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This brochure provides information about the qualifications and business practices of JMP Credit Advisors LLC. If you have any questions about the contents of this brochure, please contact us at the telephone number and/or e-mail address above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any state securities authority.

JMP Credit Advisors LLC has applied to be a registered investment advisor. Registration of an investment advisor does not imply any level of skill or training.

Additional information about JMP Credit Advisors LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

We have included in this brochure references to products such as private investment funds solely for the purpose of describing our advisory business. This brochure is not intended as an offer of any of these products, which are privately offered only to qualified investors.

## **ITEM 2: MATERIAL CHANGES**

This is the first version of the Brochure for JMP Credit Advisors LLC. Accordingly, there are no prior versions of the Brochure and no material changes to be noted.

In the future, this section will discuss specific material changes that have been made to the Brochure since the last annual update and provide clients with a summary of those changes.

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#### ITEM 4: ADVISORY BUSINESS

JMP Credit Advisors LLC (“JMPCA” or “we”) began operations in Alpharetta, Georgia in May 2006. We are wholly owned by JMP Capital LLC, which is in turn wholly owned by JMP Group LLC, which is wholly owned by JMP Group Inc. (NYSE: JMP), a public reporting company (“JMP Group”).

JMPCA provides discretionary investment advisory services directly or indirectly to collateralized loan obligation vehicles (“CLOs”). Through an affiliate (Cratos CDO Management, LLC), we currently provide discretionary investment advisory services to a single CLO that invests primarily in senior-secured, first lien loans to mostly U.S.-based companies (the “2007 CLO”). While we are responsible for, and have broad discretion in, purchasing and selling collateral obligations on behalf of the 2007 CLO, in managing the 2007 CLO, we are subject to the terms and investment restrictions of an indenture (the “Indenture”) that limits the types of securities or other instruments in which the CLO may invest and provides concentration limits by individual obligor, industry, country, and class. The investors in the 2007 CLO do not have the right to specify, restrict or influence the CLO’s investment objectives or any investment or trading decisions.

We are currently in the process of forming a new CLO (the “2013 CLO”) that we expect will invest in a diversified portfolio of primarily floating rate, USD-denominated senior-secured, first lien corporate loans. We also may sponsor and manage additional CLOs in the future. In this Brochure, we may refer collectively to the 2007 CLO, the 2013 CLO and any other CLOs that we manage in the future, as “our CLOs” or our “Clients.”

In managing our CLOs, our investment philosophy is to balance risk and return trade-offs in such a way that we protect the security of the CLO note holders while maximizing the returns to the CLO equity owners. We seek to do this by investing in what we believe to be high-quality loans with attractive yields.

In managing our 2007 CLO, we acquire the loans on the secondary market or through allocations in primary issuances. We undertake what we believe is a rigorous underwriting process to ensure that each investment has the appropriate credit fundamentals and fits well into the CLO’s investment criteria. We seek investments in companies that have established and defensible business models, experienced and proven management teams and strong cash flows. We look for borrowers that have the size and wherewithal to withstand economic downturns and have diversified customer and supplier bases. The investment should have adequate capitalization and enterprise value relative to leverage, an appropriate structure and viable exit strategy. We also like to see involvement by a reputable private equity sponsor and/or a history of access to capital markets.

We generally review potential investments for a number of factors including but not limited to credit quality, leverage, liquidity, industry position, key operating and credit ratios to peer group, pricing, structure, relative value, ratings, and indenture specific requirements. Our investment underwriting includes a review of due diligence materials such as quality of earnings, valuations, business models, covenants, asset coverage, rating agency analysis, industry trends and legal due diligence. Trend cards and credit files are presented to Investment Committee for review and approval. Our investment managers meet bi-weekly to discuss deal performance, industry trends, and potential investments.

As of February 28, 2013, the net asset of our 2007 CLO (principal proceeds and loans outstanding) was approximately \$472.5 million (managed on a discretionary basis). We do not provide services on a non-discretionary basis.

We do not participate in any wrap fee programs.

## ITEM 5: FEES AND COMPENSATION

Our 2007 CLO pays us management fees on assets under management of 0.20% per annum as a senior management fee and 0.30% per annum as a subordinated management fee. These management fees are payable on each quarterly payment date to the extent that sufficient interest or principal proceeds are available in accordance with the priority of payments, and if the subordinated management fee is not paid for any reason, other than a waiver by us, such fees will be deferred and will accrue interest at LIBOR from such payment date, compounded quarterly. The trustee of our 2007 CLO (the “Trustee”) calculates and remits payment of the management fees on each quarterly payment date from the waterfall proceeds pursuant to the terms of the Indenture.

We do not receive incentive-based compensation for managing our 2007 CLO, but we could receive incentive-based compensation for managing future CLOs. If and to the extent we receive incentive-based compensation from any Client in the future we will update this Brochure accordingly. Such compensation could create an incentive for us to manage our Clients’ investments in a manner that could increase the risk of loss (insofar as we would be incentivized to seek investments that maximize yield at the expense of higher creditworthiness).

We generally pay all ordinary expenses and costs incurred by us in the course of performing our obligations under the investment management agreement with our 2007 CLO (the “Management Agreement”) and/or the Indenture, *except* that we are not liable for, and our 2007 CLO is responsible for the payment of, all extraordinary expenses and costs incurred by us in performing our obligations, as well as all expenses and costs of legal advisers, independent accountants and consultants. These expenses generally include, among other things:

- Investment transaction costs, including assignment fees;
- Custodial, agreed-upon-procedures audits, tax preparation and legal fees;
- Expenses for investment research, appraisals and pricing of the portfolio;
- Governmental fees and taxes;
- Travel and travel-related expenses incurred in connection with investment activities; and
- All other reasonable expenses related to the management and operation of the CLO or the purchase and sale of assets, all as we determine in our sole discretion.

We may advance costs described above for our 2007 CLO, and the Trustee, on behalf of our 2007 CLO, will reimburse us on each payment date. We provide office personnel and space required for the performance of our services for the 2007 CLO. The 2007 CLO does not reimburse us for doing so (except to the extent of our fees as applicable). All proceeds from loan sales or amendment fees are deposited directly into the 2007 CLO’s bank accounts maintained by the Trustee. We do not receive any of these proceeds or fees related thereto.

The Trustee provides custodial services, processes transactions, reports performance information to investors and calculates covenant compliance, among other things. The Trustee assists in the calculation of returns and processing payments to 2007 CLO’s note holders, itself and us, as well as assisting in the payment of fees and expenses to third parties performing services for the 2007 CLO. The Trustee is paid a fee based on assets under management of 0.035% per annum, calculated on the basis of a 360-day year, and this fee is considered a senior expense in the priority of payments of the 2007 CLO.

Our Management Agreement terminates upon the earlier to occur of: (1) payment in full of the notes and termination of the indenture; and (2) the liquidation of the assets and the final distribution of the proceeds.

We may resign as manager of our 2007 CLO upon 90 days' written notice if a successor manager has agreed to assume our duties as manager of the CLO. We can also be removed for "cause," which includes willful violations and occurrence of an "Event of Default" or a "Key Manager Event" (each as defined under the Indenture and/or the Management Agreement).

If our Management Agreement is terminated, management fees will be prorated for any partial periods between payment dates and will be due and payable on the first payment date following the date of termination. As all fees to us are payable in arrears, upon termination there is no refund of fees previously paid.

#### Other Compensation and Potential Conflicts of Interest

Our affiliates, including our parent company, JMP Group, and its broker-dealer affiliates, may provide investment banking and financial consulting services to companies in which our Clients may be invested, and those affiliates may receive fees from those companies for those services. Our affiliates may also receive underwriting discounts, fees or commissions relating to their services rendered in public or private offerings in which our affiliates act as underwriters, dealers or placement agents or in similar capacities.

JMP Group or its affiliates may also make a market in, or provide research on, Client portfolio companies. JMP Group's trading and research activities generally will be carried out without regard for our Clients' positions. However, such activities may have an effect on the value of those positions, and at times, JMP Group's trading and brokerage activities could give JMP Group an interest adverse to those of our Clients. In addition, JMP Group's research on a security issued by a Client portfolio company may adversely affect the value of that security.

We (or our affiliates or employees) currently own 100% of the subordinated notes in our 2007 CLO, and we expect that we (or our affiliates or employees) will hold a significant portion of the subordinated notes in future CLOs. Although we (or our affiliates or employees) may at times be holders of notes issued by our CLOs, investors in our CLOs should be aware that our interests and incentives may not necessarily be aligned with those of other note holders.

We generally disclose the potential conflicts of interest described above to investors in our CLOs, and we also maintain policies and practices that we believe limit material adverse consequences to investors that may arise from these potential conflicts of interest.

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

Neither we nor any of our supervised persons currently receive performance-based compensation related to the management of our Client's portfolios.

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

Our 2007 CLO is a privately-offered investment fund that is not regulated under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act") because of 3(c)(7) of that Act. CLO investors must be "Qualified Institutional Buyers" as defined under Rule 144A of the Securities Act of 1933, as amended (the "Securities Act") and "Qualified Purchasers" or "Knowledgeable Employees" as defined under the Investment Company Act and the rules and regulations promulgated thereunder, or not be "U.S. persons" within the meaning of Regulation S under the Securities Act.

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

In managing our CLOs, our investment philosophy is to balance risk and return trade-offs in such a way that the security of the CLO note holders is protected while maximizing the returns to the CLO equity owners. We seek to effect these goals by investing in high-quality loans with attractive yields. We purchase securities with the idea of holding them for the long term. We invest only in companies that we believe have established and defensible business models, experienced and proven management teams and strong cash flows. We look for borrowers that have the size and wherewithal to withstand economic downturns and have diversified customer and supplier base.

We undertake what we believe is a rigorous underwriting process to ensure that each investment has the appropriate credit fundamentals and fits well into our portfolio. Our investment managers are industry specialists. The portfolio is analyzed by industry and compared against its peers. Our research process begins by examining a wide variety of publicly available information, including annual reports, public filings, proxies and press announcements. Our research includes speaking with the research analysts at various investment banks and JMP Group, as well as utilizing a variety of market data and research services such as Capital IQ, LCD News, Rating Agency reports and Thompson-Reuters. Our investment teams also leverage their own expertise and experience as part of this analytical process.

Our 2007 CLO is governed by an Indenture which has rules and covenants established to protect the CLO's investors. These rules or covenants are designed, among other things, to ensure adequate overcollateralization, diversification across industry and obligor, granularity and minimum current yields. If there were a breach in any of the covenants, our ability (as the CLO's manager) to cause the CLO to invest in new loans could be restricted. In certain instances, such as a breach in overcollateralization ratios, management fees owed to us may be deferred until the breach is cured. In managing the CLO, we seek to maintain compliance with the Indenture at all times.

The following is a summary of some of the material risks associated with our investment strategies. As a summary, it is inherently incomplete and does not attempt to describe all of the risks associated with those strategies.

**Risk of Loss.** Investing in securities involves a risk of loss that investors in our CLOs should understand and be prepared to bear.

**Reliance on Key Personnel.** Our Clients depend on our expertise and the expertise of our key personnel. The performance of our Clients' portfolio depends heavily on the financial and managerial experience of certain investment professionals associated with us, none of whom is under any contractual obligation to continue to be associated with us for any length of time. The loss of one or more of these individuals could have a material adverse effect on our Clients.

**General Economic Conditions.** The success of our investment strategies may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, developments in governmental regulation and national and international political circumstances. These factors may affect the success of the businesses in which our portfolio companies are engaged, as well as the markets for securities in those portfolio companies. Unexpected volatility or illiquidity could result in increased loan defaults and delinquencies, and affect the ability of the issuer to make payments on the notes.

**Investments in Illiquid Securities.** Our Clients may invest a portion of their assets in securities for which there is no ready market. They may also invest in securities that are relatively illiquid or were relatively liquid when acquired but then became illiquid after purchased. Our Clients may not be able to liquidate

illiquid securities if the need were to arise. Rapid sales of such securities could depress the market value, reduce profits or increase losses in the portfolio.

Concentration of Investments. Our Clients may at times have a relatively large portion of their capital exposed to a particular industry or market sector. Losses in one or more large positions, or a downturn in an industry or market sector in which a Client portfolio is concentrated, could adversely affect the Client in a particular period and could have a materially adverse effect on the Client's overall financial condition.

Non-U.S. Investments. Our Clients may invest in securities of non-U.S. companies. Non-U.S. investing could subject our funds to certain risks not typically associated with investing in securities in the United States. Some non-U.S. economies are less stable than the U.S. economy, due to, among other things, volatile political environments, less stable monetary systems and/or external political risks.

Regulatory Developments. Recent changes in legislation, together with uncertainty about the nature and timing of regulations that will be promulgated to implement such legislation, may create uncertainty in the credit and other financial markets and create other unknown risks. The United States Congress passed the "Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010", which makes sweeping changes to the regulatory scheme for the financial markets in the United States, and various governmental agencies in the United States have proposed, and will propose in the near future, additional regulations relating to financial markets and financial instruments. There can be no assurance that such changes in law and regulation will not have a material adverse effect on our Clients (or their investors).

Note Liquidity. The notes issued by our CLOs have limited liquidity, and are subject to transfer restrictions. There is a limited market for the notes and no assurance exists that any secondary market will be available. An investor in the notes must be prepared to hold such investment for an indefinite time period or until their stated maturity. In addition, recent European risk retention rules may impact the liquidity of the notes.

Limited Recourse. The notes issued by our CLOs are limited recourse obligations of the CLO. CLO investors must rely on available collections from the loans and will have no other source for payment. If distributions on the loans are insufficient to make payments on the notes, no other assets will be available for payments of the deficiency and all obligations of the CLO and any claims against the CLO in respect of the notes will be extinguished and will not revive.

Note Subordination. The subordination of the notes issued by our CLOs will affect their right to payment. The notes are subordinated to certain amounts payable by the CLO to other parties as set forth in the priority of payments, including taxes, administrative expenses and certain management fees, and to other note classes.

Interest Rate Risk. The notes issued by our CLOs may be affected by interest rate risks, including mismatches between the notes and the loans. Interest rate risk will be inherent because of, among other things, a difference between the interest rate basis of the rated notes and of floating/fixed rate assets purchased by the CLO, and changing levels of LIBOR or other indexes in relation to the floating rate notes and floating rate assets. Our 2007 CLO does not enter into hedge agreements to minimize such risk, and no assurance exists that the assets will generate sufficient funds to pay interest on the notes and make payments to the equity.

Risks Relating to Loans. Our CLOs are subject to the market price fluctuations in the loans that we cause them to buy and sell based on economic conditions. In addition, increased competition for, or a



diminution in the available supply of, qualifying obligors may result in lower yields on loans, which could reduce returns on the notes. The securities are not insured and may go down in value.

Collateral loans are generally prepayable at the option of the obligor. There exists a risk that loans purchased at a price greater than par may experience a capital loss as a result of prepayment, and principal proceeds received upon such prepayment are subject to reinvestment risk. We may not be able to invest available funds in appropriate loans to satisfy the investment criteria.

Non-investment-grade collateral involves particular risks. Such collateral is subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks. Our 2007 CLO's assets consist primarily of non-investment grade loans, which generally have greater credit, insolvency and liquidity risk than investment-grade assets.

Loans acquired through participation provide additional risks, including insolvency risk of the participating institution, and our inability to exercise voting rights in respect of a loan.

A substantial portion of the collateral loans in our 2007 CLO's portfolio consists of "covenant-lite" loans which do not have maintenance covenants. This exposes the CLO to different risks, including with respect to liquidity, price volatility and ability to restructure loans, than is the case with loans with maintenance covenants.

## **ITEM 9: DISCIPLINARY INFORMATION**

We have not been involved in any legal or disciplinary events since our inception that would be material to a Client's or prospective client's evaluation of our advisory business or the integrity of our management.

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

We are an indirect, wholly owned subsidiary of JMP Group. JMP Securities LLC ("JMP Securities"), a registered broker/dealer, Harvest Capital Strategies, LLC a registered investment advisor, and HCAP Advisors LLC, a registered investment advisor, are also indirect, wholly owned subsidiaries of JMP Group.

Our relationship with JMP Group, JMP Securities, Harvest Capital Strategies, LLC and HCAP Advisors LLC may create certain conflicts of interest, including those described above under "Item 5: Fees and Compensation – Other Compensation and Potential Conflicts of Interest."

We generally disclose the potential conflicts of interest described above to investors in our CLOs. We also maintain policies and practices that we believe limit material adverse consequences to investors in our CLOs which may arise from these conflicts of interest.

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

### Code of Ethics

JMPCA's Code of Ethics (the "Code of Ethics") is designed to meet the requirement of Rule 204A-1 of the Advisers Act ("Advisers Act"). The Code of Ethics applies to JMPCA's access persons (which term includes all employees and certain other persons) (the "Access Persons") and sets forth a standard of business conduct that takes into account JMPCA's status as a fiduciary and requires Access Persons to

place the interests of clients and investor above their own interests. The Code of Ethics requires Access Persons to comply with applicable federal securities laws. Further, Access Persons are required to promptly bring violations of the Code of Ethics to the attention of the Chief Compliance Officer. All Access persons are provided with a copy of the Code of Ethics and are required to acknowledge receipt of the Code of Ethics on at least an annual basis.

We have adopted a Code of Ethics that describes the standards of business conduct that we require of employees and establishes procedures intended to prevent us, and our personnel and certain of their relatives, from inappropriately benefiting from our relationships with clients. Our Code of Ethics provides that:

- No employee of our firm may put his or her own interest above the interest of a Client;
- No employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of their employment unless the decision is based on information also available to the investing public;
- We must disclose all material facts about conflicts for which we are aware between ourselves and our employees' interests, on the one hand, and our clients' interests, on the other;
- We and our employees must comply with all applicable securities laws; and
- We require delivery and acknowledgement of the Code of Ethics and Insider Trading Policy by each employee.

#### Personal Trading for Associated Persons

Our Insider Trading Policy includes procedures for, and restrictions on, employee trading intended to prevent employees from benefiting from, or appearing to benefit from, having material non public information. Among other things, these include requirements that employees make a written request for, and receive clearance from, our Chief Compliance Officer (or designees) before they buy or sell any security (other than certain government securities, shares of mutual funds, and certain other types of securities that we do not believe create a potential for conflicts of interest) and prohibitions on buying or selling securities of our portfolio companies that we are currently investing in or considering an investment.

Our Insider Trading Policy also mandates the quarterly review of employees' securities transactions reports as well as initial and annual securities holdings reports.

We maintain a restricted list of all reportable securities for our firm and anyone associated with our advisory practice. Our Chief Compliance Officer or his/her designee reviews the restricted list regularly. The restricted list contains the following:

- A list of all the publicly traded companies with whom our Clients have current lending relationships;
- A list of publicly traded companies where the investment paid off or was sold in the past six months; and
- A list of publicly traded companies for which we accessed private information to underwrite the investment, but declined such potential investment in the past six months.

When a company is placed on the restricted list, no employee (or member of such person's immediate family/household) or any person acting on such person's behalf may trade in the securities or recommend trading in the securities until that company is removed from the restricted list.

We may also be limited or restricted from trading in a particular security due to our or our affiliates' securities positions, contractual relationships, information to which we or they are privy or for other legal or regulatory reasons. See the discussion under "Item 5: Fees and Compensation – Other Compensation and Potential Conflicts of Interest." Conflicts of interest related to recommendations to Clients are discussed therein.

Our Code of Ethics and Insider Trading Policy are available to any client or prospective client upon request. You may request a copy by email sent to [operations@jmpcredit.com](mailto:operations@jmpcredit.com) or by calling us at 678-368-4157.

## **ITEM 12: BROKERAGE PRACTICES**

Although we generally do not pay brokerage commissions for transacting in loans securing our CLOs, our CLOs may incur certain transaction expenses, such as agent assignment fees when buying or selling portfolio loans. While we have no formal brokerage agreements in place for our CLOs, we do have relationships with banks involved in loan transactions for our CLOs. We may also cause our CLOs to buy or sell securities at prices that include markups or markdowns.

We have complete discretion in deciding what financial intermediaries and counterparties with or through which to execute or enter into portfolio transactions, including through entities that are affiliated with us (collectively, "Transacting Parties"). Investors in our CLOs have no ability to affect which Transaction Parties the CLO may use.

### Selection Criteria, Generally

As an SEC-registered investment adviser, we have a general duty to seek "best execution" for our Clients' securities transactions. What constitutes "best execution," and determining how to achieve it, are inherently uncertain, however.

In placing orders for loans, which are generally privately negotiated principal transactions, we may select the agent bank or selling party such that we use our commercially reasonable efforts to obtain best execution, taking into account all appropriate factors including the following:

- Best price obtainable;
- Dealer spread or commission and closing expenses;
- Availability of the security;
- Size and difficulty of the transaction;
- Desired time of the trade;
- Confidentiality;
- Execution and operational capabilities;
- Ongoing borrower diligence;
- Reputation for integrity and sound financial condition and practices; and
- Research and other services provided.

On occasion, we may receive research reports from various lending institutions; however, brokerage commissions (or markups or markdowns) are not provided to obtain such research reports. Our

Management Agreement with the 2007 CLO provides that, subject to the objective of obtaining best execution, we may, in the allocation of business, take into consideration research and other brokerage services furnished to us or our affiliates by brokers and dealers in conformity within the “safe harbor” provided by Section 28(e) of the Exchange Act of 1934, as amended. Although we do not currently have any soft-dollar arrangements in place, we may enter into soft-dollar arrangements in the future (to the extent permitted by our agreements with our Clients), and any such arrangements may create conflicts of interest. For example, soft-dollar arrangements may create incentives for us to cause our Clients to use certain Transacting Parties that may not provide the best possible price, or that place more trades than would be optimal for a Client’s investment strategy, in order to induce those Transacting Parties (or their affiliates) to provide us with services or benefits.

#### Cross Transactions

We may (but generally do not, and are not obligated to) cause our Clients to effect “cross” transactions (i.e., buy and sell securities from and to each other), subject to applicable law or regulation and contractual restrictions. We may do so if we believe that the cross transaction will be beneficial to both parties. The Indenture governing our 2007 CLO and our Management Agreement with that CLO prohibit us from purchasing or selling any loan from any affiliate or any account or portfolio for which we or an affiliate serve as investment advisor unless the terms are negotiated on an arm’s-length basis for fair market value and effected on terms no less favorable to the CLO as the terms it would obtain in a comparable arm’s length transaction with a non-affiliate.

We currently do not effect any agency cross transactions.

#### Aggregation of Orders

Currently JMPCA only advises the 2007 CLO. In the future, we may (but are not required to) combine orders on behalf of a Client with orders for other accounts for which we have trading authority, or in which we have an economic interest. When we do so, we will allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) in a manner that we consider fair and reasonable, and based on the needs and requirements of the Client’s governing documents (including any applicable indentures). Such factors include the investment objectives, liquidity, diversification, lender covenants and other limitations, and the amount of funds each of them has available for such investment.

In addition, in the future, when potential investments may be suitable for more than one of our Clients, we endeavor to allocate such investments equitably among our Clients.

#### Directed Brokerage

We do not have any “directed brokerage” arrangements with our Clients. As noted above, however, in managing our CLOs we have complete discretion to select the Transacting Parties through which the CLO purchases and sells portfolio loans.

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

Our Clients’ portfolios are generally reviewed with regard to positions held, risk, and exposure on a daily basis by our investment managers, traders and our Chief Compliance Officer. We hold bi-weekly portfolio meetings with our investment managers, traders and operations personnel to discuss industry and economic trends, updated financial results for the portfolio companies, potential investment trades, and amendments. We hold weekly meetings with our President and the President of JMP Group, our CFO

and the CFO of JMP Group, our Chief Investment Officer and our Chief Administrative Officer to discuss our Clients' portfolios, potential risk accounts and strategy.

Our Operations and Compliance personnel reconcile our CLO assets with the Trustee daily, and they reconcile all indenture covenants with the Trustee on a monthly basis. The Trustee provides note holders in our 2007 CLO with monthly reports of the CLOs performance and covenant compliance statistics, and quarterly note valuation reports detailing the distribution of note holder interest, fees and expenses. The reports are distributed to note holders electronically and made available on the Trustee's secure web site.

We do not provide audited financial statements to investors in our CLOs. However our CLOs' funds and securities are verified by an annual "surprise" examination by an independent public accountant, as contemplated under Rule 206(4)-2(a)(4) under the Investment Advisers Act of 1940, as amended.

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

We do not currently receive any economic benefit from any person (other than our Clients) for providing investment advice or other advisory services to our Clients, nor do we (or any of our related persons) directly or indirectly compensate any person (other than our supervised persons) for Client referrals.

#### **ITEM 15: CUSTODY**

For our CLOs, the CLO trustee calculates the amount of the advisory fees to be paid, and distributes account statements detailing holdings and transactions to investors in the CLOs on a monthly basis. We urge investors in our CLOs to carefully review their custodial statements to verify the accuracy of the calculations, among other things and to contact us directly if they believe that there may be an error in their statements.

Our CLOs' funds and securities are also subject to annual surprise examinations by an independent public accountant as discussed in Item 13.

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

Our Management Agreement generally grants us complete discretion to manage our 2007 CLO's investment portfolio, subject to the Indenture specific restrictions, concentration limits and investment criteria. Our discretionary authority includes the ability to determine the security to buy or sell, the amount to buy or sell and the timing of such.

See the description above in "Advisory Business" and "Methods of Analysis, Investment Strategies and Risk of Loss."

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

We have voting authority and responsibility with respect to the securities held by our Clients. This includes voting on amendments, waivers and restructurings. We vote in a manner that we believe is consistent with efforts to achieve the Client's investment objectives, including minimizing loss and maximizing the value of the portfolio. Our guidelines generally provide that proxies be voted in accordance with management recommendations. Significant deal modifications such as a change in maturity date and pricing are presented to our investment committee for consideration. The investment manager must recommend approval and another committee member must approve the amendment prior to our voting. In instances where we determine that our consent (or failure to consent) to a deal

modification is not likely to affect the outcome of a creditor vote, we may consent to that modification to avoid forfeiture of consent fees.

We recognize that, in certain circumstances, we may face conflicts of interest in making decisions as to how proxies should be voted. These circumstances include proxy solicitations by issuers with whom we or our affiliates, including JMP Group, have material business relationships. Our Chief Compliance Officer generally monitors the potential for conflicts of interest with respect to proxy voting.

If a conflict of interest with respect to a proxy vote is identified, we will not vote the proxy until it has been determined that the conflict of interest is not material, or we take appropriate steps to resolve the conflict of interest. Our Chief Compliance Officer will determine whether a conflict of interest is material. Materiality determinations will be based on an assessment of the particular facts and circumstances. If our Chief Compliance Officer determines that a conflict of interest is material, one or more methods may be used to resolve the conflict, including:

- Refraining from voting;
- Seeking and obtaining approval of all of our investment committee members;
- Disclosing the conflict to the Client and obtaining its consent before voting; or
- Employing such other method as we may deem appropriate under the circumstances, given the nature of the conflict.

We maintain the following records in accordance with our Records Retention Policy:

- Copies of our Proxy Voting Policy and any amendments;
- Proxy statements received regarding client securities;
- Records of votes cast on behalf of clients;
- Records of written client and investor requests for proxy voting information;
- Any documents that we prepared or received that were material to making a decision as to how to vote proxies or that memorialized the basis for our decision.

Clients may obtain a copy of our proxy voting policies and procedures, as well as relevant voting records, by making a written request to us at the address given on the cover page of this brochure.

## **ITEM 18: FINANCIAL INFORMATION**

We do not charge or solicit pre-payment of more than \$1,200 in fees per Client six or more months in advance. We have never filed for bankruptcy, nor are we aware of any financial conditions that are reasonably likely to impair our ability to meet our contractual obligations to Clients.