

# Cherry Hill Mortgage Management, LLC

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## FORM ADV PART 2A BROCHURE

**This brochure provides information about the qualifications and business practices of Cherry Hill Mortgage Management, LLC. If you have any questions about the contents of this brochure, please contact Robert C. Wipperman 856-380-9286 or [Robert.Wipperman@Freedommortgage.com](mailto:Robert.Wipperman@Freedommortgage.com). 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.**

**Additional information about Cherry Hill Mortgage Management, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Cherry Hill Mortgage Management, LLC is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.**

### ***Material Changes***

This is our initial "Disclosure Brochure" filing with the SEC. Future Disclosure Brochure filings will address "material changes" since the date of this filing concerning Cherry Hill Mortgage Management, LLC, which will either be delivered, or offered for delivery, to our client(s). A copy may also be downloaded from the Securities and Exchange Commission website, [www.sec.gov](http://www.sec.gov).

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## **Advisory Business**

Form ADV Part 2A, Item 4

### **Description of Firm and Principal Owners**

Cherry Hill Mortgage Management, LLC (“CHMM”, “We”, the “Firm” or “Manager”) is an investment adviser organized for the purpose of managing the assets of Cherry Hill Mortgage Investment Corporation, a newly formed residential real estate finance company, that intends to qualify to be taxed as a REIT, anticipates approval to be listed on the NYSE and expects to issue common stock in the next 120 days. CHMM will be CHMI’s external manager responsible for managing CHMI’s business affairs and investment strategy in conformity with the policies and the investment guidelines that are approved and monitored by CHMI’s board of directors. CHMM specializes in the management of residential mortgage and related assets specific to the United States, which follows an investment strategy that balances the risk and reward opportunities that CHMM observes in the marketplace. The advisory services to be provided will be performed at the direction of CHMM and through mutual agreements that include CHMM, CHMI and certain other affiliated entities.

The Firm was organized as a limited liability company under the laws of the State of Delaware, on November 20, 2012. The sole member of the Firm is Stanley Middleman, who is also the founder of Freedom Mortgage Corporation (“Freedom”), a privately held, independent mortgage affiliate that originates and services residential mortgage loans nationwide.

### **Description of Advisory Services**

CHMM manages on a discretionary basis CHMI’s portfolio of residential real estate mortgage securities and derivatives in conformity with the policies and the investment guidelines that are approved and monitored by CHMI’s independent directors. This includes the selection, acquisition, structuring, interest rate risk mitigation and monitoring of CHMI’s assets and associated borrowings. The portfolio is limited to primarily residential mortgage related securities and financial instruments designed to allow the client to qualify and maintain its tax status as a REIT and maintain CHMI’s exclusion from regulation as an investment company under the Investment Company Act of 1940.

CHMM has the authority to invest CHMI’s equity capital in excess mortgage servicing rights (or “Excess MSRs”), which is the excess servicing fee above the base servicing fee established at the time the mortgage loan is originated, as well as Agency RMBS, including agency whole pools, TBAs, CMOS, prime jumbo mortgage loans, and non-agency RMBS. CHMM also has the authority to engage in hedging activities through the use of derivatives and other types of securities, such as interest rate swaps (floating-to-fixed, fixed-to-floating, floating-to-inverse floating, callable or non-callable); TBAs, U.S. treasury securities; swaptions, caps, floors and other derivatives on interest rates; futures and forward contracts; and options on any of the above.

### **Tailored Advisory Services**

Our principle objective is to tailor our advisory services to the specific needs of our client, CHMI, based on the policies and the investment guidelines that are approved and monitored by our client’s board of directors.

CHMM neither acts as an adviser or sub-adviser in any wrap fee program nor serves as the sponsor of a wrap fee program.

**Assets Under Management**

We currently have no discretionary assets under management but expect to be managing the CHMI's assets upon the successful closing of its initial public offering within the next 120 days.

## ***Fees and Compensation***

Form ADV Part 2A, Item 5

### **Compensation**

CHMM's compensation for advisory services is set out in our management agreement with our client and described in CHMI's Form S-11 filing for registration under the Securities Act of 1933 for Securities of certain real estate companies. CHMM's fee is 1.50% per annum of CHMI's stockholders' equity, calculated in accordance with generally accepted accounting standards, as adjusted and provided in the management agreement.

### **Deduction of Fees**

The 1.50% fixed management fee is payable monthly in arrears and it is deducted directly from the client's capital account, based on a client invoice describing the calculation.

### **Other Types of Fees and Expenses**

The client also pays other investment related fees and expenses that CHMM does not receive any benefit from, such as non-routine custodial charges, brokerage fees, commissions (includes mark up and mark downs of fixed income securities) and related costs, interest expenses, taxes, duties and other governmental charges, transfer and registration fees or similar expenses, other portfolio expenses, and costs, expenses and fees associated with products or services that may be necessary or incidental to investments or accounts. In addition, CHMI incurs operating costs as further described in the CHMI's Form S-11 registration statement.

### **Refund of Fees**

There is no refunding of management fees upon the termination of the CHMM's management agreement with CHMI by either party. (see Item 7, Types of Clients).

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

Form ADV Part 2A, Item 6

There are no performance based fees charged to our one client account.

### ***Types of Clients***

Form ADV Part 2A, Item 7

Our client is a residential real estate finance company that intends to be listed on the NYSE under the symbol: CHMI.

CHMI stock is intended to be sold to retail and institutional investors. Investors may lose some or all of their investment due to CHMI's lack of operational history, risk of CHMM not being able to carry out the investment objectives of CHMI and other RISK factors listed in CHMI's Form S-11 registration statement.



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

Form ADV Part 2A, Item 8

### **Method of Analysis**

CHMM is responsible for achieving CHMI's principal objective which is to generate attractive current yields and risk-adjusted total returns for stockholders over the long term, primarily through dividend distributions and secondarily through capital appreciation. This objective is intended to be attained by selectively constructing and actively managing a targeted portfolio of Excess MSR's on an unleveraged basis and Agency RMBS on a leveraged basis and over time as the market grows, in prime jumbo mortgage loans and other cash flowing residential mortgage assets. We expect to rely on the ability of Freedom to recapture loans that are refinanced which is intended to mitigate the prepayment risk associated with Excess MSR's. CHMM also manages its client's hedging strategy and utilizes certain derivative financial instruments and other hedging instruments to mitigate interest rate risk expected to arise from CHMI's repurchase agreement financings associated with their Agency RMBS.

### **Summary of Risk Factors**

- **CHMM has no operating history as a manager and cannot ensure that our past investment experiences in mortgage related investments will be sufficient to successfully achieve our client's investment objectives.**

While CHMM utilizes qualified investment professionals with over 20 years of industry and industry related experience, CHMM is a newly registered investment adviser with no operating history of implementing investment strategies or managing a pooled investment vehicle or a publically traded real estate investment company with predetermined client and regulatory guidelines and restrictions.

CHMM has no experience operating a REIT and therefore it cannot be assumed that our past experience will be sufficient to successfully manage our client's business affairs as a REIT

- **Difficult conditions in the mortgage and residential real estate markets as well as general market concerns may adversely affect the value of the assets in which We invest on behalf of our client and these conditions may persist for the foreseeable future.**

Our investment activities are materially affected by conditions in the residential mortgage market, the residential real estate market, the financial markets and the economy in general. Concerns about the residential mortgage market and a declining real estate market, as well as inflation, energy costs, geopolitical issues, concerns over the creditworthiness of governments worldwide and the stability of the global banking system, unemployment and the availability and cost of credit have contributed to increased volatility and diminished expectations for the economy and markets going forward. In particular, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions, including defaults, credit losses and liquidity concerns. Certain commercial banks, investment banks and insurance companies have announced extensive losses from exposure to the residential mortgage market. These factors have impacted investor perception of the risk associated with RMBS, other real estate related securities and various other asset classes in which We may invest on behalf of our client. As a result, values of client assets have experienced volatility. Further deterioration of the mortgage market and investor perception of the

risks associated with RMBS and other residential mortgage assets that We acquire could materially adversely affect our client's financial condition and results of operations.

**• We are dependent on mortgage servicers to service the mortgage loans underlying the Excess MSR that we acquire on behalf of our client.**

Our ability to manage client investments in Excess MSR is dependent on the mortgage servicer to perform its servicing obligations. As a result, our client could be materially and adversely affected if the servicer is terminated. The duties and obligations of mortgage servicers are defined through contractual agreements, which generally provide for the possibility for termination of the servicer in the absolute discretion of the GSE or Ginnie Mae. In the event of a termination by the GSE or Ginnie Mae relating to a particular servicer, the related Excess MSR could potentially lose all value on a going forward basis. Moreover, the termination of a servicer could take effect across all mortgages being serviced by that servicer. Therefore, to the extent We invest our client's capital in multiple investments relating to mortgages serviced by the same servicer, such as a portfolio of Excess MSR which initially will be entirely serviced by Freedom Mortgage, all of the client's investments could lose all their value in the event of the termination of the servicer. In addition, many servicers also rely on subservicing arrangements with third parties and the failure of sub-servicers to adequately perform their services may negatively impact the servicer and, as a result, the performance of our Excess MSR. We, on behalf of our client, may not have recourse to the servicer if the sub-servicer fails to perform.

**• Our ability to invest our client's capital in, and dispose of their investments in Excess MSR may be subject to the receipt of third-party consents.**

The GSE or Ginnie Mae may require that our client be subject to costly or burdensome conditions as a prerequisite to investments in Excess MSR. These conditions may diminish or eliminate the investment potential of certain Excess MSR by making these investments too expensive for our client or by severely limiting the potential returns available from Excess MSR. Our client has not received and does not expect to receive any assurances from the GSE or Ginnie Mae that their conditions for the disposition of an investment in Excess MSR will not change. Therefore, the potential costs, issues or restrictions associated with receiving the consent of a GSE or Ginnie Mae for any dispositions cannot be determined with any certainty. To the extent We, on behalf of our client, are unable to dispose of Excess MSR in our client's portfolio when We determine it would be beneficial to do so, our client's results of operations may be adversely impacted.

**• Acknowledgement agreements with Ginnie Mae, Fannie Mae or Freddie Mac could expose our client to potential liability in the event of a payment default.**

In order to have Ginnie Mae acknowledge the interest of our client in Excess MSR related to FHA/VA mortgage loans that have been pooled into securities guaranteed by Ginnie Mae, the client must enter into an acknowledgment agreement with Ginnie Mae and the Ginnie Mae-approved issuer/servicer for the mortgage loans. Under that agreement, if the issuer/servicer fails to make a required payment to the holders of the Ginnie Mae guaranteed RMBS, the client would be obligated to make that payment even though the payment may relate to loans for which our client does not own any Excess MSR. The failure to make that payment could result in liability to Ginnie Mae for any losses or claims that it suffers as a result. In addition, under an acknowledgment agreement with Fannie Mae or Freddie Mac, our client could be exposed to potential liability in the event of a payment default by an approved seller/servicer. However, the amount of the potential liability would be limited to the mortgage loans in the servicing portfolio identified in the acknowledgment

agreement.

- **Our investment recommendations in Excess MSR's may involve complex or novel structures.**

It is possible that the views of Fannie Mae, Freddie Mac and Ginnie Mae on whether any complex investment structure is appropriate or acceptable may not be known at the time of investment and may change from time to time for any reason or for no reason, even after the completion of an investment. The evolving posture of Fannie Mae, Freddie Mac and Ginnie Mae toward an acquisition or disposition structure through which We propose to have our client invest in or dispose of Excess MSR's may cause Fannie Mae, Freddie Mac or Ginnie Mae to impose new conditions on investments in Excess MSR's, including the owner's ability to hold Excess MSR's directly or indirectly through a grantor trust or other means. Any new conditions may be costly or burdensome and could materially impact the obligations to invest in or dispose of Excess MSR's.

In addition, the requirements imposed by mortgage owners on servicers may require an investor to structure the terms, purchase price and form of consideration that the investor and the servicer pay differently in various deals. As a result, the basic fee paid to the servicer relating to those mortgage servicing rights may be higher (and the related Excess MSR may be lower) than in deals where the mortgage owner does not impose these types of requirements.

- **The value of Excess MSR's may vary substantially by changes in interest rates**

The values of Excess MSR's are highly sensitive to changes in interest rates. Historically, the value of Excess MSR's has increased when interest rates rise and decreased when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. Our client's portfolio of Agency RMBS acts as a natural hedge for the Excess MSR's. As the value of the Excess MSR's decrease due to a decline in market interest rates, the value of the Agency RMBS should increase. We do not utilize derivatives to hedge against changes in the fair value of Excess MSR's.

- **If delinquencies increase, the value of our Excess MSR's may decline significantly.**

An increase in delinquencies will generally result in lower revenue because typically servicers will only collect servicing fees from GSEs or mortgage owners for performing loans. Our expectation of delinquencies is a significant assumption underlying the cash flow projections on the related pools of mortgage loans. If delinquencies are significantly greater than expected, the estimated fair value of the Excess MSR's could be diminished. As a result, our client would suffer a loss.

- **Prepayment rates can change, adversely affecting the performance of the assets We manage.**

The frequency at which prepayments occur on mortgage loans underlying Excess MSR's and Agency RMBS is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. When borrowers prepay their mortgage loans at rates that are faster or slower than expected, it results in prepayments that are faster or slower than expected on the related Excess MSR's and Agency RMBS. These faster or slower than expected payments may adversely affect our client's performance.

- **The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac and Ginnie Mae and the U.S. Government, may materially adversely affect our client's business, financial condition and results of operations and our ability to make distributions to**

**our stockholders.**

The payments on Agency RMBS depend upon a steady stream of payments by borrowers on the underlying mortgages that are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Fannie Mae and Freddie Mac are GSEs, but their guarantees are not backed by the full faith and credit of the United States. Ginnie Mae, which guarantees Agency RMBS backed by mortgage loans insured by the FHA or guaranteed by the VA, is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the United States.

During 2008, there were increased market concerns about Fannie Mae's and Freddie Mac's ability to withstand future credit losses associated with securities held in their investment portfolios, and on which they provide guarantees, without the direct support of the U.S. Government. Any changes to the nature of the guarantees provided by, or laws affecting, Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the credit quality of the guarantees, could increase the risk of loss on purchases of Agency RMBS issued by these GSEs and could have broad adverse market implications for the Agency RMBS they currently guarantee. Any action that affects the credit quality of the guarantees provided by Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the value of our client's Agency RMBS.

Agency RMBS are acquired through, and are used as collateral for, financings under the repurchase agreements of our client. Any decline in their value, or perceived market uncertainty about their value, would make it more difficult for us to obtain on behalf of our client, Agency RMBS financing on acceptable terms or at all or to maintain compliance with the terms of any financing transaction.

**• Certain actions by the U.S. Federal Reserve could cause a flattening of the yield curve, which could materially adversely affect our client's business, financial condition and results of operations.**

The U.S. Federal Reserve announced on December 12, 2012 an expansion of its asset buying program starting in January 2013, at which time it would commence outright purchases of longer-term U.S. Treasury securities at a pace of \$45 billion per month. This new U.S. Treasury securities purchase program replaces previous programs such as "Operation Twist," which expired in December 2012. The effect of Operation Twist or this new U.S. Treasury securities purchase program could be a flattening in the yield curve, which could result in increased prepayment rates due to lower long-term interest rates and a narrowing of net interest margin. Consequently, these securities purchase programs and any other future securities purchase programs by the U.S. Federal Reserve could materially adversely affect the performance of client's investments.

**• Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, our client's assets.**

Congress and various state and local legislatures are considering, and in the future may consider, legislation, which, among other provisions, would permit limited assignee liability for certain violations in the mortgage loan origination process, and would allow judicial modification of loan principal in the event of personal bankruptcy. We cannot predict whether or in what form Congress or the various state and local legislatures may enact legislation affecting our business or whether any such legislation will require a change in our practices or make changes to a client's portfolio in the future. These changes, if required, could materially adversely affect the performance of investments underlying our client's portfolio of holdings, particularly if changes are made in response to new or amended laws, regulations or ordinances in any state in which a significant portion of mortgage loans underlying our client's investments are located, or if these changes result in our client being held

responsible for any violations in the mortgage loan origination process.

- **We rely on analytical models and other data to analyze potential asset acquisition and disposition opportunities to implement in managing our client's portfolio.**

If these models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon could expose our client to potential risks. Our use of models and data may cause us to purchase certain assets at prices that are too high, sell certain other assets at prices that are too low or miss favorable opportunities altogether. Similarly, any hedging activities that are based on faulty models and data may prove to be unsuccessful.

- **Valuations of some of the assets classes will be inherently uncertain, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed.**

In many cases the use of fair value of certain investments is based on valuations provided by third-party dealers and pricing services. We will value assets based upon our judgment, which may differ from those provided by third-party dealers and pricing services. Valuations of certain assets are often difficult to obtain or unreliable. In general, dealers and pricing services heavily disclaim their valuations. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of an investment, valuations of the same asset can vary substantially from one dealer or pricing service to another. The valuation of client assets has been particularly difficult recently because market events have made valuations of certain assets unpredictable, and the disparity of valuations provided by third-party dealers has widened.

Our client's performance could be materially impacted by a fair valuation made in good faith that is materially inaccurate by not properly representing the price our client would receive upon exiting or selling the investment.

- **The lack of liquidity of assets may adversely affect our ability to sell assets on behalf of our client.**

The acquisition of certain types of assets on behalf of our client will be not be liquid, as there is no public market for these types of investments, and market conditions could significantly and negatively affect the liquidity of other assets. In particular, Excess MSR's are highly illiquid and have numerous restrictions on transfers. The duties and obligations of mortgage servicers are defined through contractual agreements. These contracts generally require that holders of Excess MSR's obtain a third-party consent prior to any change of ownership. The approval may be withheld for any reason or no reason in the discretion of the third party. Additionally, investments in Excess MSR's are a new type of instrument, and there have been extremely few investment products that pursue a similar investment strategy. Accordingly, the risks associated with the transaction and structure are not fully known to buyers or sellers. As a result, there is some risk that We will be unable to locate a buyer at the time We wish to sell an Excess MSR. Additionally, there is some risk that We will be required to dispose of Excess MSR's either through an in-kind distribution or other liquidation vehicle, which will, in either case, provide little or no economic benefit to our client, or a sale to a co-investor in the Excess MSR, which may be an affiliate. Therefore, We cannot provide any assurance that We will be able to obtain any return or any benefit of any kind to our client from any disposition of Excess MSR's.



In addition, mortgage-related assets generally experience periods of illiquidity, including the recent period of delinquencies and defaults related to residential and commercial mortgage loans. In addition, validating third-party pricing for illiquid assets may be more subjective than more liquid assets. Any illiquidity may make it difficult to sell these types of investments if the need or desire arises. Therefore, if We are required to liquidate all or a portion of our client's portfolio quickly, the client may realize a significant loss.

**• Our strategy includes the use of leverage, which may adversely affect the return on investments and may amplify losses on the downside when economic conditions are unfavorable.**

Through the use of leverage, We can acquire positions with market exposure significantly greater than the amount of capital committed to the transaction. We expect to leverage Agency RMBS 8:1 debt to equity but may be as high as 10:1 debt to equity. However, the amount of leverage We may employ for a particular asset type will depend upon the availability of financing and our assessment of the credit, liquidity, price volatility and other risks of those assets and financing counterparties.

We intend to use leverage for the primary purpose of financing the acquisition of Agency RMBS securities and not for the purpose of speculating on changes in interest rates. We may, however, be limited or restricted in the amount of leverage We may employ by the terms and provisions of any financing or other agreements, as well as being required to meet margin calls due to this financing activity.

The use of leverage will magnify both the gains and the losses on investments. Leverage will increase returns as long as there is a greater return on investments purchased with borrowed funds than the cost of borrowing funds. However, if the value of the leveraged asset decreases, the leverage will increase losses. Even if the asset increases in value, if the asset fails to earn a return that equals or exceeds the cost of borrowing, the leverage will decrease returns on investments.

**• Adverse market developments could cause our lenders to increase or request additional assets as collateral. If our client were not able to meet these collateral requirements, We might be compelled to liquidate particular assets at inopportune times and at unfavorable prices, that might have an adverse impact the performance of our client's investments.**

Adverse market developments, including a sharp or prolonged rise in interest rates, a change in prepayment rates or increasing market concern about the value or liquidity of one or more of these types of investments, might reduce the overall portfolio market value, which might cause lenders to initiate margin calls. A margin call means that the lender requires the pledging of additional collateral to re-establish the ratio of the value of the collateral to the amount of the borrowing. The specific collateral value to borrowing ratio that would trigger a margin call is not set in master repurchase agreements and will not be determined until a repurchase transaction is established. If the margin call is not met, the lenders may retain or liquidate the posted collateral. The threat of or occurrence of a margin call could force an asset sale, either directly or through a foreclosure, under adverse market conditions. Because We intend to employ leverage, the portfolio may incur losses upon the threat or occurrence of a margin call, which could have a material adverse affect on the client.

**• Our use of repurchase transaction will depend on our ability to negotiate favorable terms and conditions under master repurchase arrangements**

The terms and conditions of each of repurchase transaction is negotiated on a transaction-by-transaction basis, and these borrowings generally are to be re-established, or rolled, at maturity. Key terms and conditions of each transaction will include interest rates, maturity dates, asset pricing procedures and margin requirements. We cannot guarantee that We will be able to obtain favorable

terms and conditions on repurchase transactions. In addition, counterparties may require less favorable pricing procedures or increased margin requirements during periods of market illiquidity or due to perceived credit quality deterioration of the collateral pledged.

• **Hedging against interest rate changes and other risks may materially adversely affect client performance if We fail to accurately predict the direction of interest rates.**

The hedging techniques and client specific strategy will vary in scope based on the level and volatility of interest rates, the specific types of liabilities and assets held and changing market conditions. Interest rate hedging may fail to protect or could adversely affect our client because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related assets or liabilities being hedged;
- the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value. Downward adjustments or mark-to-market losses, would reduce our client's stockholders' equity;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our client's side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

Use of certain hedging techniques may create counterparty risks. If interest rate swap counterparty cannot perform under the terms of the interest rate swap, payments due under that swap may default; thus, unrealized gain associated with the interest rate swap may be lost. The hedged liability could cease to be hedged by the interest rate swap. The client may also be at risk for loss of collateral pledged to secure obligations under the interest rate swap, if the counterparty becomes insolvent or files for bankruptcy. This may cause our client to sell the derivatives and potentially incur losses. Similarly, if an interest rate cap counterparty fails to perform under the terms of the interest rate cap agreement, in addition to not receiving payments due under that agreement that would off-set our interest expense, a loss would be incurred for all remaining unamortized premium paid for that agreement.

• **Highly competitive market**

We, on behalf of our client, compete with a number of entities for similar types of assets, including other mortgage REITs, financial companies, public and private funds, commercial and investment banks and residential, commercial finance companies and even the U.S. Federal Reserve and the U.S. Treasury. Many competitors are substantially larger and have access to large pools of capital and other resources. Furthermore, new companies with significant amounts of capital have recently been formed or have raised additional capital, and may continue to be formed and raise additional capital in the future, and these companies may have objectives that overlap with our client. This may create competition for the same types of investments We seek for our client. Some competitors may have a lower cost of funds and access to funding sources that our client does not have access to, such as

funding from the U.S. Government.

Furthermore, competition for similar investments as our client may lead to higher prices for the same investment, which may adversely impact our client's desired returns. There is no valid method of accurately predicting whether these competitive pressures will not have a material adverse effect on our ability to meet our client's return and other business objectives.

A complete list of all risk of investing and other conflicts of interests are more fully described in CHMI's registration statement on Form S- 11.

<http://www.sec.gov/edgar/searchedgar/companysearch.html>



### ***Disciplinary Information***

Form ADV Part 2A, Item 9

CHMM, including its affiliates and all associated employees, have not been involved in any legal or disciplinary events or actions.

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

Form ADV Part 2A, Item 10

CHMM has a material relationship and arrangement with Freedom Mortgage Corporation, a licensed mortgage originator and servicer, (also see Item 4, Description of Firm and Principal Owners).

CHMM has entered into a "Services Agreement" with Freedom that is critical to our ability to provide advisory services to our client. Freedom provides CHMM with professional and clerical staffing and all other resources necessary to perform our duties under our management agreement with our client, which include office space, phone lines, computer equipment and Information Technology services, appropriate systems backup, etc. Freedom has also agreed to perform all other commercially reasonable actions that are necessary or advisable to enable CHMM to perform all duties and provide all services required to be provided to its client.

The above arrangement represents a conflict of interest because CHMM and Freedom are under the common ownership of Stanley Middleman. All executive (critical) officers, officers and employees of CHMM are also officers and employees of Freedom, other than those that are completely dedicated to CHMM, if any. This causes our officers and employees to have a division of loyalty or competing interest between CHMM and Freedom. Our officers and employees may not be able to spend the amount of time necessary to achieve our client's, or future clients' (if obtained), objectives on an ongoing basis under this arrangement.

This conflict is mitigated by the fact that the entities that are under common control with CHMM are contractually obligated to perform certain duties to reasonably ensure CHMM successfully meets its obligations to our client including the arrangements described in this Item 10. In the event that Freedom failed to perform up to the terms of the agreement with CHMM and if that failure were to cause CHMM to not be able to provide advisory services to our client, our client would have the right to seek whatever legal remedies are available to it. In addition, Stanley Middleman has successfully formed business enterprises in the past and has not failed in the past to carry out contractual obligations.

CHMM's client has also entered into certain arrangements with Freedom that are material to achieving its initial investment strategy including the ability to source and execute a significant portion of its initial core investment strategy in Excess MSR's. The two acquisition and recapture agreements our client has with Freedom are also material to our ability to continue to recommend and have available to our client a continuous source or pool of both existing and new Excess MSR's. The flow and bulk purchase arrangements require Freedom to offer to sell to our client, a portion of the related Excess MSR's. Under the terms of these arrangements, our client will co-invest along with Freedom in Excess MSR's. This type of arrangement generates a conflict of interest regarding the pricing of CHMI's investment. The conflict is alleviated by the valuation procedures adopted by CHMI that require, among other things, a committee of the client's independent directors to approve both pricing and pricing methodologies used to acquire Excess MSR's. This process also extends to all investments We may recommend to our client, when Freedom is a counterparty. Furthermore, Freedom is a separate and distinct company with its own business interests and will be under no obligation to maintain its current business strategy. Freedom is under no obligation to share other investment opportunities. However, they are obligated to offer to our client the right to acquire Excess MSR's on 100% of their production on a flow basis and all bulk purchases sourced from third parties during the

term of the arrangement.

We believe the above described conflicts are addressed by Freedom and its affiliates desire to pursue a business strategy that is related to but different from the objectives of our client. Also CHMM, as a registered investment adviser acting on behalf of our client, will seek to identify, if possible, changes in Freedom's or its affiliates' business strategies that might indicate a lack of desire to continue to operate in a manner that complements both our client's investment objectives and our duties to our client.

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

Form ADV Part 2A, Item 11

### **Code of Ethics**

Cherry Hill Mortgage Management, LLC's Code of Ethics (the "Code") obligates CHMM, employees and access persons, as defined under the Code, to put the interests of our clients before both our own and any related persons' interests. The Code also requires all access persons to act honestly and fairly in all dealings with our client(s). All of our personnel assigned to our client(s) are also required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Robert C. Wipperman (Chief Compliance Officer or CCO) by email at Robert.Wipperman@Freedommortgage.com, or by telephone 856-380-9286.

### **Statement of General Policy**

The Code establishes rules of conduct for all CHMM access persons, and is designed among other things to govern investment related trading activities in the access persons' trading accounts. The Code is based upon the principle that CHMM and access persons owe a fiduciary duty to our clients to conduct their affairs, including their personal investment related transactions, in such a manner as to avoid (i) serving their own or related persons' personal interests ahead of clients, (ii) taking inappropriate advantage of their position with the Firm and (iii) conflicts of interest or any abuse of their position of trust and responsibility CHMM owes to its clients.

In accordance with Section 206 under the Investment Advisers Act of 1940, both Cherry Hill Mortgage Management, LLC, as a federally registered investment adviser, and all access persons are prohibited from engaging in fraudulent, deceptive or manipulative conduct. Cherry Hill Mortgage Management, LLC and its employees have an affirmative duty of utmost good faith to act in the best interest of our clients, and not to favor one client over another.

Cherry Hill Mortgage Management, LLC access persons are required to pre-clear personal transactions involving initial public offerings, private placements and limited offerings. All access persons' personal investment related transactions that are client eligible investments are pre-cleared prior to placing the personal transaction order with a broker for execution. In addition, the CCO pre-approves all new personal transaction brokerage accounts.

The Code requires access persons to provide initial and annual holdings reports and quarterly transaction reports to the CCO for review. All employees are required to report all existing and new outside business interests or when seeking to provide investment related advice to any other person or entity, both with and without compensation.

In addition, all access persons must annually certify in writing that they have read and understood all provisions of the Code, complied with all requirements of the Code, have submitted all holdings and transaction reports, in addition to report any potential conflict of interest that may have been observed, as required by the Code.

The Code is reviewed annually, as well as all other procedures, to determine its adequacy, accuracy and effectiveness.

## **Brokerage Practices**

Form ADV Part 2A, Item 12

### **Portfolio Transactions**

Cherry Hill Mortgage Management, LLC is responsible for selecting and directing the placement of our client's portfolio transactions with brokers/dealers and negotiating all commissions, including spreads and markups paid on all transactions. Portfolio securities are purchased through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the securities. The commissions generated from the placement of portfolio transactions through brokers involve a commission to the broker. Purchases of portfolio securities from dealers serving as market makers include the spread between the bid and the asked price, which is another form of commission.

As for other types of investments, such as Excess MSRs, there is no commission or other fees paid when sourced from Freedom Mortgage Corporation. Our client has adopted procedures that require pre-approval from our client's independent directors which may rely on an independent third-party valuation prior to the acquisition of any Excess MSR from Freedom Mortgage Corporation that are similar to the requirements described under the Investment Advisers Act of 1940 (Section 206(3)).

In placing portfolio transactions and negotiating commission rates, We seek to obtain the best execution for our client, taking into account the following factors: price, dealer spread, the size, type and difficulty of the transaction involved, general execution and operational facilities, the risk in positioning the securities involved and the value and quality of research, including statistical data, and any other services the broker may provide that We deem to be useful to us in managing our client's assets. In selection of brokers or dealers to execute transactions for our client We may, but are not obligated to, solicit competitive bids but We do not have an obligation to seek the lowest available commission cost. For Agency RMBS, We generally do solicit competitive bids and always select best price.

CHMM receives research provided by brokers through whom We place orders for execution on behalf of our client, as well as research developed by third parties. The research that is provided by brokers is referred to as proprietary research which has been deemed to be soft dollars because the research provided by the broker is paid for from (or embedded in) the cost of executing our client's transactions.

The proprietary research We receive provides assistance to CHMM in managing our client's portfolio, and may be used to manage other client's accounts as well, if and when CHMM manages other client's accounts. We receive broker generated research reports and analysts insights on securities and color on markets and trends. This may create an incentive to select a broker based on our interest to receive research or other products the broker may provide, rather than on our client's interest in receiving the most favorable execution. However, it is CHMM's policy to select the broker who can provide the most favorable execution price, regardless whether research is provided. We determine in good faith that the selection of the broker is reasonable in relation to the value of all brokerage and research provided, viewed in terms of the specific transaction in our client's portfolio. However, the client account may pay higher brokerage commission rate than We might otherwise have been able to negotiate, if research was not provided. The research received is used to benefit our one client account We manage at this time. The research received falls within the safe harbor of Section 28(e)

of the Securities Exchange Act of 1934. However, We are authorized to obtain soft dollar arrangements that are not within Section 28(e). Our policy is to obtain pre-approval from the CCO for any soft dollar arrangement, including third-party and arrangements or services that fall outside the safe harbor of 28(e).

### **Brokerage for Client Referrals**

We or any of our related persons do not receive client referrals in exchange for brokerage.

### **Directed Brokerage**

We do not manage or accept advisory client's instructions for directing a transaction to a particular broker-dealer.

### **Aggregation and Allocation**

CHMM has the authority to aggregate clients' orders for the purchase and sale of the same investment on behalf of multiple managed accounts for execution through the same broker dealer. We have one client account and will not be aggregating orders at this time.

Although We do not manage multiple client accounts, We have nevertheless adopted an aggregation and allocation policy. Our aggregation and allocation policy is to aggregate all client orders whenever possible to do so and allocate each aggregated order pro-rata based on size. All clients participating in the aggregated order receive an average price/share of the executed shares with all transactions costs allocated pro-rata as well.

In addition, CHMM's allocation policy requires our investment professionals to treat all managed accounts fairly and equitably. The policy prohibits the allocation or reallocation of client orders to enhance the performance of or to favor one client account over another.

## ***Review of Accounts***

Form ADV Part 2A, Item 13

### **Review of Accounts**

We manage our client's account in accordance with the strategies, investment objectives, guidelines and restrictions provided by our client and approved by its independent Directors. We discharge our supervisory oversight responsibility by frequently reviewing our client's portfolio, which is conducted by CHMM's investment professionals, and other periodic reviews conducted by the client's Board of Directors, at regularly scheduled Board of Directors meetings during the year.

Written correspondence and analyses of underlying portfolios are retained in accordance with CHMM's record retention policy, which is designed in accordance with SEC regulatory standards.

We also have established and maintain an Investment Committee ("IC"). The primary focus of the IC is to review compliance with our client's guidelines periodically and our client's board of directors receive a report each quarter in conjunction with its review of our client's quarterly results.

Our client's board of directors also reviews our client's portfolio of assets and related compliance with our client's policies, procedures and guidelines at each regularly scheduled board meeting. A committee of our client's independent directors review and approve the material terms of any transaction between our client and Freedom Mortgage, including the pricing terms, to determine if the terms of those transactions are fair and reasonable.

### **Reports to Client**

We prepare regular reports for our client's Board of Directors to enable them to review our client's portfolio holdings and compliance with our client's investment guidelines.

The shareholders invested in our client's common stock receive annual financial reports audited by a nationally recognized independent certified accounting firm that is registered with and frequently reviewed by the Public Company Accounting Oversight Board.

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

Form ADV Part 2A, Item 14

### **Client Referrals**

CHMM does not receive any economic benefit from anyone who is not a client for the provision of investment advisory or any other services to our client.



## ***Custody***

Form ADV Part 2A, Item 15

CHMM does have custody of our client's assets. However, as a matter of practice, all of our client's assets are held at U.S. based prime brokers and banks who are qualified custodians, in accordance with U.S. federal securities laws. The investors in our client's common stock receive a copy of our client's annual audited financial statements within 120 days subsequent to its fiscal year end. The annual report is prepared by an unaffiliated certified public accounting firm, who is registered with and frequently reviewed by the Public Accounting Oversight Board.

### ***Investment Discretion***

Form ADV Part 2A, Item 16

CHMM has the authority to implement our client's investment strategy in accordance with the terms of the management agreement and our client's investment guidelines, and as described in the client's registration statement on Form S-11. We also have the discretion to determine the quantity of all securities, derivatives or any other investments to purchase or sell and to place orders on behalf of our client with brokers who execute our investment decisions.

The investment management agreement extends CHMM's authority to the recommendation of changes to our client's investment strategies, objectives and investment guidelines. These recommendations, when provided, are reviewed and approved by our client's independent directors prior to implementation.

### ***Voting Client Securities***

Form ADV Part 2A, Item 17

CHMM does not vote proxies on behalf of its client as We do not invest our client's capital in equities or other securities with similar characteristics that generate proxy proposals for investors to vote on routine and non-routine matters impacting the operation of the company. However, if our client did receive a request to vote on a matter that impacts one or more client holdings, our policy is to provide advice and recommend to the client how best to vote the matter that We believe is in the best interest of our client, taking into consideration the long-term economic interest of our client.

### ***Financial Information***

Form ADV Part 2A, Item 18

We do not require or solicit prepayment of fees six months or more in advance. CHMM has not experienced any financial condition that is reasonably likely to impair our ability to meet any contractual obligations to CHMI or future clients.