be relatively inactive. Prices of high yield securities may decline rapidly if a significant number of holders were to decide to sell their holdings in those securities. Changes in expectations regarding an individual issuer of high yield securities generally could reduce market liquidity for such securities and make their sale more difficult.

#### *Distressed Debt Risk*

Raith may invest in obligations of financially troubled companies and/or distressed structured finance obligations. In any investment involving stressed and distressed debt obligations, there exists the risk that the transaction involving such debt obligations will be unsuccessful, take considerable time or will result in a distribution of cash or a new security or obligation in exchange for the stressed and distressed debt obligations, the value of which may be less than the purchase price of such debt obligations. Furthermore, if an anticipated transaction does not occur, Raith may be required to sell an investment at a

loss. Some distressed debt situations may involve a bankruptcy process. There are a number of significant risks inherent in the bankruptcy process. Many events in a bankruptcy are the product of contested matters and adversary proceedings and are beyond the control of the creditors. A bankruptcy filing by an issuer may adversely and permanently affect the issuer, and if the proceeding is converted to a liquidation, the value of the issuer may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is difficult to predict, and a creditor's return on investment can be adversely affected by delays until the plan of reorganization ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, there exists the risk that Raith's influence with respect to the class of securities or other obligations it owns can be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial.

#### *Risks of CMBS*

The value and performance of structured finance securities depend upon the actions of numerous transaction parties and the legal structure for the transaction. CMBS are typically created by the sale of assets or collateral to a conduit, which becomes the legal issuer of the CMBS. The securitization conduit or issuer is generally a bankruptcy-remote vehicle such as a trust or other special-purpose entity. Interests in, or other securities issued by, the trust or special-purpose entity, that give the holder thereof the right to certain cash flows arising from the underlying assets, are then sold to investors through an investment bank or other securities underwriter in a publicly registered issuance or private placement. Often CMBS issuances are structured to reallocate the risks entailed in the underlying collateral (particularly credit risk) into security tranches that match the desires of investors. For example, senior subordinated security structures give holders of senior tranches greater credit risk protection (albeit at lower yields) than holders of subordinated tranches. The subordinated tranches must absorb credit losses on the collateral before losses can be charged to the senior tranches.

Thus, structured finance securities are subject to risks associated with their structure and execution, including the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such structured finance securities, whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the structured finance instrument) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such structured finance securities. In addition, concentrations of structured finance securities of a particular type, as well as concentrations of structured finance securities issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the structured finance securities to additional risk.

### *Risk of Subordinate Securities*

Raith may invest in securities that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the related transactions have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. In certain circumstances, payments of interest may be reduced or eliminated for one or more payment dates. Additionally, as a result of cash flow being diverted to payments of principal of more senior classes, the average life of such securities may lengthen. Subordinate securities generally do not have the right to call a default or vote on remedies following a default unless more senior securities have been paid in full. As a result, a shortfall in payments to subordinate investors will generally not result in a default being declared on the transaction nor in an acceleration or restructuring of the obligations thereunder. Furthermore, because subordinate securities may represent a relatively small percentage of the size of an asset pool being securitized, the impact of a relatively small loss on the overall asset pool may be substantial on the holders of such subordinate security.

### *Risk of Servicer Default*

CMBS transactions generally include a servicer (which may be the originator of the collateral or an affiliate thereof) that is responsible for collecting the cash flows generated by the securitized assets—principal, interest and fees net of losses and any servicing costs as well as other expenses—and for distributing such funds to the investors in accordance with the terms of the securities. The servicer processes the payments and administers the assets in the pool. A servicer or other transaction party, such as a trustee, may default on its contractual obligations resulting in additional costs, such as increased servicing fees by a substitute servicer or a diminution in servicing performance, including higher delinquencies and defaults, any of which may have an adverse effect on the CMBS.

In CMBS transactions, the issuing entity often has the right under certain circumstances to require the depositor to repurchase collateral or provide the issuing entity with a substitute for CMBS collateral. This right usually arises if a breach of the representations, warranties or covenants of the depositor has a material adverse effect (individually or in the aggregate) on the underlying collateral and if the breach is not cured or the issuing entity is not reimbursed within the applicable cure period. If the depositor does not have the financial resources to make a purchase or substitution, the CMBS will bear any resulting loss from the affected underlying collateral.

### *Fluctuations in Credit-Ratings*

A credit-rating agency will analyze the policies and operations of the originator and servicer, as well as the structure, underlying pool of assets, expected cash flows, credit enhancement and other attributes of the securities. The initial rating of a CMBS security only addresses the likelihood of the payment of interest when due and the ultimate payment of principal by its legal maturity date. The ratings do not address the likelihood of the payment of principal on CMBS on or before expected final payment dates nor do the ratings guarantee that CMBS will never suffer losses or have a delay in payment. The ratings of CMBS may be lowered or withdrawn entirely at any time by the applicable rating agency without

notice of such change in rating. The market value of CMBS could decrease if the ratings are lowered or withdrawn.

### *Effects of Credit Enhancements*

CMBS may use various forms of credit enhancements to transform the risk return profile of the underlying collateral and to attempt to minimize the exposure of CMBS to credit losses on the underlying collateral, including over-collateralization, senior-subordinate structures, reserve accounts and third-party credit enhancements. The rating of a third-party credit enhancement provider may affect the ratings of the CMBS. If a CMBS trust enters into any third-party credit enhancement arrangement, the rating agencies that rate the trust's CMBS will consider the provisions of the arrangement and the rating of any third-party credit enhancement provider. If a rating agency downgrades the debt rating of any third-party credit enhancement provider, it is also likely to downgrade the rating of the CMBS. Any downgrade in the rating of the CMBS could have severe adverse consequences on their liquidity or market value. There is no assurance that the types of credit enhancement related to CMBS will be sufficient to cover all losses.

### *Risk of Bankruptcy Proceedings*

If the originator, the depositor or the servicer becomes subject to bankruptcy or insolvency proceedings, there could be losses or delays in the payments on the CMBS. A CMBS transaction has a legal structure designed to minimize the risks associated with a bankruptcy or insolvency proceeding but no assurances can be given that a court or regulator will respect the legal structure of the transaction in every instance. Holders of CMBS are subject to the risk that a court or regulator in such proceeding may prevent payments on the underlying collateral from being distributed to the holders of the CMBS and liquidate the underlying collateral in satisfaction of creditors' claims.

### *Multiplicity of Roles*

Holders of CMBS should recognize that the multiplicity of roles that may be played by a single company - within a single securitization or across a number of them - means that credit and operational risk can accumulate into significant concentrations with respect to one or a small number of companies. For example, an originator of the receivables (or an affiliated company) may also serve as servicer, administrator of the securities, underwriter, provider of liquidity and credit enhancer.

### *Other Risks Associated with CMBS*

Repayment of a commercial or multifamily mortgage loan depends on the performance and value of the underlying real property, which may decline over time, and the related borrower's ability to refinance the property, of which there is no assurance. Mortgage loans underlying CMBS generally are nonrecourse loans. This means that, in the event of a default, recourse will be limited to the related real property or properties securing the defaulted mortgage loan. In the event that the income generated by a real property was to decline as a result of the poor economic performance of that real property with the result that the real property is not able to support debt service payments on the related mortgage loan, neither the related borrower nor any other person would be obligated to remedy the situation by making payments out of their own funds. In such a situation, the borrower could choose instead to surrender the related mortgaged property to the lender or let it be foreclosed upon.

Full and timely payment on each mortgage loan underlying the CMBS will depend on one or more of the following factors: the sufficiency of the net operating income of the applicable real property; the market value of the applicable real property at or prior to maturity; and the ability of the related borrower to refinance or sell the applicable real property. In general, the value of a multifamily or commercial property will depend on its ability to generate net operating income. The ability of an owner to finance a multifamily or commercial property will depend, in large part, on the property's value and ability to generate net operating income.

The following factors, among others, will affect the ability of a multifamily or commercial property to generate net operating income and, accordingly, its value: the location, age, functionality, design and construction quality of the subject property; perceptions regarding the safety, convenience and attractiveness of the property; the characteristics of the neighborhood where the property is located; the degree to which the subject property competes with other properties in the area; the proximity and attractiveness of competing properties; the existence and construction of competing properties; the adequacy of the property's management and maintenance; tenant mix and concentration; national, regional or local economic conditions, including plant closings, industry slowdowns and unemployment rates; local real estate conditions, including an increase in or oversupply of comparable commercial or residential space; demographic factors; customer confidence, tastes and preferences; retroactive changes in building codes and other applicable laws; changes in governmental rules, regulations and fiscal policies, including environmental legislation; and vulnerability to litigation by tenants and patrons.

Particular factors that may adversely affect the ability of a multifamily or commercial property to generate net operating income include the following: an increase in interest rates, real estate taxes and other operating expenses; an increase in the capital expenditures needed to maintain the property or make improvements; a decline in the financial condition of a major tenant and, in particular, a sole tenant or anchor tenant; an increase in vacancy rates; a decline in rental rates as leases are renewed or replaced; natural disasters and civil disturbances such as earthquakes, hurricanes, floods, eruptions, terrorist attacks or riots; and environmental contamination.

The volatility of net operating income generated by a multifamily or commercial property over time will be influenced by many of the foregoing factors, as well as by the following: the length of tenant leases; the creditworthiness of tenants; the rental rates at which leases are renewed or replaced; the percentage of total property expenses in relation to revenue; the ratio of fixed operating expenses to those that vary with revenues; and the level of capital expenditures required to maintain the property and to maintain or replace tenants.

The effects of any of the factors described above occurring individually or in the aggregate with respect to CMBS may adversely affect the performance and value of the CMBS.

#### *Development and Redevelopment Risks*

Raith may invest in loans with respect to properties that require development and/or redevelopment. Development and redevelopment properties involve additional risks as compared to properties on which development has been completed. Development and redevelopment properties may not generate operating revenue while costs and expenses are incurred between the acquisition of a project and the realization of the project's objectives, including, but not limited to, property taxes and insurance.

Because of this, a project may, as a result of changes in the real estate market, economic and/or other conditions prior to completing the project, become an economically unattractive investment. In addition, there are risks that development projects may be abandoned after significant resources have been expended, construction may not be completed within budget or on schedule because of cost overruns, work stoppages, shortages of building materials, the failure of contractors or subcontractors to perform their obligations under construction contracts, defects in plans and specifications and/or other factors. Development and redevelopment activities are also subject to risks relating to the inability to obtain, or delays in obtaining, necessary entitlements, zoning, land-use, building, occupancy and other required governmental permits and authorizations. Any delay in completing the development or redevelopment of a project may result in increased interest and construction costs and the potential loss of previously identified purchasers or tenants. Any of these risks may cause losses to the Client.

#### *Property Taxes and Risk of Property Reassessments*

Real property that secures (directly or indirectly) an investment will likely be subject to real property taxes and, in some instances, personal property taxes. Such real and personal property taxes may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. An increase in property taxes on the real property could adversely affect the investment's results and could decrease the value of that real property. And an increase in property taxes on real property that secures an investment could adversely affect the ability of the borrower to make payments to the mortgage holder, which in turn may also adversely affect the value of the relevant asset.

#### *Reliance on Property Management*

Property management may affect property operations and value which secure the mortgage loans. The operation of an income producing property will depend upon the property manager's performance and viability. The property manager generally is responsible for: responding to changes in the local market; planning and implementing the rental structure, including staggering durations of leases and establishing levels of rent payments; operating the property and providing building services; managing operating expenses; and ensuring that maintenance and capital improvements are carried out in a timely fashion. Successful property management and operation of the related business (including property management decisions such as pricing, maintenance and capital improvements) will have a significant impact on performance of commercial mortgage loans. Issues such as tenant mix, success of tenant business, property location and condition, competition, taxes and other operational expenses, general economic conditions, governmental rules, regulations and fiscal policies, environmental issues and insurance coverage are among the factors that may impact both performance and market value.

#### *Vacancy and Tenant Default*

Some or all of the underlying real properties that secure the mortgage loans or CMBS may incur vacancies either by a default of tenants under their leases or the expiration or termination of tenant leases. If vacancies continue for a long period of time, a property may suffer reduced revenues resulting in less cash distributions to be distributed to investors. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.



The successful performance of some underlying real estate investments is materially dependent on the financial stability of its tenants. Lease payment defaults by tenants would cause the loss of revenue associated with such leases. If the property is subject to a mortgage, a default by a significant tenant on its lease payments to us may result in a foreclosure on the property if the owner is unable to find an alternative source of revenue to meet mortgage payments. In the event of a tenant default, there may be delays in enforcing landlord rights and an owner may incur substantial costs in protecting an investment and re-leasing a property. Further, an owner cannot assure that it will be able to re-lease the property for the rent previously received, if at all, or that lease terminations will not cause the property to be sold at a loss.

Dependence on a single tenant or a small number of tenants makes a property and related loans riskier as an investment. In those cases where an income-producing property is leased to a single tenant or is primarily leased to one or a small number of major tenants, a deterioration in the financial condition or a change in the plan of operations of any of those tenants can have particularly significant effects on the ability of the owner to meet mortgage obligations. If any of those tenants defaults under or fails to renew its lease, the resulting adverse financial effect on the operation of the property will be substantially more severe than would be the case with respect to a property occupied by a large number of less significant tenants. An income-producing property operated for retail, office or industrial purposes also may be adversely affected by a decline in a particular business or industry if a concentration of tenants at the property is engaged in that business or industry.

The success of an income-producing property depends on reletting vacant spaces. The operations at an income-producing property will be adversely affected if the owner or property manager is unable to renew leases or relet space on comparable terms when existing leases expire and/or become defaulted. Even if vacated space is successfully relet, the costs associated with reletting, including tenant improvements and leasing commissions in the case of income-producing properties operated for retail, office or industrial purposes, can be substantial, could exceed any reserves maintained for that purpose and could reduce cash flow from the income-producing properties. Moreover, if a tenant at an income-producing property defaults in its lease obligations, the landlord may incur substantial costs and experience significant delays associated with enforcing its rights and protecting its investment, including costs incurred in renovating and reletting the property. If an income-producing property has multiple tenants, re-leasing expenditures may be more frequent than in the case of a property with fewer tenants, thereby reducing the cash flow generated by the multi-tenanted property. Multi-tenanted properties may also experience higher continuing vacancy rates and greater volatility in rental income and expenses.

### *Competition*

Competition will adversely affect the profitability and value of an income-producing property and could impact the mortgage thereon. Some income-producing properties are located in highly competitive areas. Comparable income-producing properties located in the same area compete on the basis of a number of factors including: rental rates; location; type of business or services and amenities offered; and nature and condition of the particular property.

The profitability and value of an income-producing property may be adversely affected by a comparable property that: offers lower rents; has lower operating costs; offers a more favorable location; or offers

better facilities. Costs of renovating, refurbishing or expanding an income-producing property in order to remain competitive can be substantial.

### *Capital Improvements*

Maintaining a property in good condition is expensive. The owner may be required to expend a substantial amount to maintain, renovate or refurbish a commercial or multifamily property. Failure to do so may materially impair the property's ability to generate cash flow and meet its mortgage obligations. The effects of poor construction quality will increase over time in the form of increased maintenance and capital improvements. Even superior construction will deteriorate over time if management does not schedule and perform adequate maintenance in a timely fashion. There can be no assurance that an income-producing property will generate sufficient cash flow to cover the increased costs of maintenance and capital improvements in addition to paying debt service on the mortgage loan(s) that may encumber that property.

### *Bankruptcy Proceedings May Result in Losses and Delays in Realizing on the Mortgage Loans*

Numerous statutory provisions, including federal bankruptcy law and state laws affording relief to debtors, may interfere with and delay the ability of a secured mortgage lender to obtain payment of a loan, to realize upon collateral and/or to enforce a deficiency judgment. For example, under federal bankruptcy law, virtually all actions (including foreclosure actions and deficiency judgment proceedings) are automatically stayed upon the filing of a bankruptcy petition, and, often, no interest or principal payments are made during the course of the bankruptcy proceeding. The delay and consequences thereof caused by the automatic stay can be significant. Also, under federal bankruptcy law, the filing of a petition in bankruptcy by or on behalf of a junior lien holder may stay the senior lender from taking action to foreclose out such junior lien. Certain mortgage loans may have borrower sponsors that have previously filed bankruptcy. Such sponsors may be more likely than other sponsors to utilize their rights in bankruptcy in the event of any threatened action by the mortgagee to enforce its rights under the related mortgage loan documents. As a result, the recovery with respect to borrowers in bankruptcy proceedings may be significantly delayed, and the aggregate amount ultimately collected may be substantially less than the amount owed.

### *Litigation Regarding the Mortgaged Properties or Borrowers*

There may be pending or threatened legal proceedings against the borrowers and the managers of the mortgaged properties and their respective affiliates arising out of their ordinary business. Any such litigation may materially impair distributions to certificateholders if borrowers use property income to pay judgments or litigation costs. Any litigation or any settlement of any litigation may have a material adverse effect on your investment. In addition, in the event the owner of a borrower experiences financial problems, such owner may attempt to take actions with respect to the mortgaged property that may adversely affect the borrower's ability to fulfill its obligations under the related mortgage loan.

### *Availability of Casualty and Other Insurance*

Although mortgaged properties are generally required to be insured, or self-insured by a sole tenant of a related building or group of buildings, against certain risks, there is a possibility of casualty loss with

respect to the mortgaged properties for which insurance proceeds may not be adequate or which may result from risks not covered by insurance.

In addition, hazard insurance policies will typically contain co-insurance clauses that in effect require an insured at all times to carry insurance of a specified percentage, generally 80% to 90%, of the full replacement value of the improvements on the related mortgaged property in order to recover the full amount of any partial loss. As a result, even if insurance coverage is maintained, if the insured's coverage falls below this specified percentage, those clauses generally provide that the insurer's liability in the event of partial loss does not exceed the lesser of (1) the replacement cost of the improvements less physical depreciation and (2) that proportion of the loss as the amount of insurance carried bears to the specified percentage of the full replacement cost of those improvements.

Borrowers may not always be able to comply with requirements to maintain adequate insurance with respect to the mortgaged properties, and any uninsured loss could have a material adverse impact on the amount available to make payments on the related mortgage loan. As with all real estate, if reconstruction (for example, following fire or other casualty) or any major repair or improvement is required to the damaged property, changes in laws and governmental regulations may be applicable and may materially affect the cost to, or ability of, the borrowers to effect such reconstruction, major repair or improvement. As a result, the amount realized with respect to the mortgaged properties, and the amount available to make payments on the related mortgage loan, and consequently, the certificates could be reduced. In addition, the amount of insurance required or provided may be insufficient to cover damages caused by any casualty, and such insurance may not be available in the future at commercially reasonable rates.

#### *Risks of the Real Estate Market*

In recent years, the real estate and securitization markets, including the market for CMBS, as well as global financial markets and the economy generally, have experienced significant dislocations, illiquidity and volatility. While the United States economy may technically be coming out of the recession, any recovery could be fragile and may not be sustainable for any specific period of time, and the United States economy could slip into an even more significant recession. Declining real estate values, coupled with diminished availability of leverage and/or refinancings for commercial and multifamily real estate have resulted in increased delinquencies and defaults on commercial and multifamily mortgage loans. In addition, the downturn in the general economy has affected the financial strength of many commercial and multifamily real estate tenants and has resulted in decreased occupancy, decreased rents and/or other declines in income from, or the value of, commercial and multifamily real estate. Any continued downturn may lead to decreased occupancy, decreased rents or other declines in income from, or the value of, commercial and multifamily real estate, which would likely have an adverse effect on CMBS that are backed by loans secured by such commercial and multifamily real estate and thus affect the values of such CMBS.

Additionally, the lack of credit liquidity, correspondingly higher mortgage rates and decreases in the value of commercial and multifamily properties have prevented many commercial mortgage borrowers from refinancing their mortgages and may adversely affect the ability of a borrower to continue to perform its loan obligations. Defaults, delinquencies and losses have further decreased property values, thereby resulting in additional defaults by commercial mortgage borrowers, further credit constraints,

further declines in property values and further adverse effects on the perception of the value of CMBS. A substantial number of United States mortgage loans backed by commercial and multifamily properties, many with balloon payment obligations in excess of their respective current property values, will mature in the future. This may make the circumstances described above especially severe. As a result of all of these factors, weakness, illiquidity, volatility and other dislocations in the CMBS market may re-occur or become more severe.

**The accounts and private investment funds advised by Raith may have broad and flexible investment authority. Raith may have other investment strategies or methods of analysis, or engage in other activities, than those described herein. The foregoing list of risk factors is not an exhaustive explanation of the risks involved in an investment in an account or private investment fund advised by Raith. It is critical that investors refer to the relevant Governing Documents for a more complete understanding of the investment objectives and strategies. The information contained in this Item 8 is a summary only and is qualified in its entirety by the relevant Fund's Governing Documents.**

**An investment in an account or private investment fund advised by Raith may be deemed speculative and is not intended as a complete investment program. There can be no assurance that the investment objective will be achieved. The accounts and private investments funds are designed only for experienced and sophisticated persons who are able to bear the risk of substantial impairment or total loss of their investment.**

## **Item 9**

### **Disciplinary Information**

There have been no legal or disciplinary events involving either Raith or any of its management persons that require disclosure in response to this Item 9.

## **Item 10**

### **Other Financial Industry Activities and Affiliations**

Raith acts as an investment adviser to the Account, a separate account that is jointly managed with an unaffiliated investment adviser – see Item 4 for more detail.

In the future, Raith may sponsor one or more private investment funds. In connection with those funds, Raith currently expects to form one or more affiliates to serve as general partner of each such fund.

Raith does not recommend or select other investment advisers for Clients.

Raith may also seek to engage in a variety of other businesses including but not limited to: the acquisition of whole loans (both performing and non-performing loans), and the servicing/asset management of loans, including acting as an advisor or operating partner to companies that own or are involved with the servicing/asset management of loans on a third-party basis.

Raith may, from time to time, act as the Controlling Class Representative (“**CCR**”) with respect to certain loans or securities held by a Client. Generally, acting as the CCR provides Raith with the ability to direct the servicer to take certain actions with respect to distressed or defaulted loans. Raith believes that serving as the CCR of such loans or securities permits Raith to have greater control over the loan assets and is beneficial to Raith’s Clients. Raith does not receive any additional compensation for serving as the CCR.

Other than as set forth above, Raith and its management persons have no other relationships or arrangements with any related persons that are material to Raith’s advisory business or their current Clients.

## Item 11

### **Code of Ethics, Participation or Interests in Client Transactions and Personal Trading**

Raith has adopted a Code of Ethics (the “**Code**”), which describes its fiduciary duties and responsibilities to its Clients, requires that its employees act in the best interests of Clients to the exclusion of contrary interests, act in good faith and in an ethical manner, avoid conflicts of interest with Clients to the extent reasonably possible, and identify and manage conflicts of interest to the extent that they arise. Raith’s employees are also required to comply with applicable provisions of the federal securities laws and make prompt reports to Raith or other appropriate party of any actual or suspected violations of such laws by Raith or its employees. In addition, the Code sets forth formal policies and procedures with respect to the personal securities trading activities of Raith employees deemed to be “access persons”. The Code requires access persons to receive written authorization from the Chief Compliance Officer prior to engaging in personal trading involving securities that create potential conflicts of interest. The Code also includes policies and procedures to prevent the misuse and disclosure of confidential information and material, nonpublic information in violation of the federal securities laws (e.g., “insider trading”) by all employees. Further, the Code includes policies to mitigate conflicts of interest among access persons, by requiring reporting and pre-clearance for certain outside activities, gifts and entertainment, and political contributions. Raith will provide a complete copy of its Code to any Client or investor upon request.

Neither Raith nor any related person recommends to Clients, or buys or sells for Client accounts, securities in which Raith or any related person has a material financial interest, other than with the approval of the Chief Compliance Officer and in accordance with applicable law.

Generally, neither Raith nor any related person invests in the same securities that Raith or any related person recommends to Clients. However, Raith and its related persons may, from time to time, co-invest in the same securities at the same time as, and on terms that are no less favorable than the terms of, a Client’s investment. All investments by Raith and its related persons in securities held by or recommended to Clients require the prior authorization of the Chief Compliance Officer.

Raith may charge a Client fees based on a percentage of assets under management and/or receive fees or allocations based on performance. The management fee will generally be payable without regard to the overall success or income earned by the Client and therefore may create an incentive on the part of Raith to raise or otherwise increase assets under management to a higher level than would be the case if Raith were receiving a lower or no management fee. The receipt of performance-based fees or allocations by Raith or its affiliates may create an incentive for Raith to make investments for Client’s accounts that are riskier or more speculative than it otherwise would.

Furthermore, Raith and its affiliates are not restricted from forming additional accounts or investment funds, from entering into other investment advisory relationships, or from engaging in other business activities, even though such activities may be in competition with the existing Client accounts and/or may involve substantial time and resources of Raith. These activities could be viewed as creating a conflict of interest in that the time and effort of the members of Raith and its affiliates are not devoted exclusively to the business of the existing Clients, but are allocated between the business of the existing Clients and the management of the monies of future funds and accounts managed by Raith. Raith uses its best judgment to be fair and equitable to all Clients to minimize this conflict of interest.

## **Item 12**

### **Brokerage Practices**

Due to the nature of Raith's investment strategies, Raith does not generally utilize broker-dealers for transactions as contemplated by this Item 12. If, in the future, Raith uses broker-dealers for transactions, such broker-dealers will be selected by Raith on the basis of best execution, which Raith expects to determine based on a variety of factors, including the ability to achieve prompt and reliable executions at favorable prices; the operational efficiency with which transactions are effected; the financial strength, integrity and stability of the broker; the quality, comprehensiveness and frequency of available research and related services considered to be of value; and the competitiveness of commission rates or spreads in comparison with other brokers satisfying Raith's other selection criteria. While Raith generally will seek reasonably competitive commission rates or spreads, Clients will not necessarily pay the lowest commission or spread available.

Raith receives access to research products from various broker-dealers that are consistent with the business that Raith conducts with these various firms. However, Raith does not believe that these benefits create conflicts of interest because Raith does not utilize broker-dealers as a service provider on transactions in the manner contemplated by this Item 12.

Because Raith currently only has one Client account, Raith currently does not aggregate the purchase or sale of securities for multiple Client accounts.



## **Item 13**

### **Review of Accounts**

Raith's Managing Partners review Client portfolios on a quarterly basis.

During these quarterly meetings each investment held by the Client is reviewed and discussed. A more frequent review is initiated on any investment that is deviating from its expected performance. Senior management also reviews the Client's assets informally on a continual basis. In addition, on an annual basis, Raith updates written business plans for each investment. Additionally, Raith's Investment Committee thoroughly reviews all investments prior to acquisition.

Further, the Chief Compliance Officer periodically reviews each Client account's investments to ensure consistency with applicable law and regulations and with stated investment guidelines and objectives in the Client's Governing Documents.

Raith does not utilize any specific criteria to trigger a review of Client investments at this time.

Within 90 days after the end of each fiscal year, Raith prepares materials with respect to the investments held by Client accounts, prepared or reported on by the Client's accountants, which include, in the case of Clients that are private funds, as of the end of and for such fiscal year: financial statements prepared in accordance with generally accepted accounting principles, including a balance sheet, income and expense statement, statement of equity, and statement of cash flows.

Representatives of Raith may be made available for discussions with investors on a periodic or agreed upon basis.

## **Item 14**

### **Client Referrals and Other Compensation**

No economic benefit is provided to Raith for providing investment advice or other advisory services to Clients other than the management and incentive fees paid by Clients.

Neither Raith nor any related person directly or indirectly compensates any person who is not a supervised person for Client referrals. Raith may use an unaffiliated third party for investor referrals. All third-party solicitors will be properly registered or exempt from applicable registrations.

## **Item 15**

### **Custody**

Raith does not maintain physical custody of the Account's assets; rather, a qualified custodian acts as the custodian on behalf of Raith and the Account and all physical certificates, securities and cash balances are held directly by one or more qualified custodians.

All Client assets will be held by one or more qualified custodians that may be selected by the Client in certain circumstances.

Any Client that is a private fund will receive an annual audit prepared by an independent auditor in accordance with generally accepted accounting principles, and Raith will arrange for delivery of the private fund's audited financial statements to investors within at least 120 days of such fund's fiscal year end, or such sooner time as provided in the fund's applicable Governing Documents.

## **Item 16**

### **Investment Discretion**

In the case of the Account, Raith is responsible for continuous oversight over the investments and makes recommendations to the joint investment committee of Raith and an unaffiliated investment adviser regarding new investments or disposition of current investments. However, Raith has no discretionary authority over the deployment of capital into any investment without the explicit authority of the unaffiliated investment adviser as described more fully in the Governing Documents of the Account. Raith is responsible for the ongoing surveillance of the Account's portfolio.

In the future, Raith may have or obtain Client relationships with respect to which it has discretionary authority over the allocation of capital into and disposition of specific investments.

## **Item 17**

### **Voting Client Securities**

Raith's investment strategy generally does not involve the acquisition of public securities with voting authority. If Raith were to vote a public proxy, it would do so in the best interests of its Client(s) as determined on a case-by-case basis.

Raith has adopted policies with respect to the granting or withholding of consents, amendments or waivers under participation agreements or indentures relating to any CMBS securities or mortgage loans held for Client accounts. To the extent Raith acts as the CCR with respect to securities that are acquired on behalf of a Client, Raith will exercise such rights in the best interest of its Client(s) in accordance with its policies.

Raith will provide a complete copy of its proxy voting policy to any Client or investor upon request. Clients or investors may also request information regarding how any prior proxy or consent solicitation was actually voted for their account or investment fund.

## **Item 18**

### **Financial Information**

Raith is not required to include a balance sheet for its most recent fiscal year, does not believe there are any financial conditions reasonably likely to impair its ability to meet contractual commitments to Clients and has not been the subject of a bankruptcy petition at any time during the past ten years.