



THE MIDWAY GROUP

THE MIDWAY GROUP, L.P.

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FORM ADV PART 2A BROCHURE

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This brochure provides information about the qualifications and business practices of The Midway Group, L.P. If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer at (212) 739-6888 or via e-mail at Josephine.Paje@TheMidwayGroup.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Any reference to or use of the terms “registered investment adviser” or “registered” does not imply that The Midway Group, L.P. or any person associated with The Midway Group, L.P. has achieved a certain level of skill or training.

Additional information about The Midway Group, L.P. is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 - Material Changes

This Form ADV Part 2A Brochure (“Brochure”) contains revisions in effort to provide our clients with more readable, concise, and relevant information from the previous Brochure that The Midway Group, L.P. (“Midway” or “Investment Adviser”) filed as part of its last annual Form ADV amendment in March 2013. In our opinion, the only material change in our business and this Brochure is the hiring and appointment of a dedicated Chief Compliance Officer, Josephine Paje, in August 2013. Our prior Chief Compliance Officer resumed his primary role as Vice President of Operations.

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Item 4 – Advisory Business

Description of the Firm

Midway is a privately owned limited partnership organized under the laws of the state of Delaware, with its principal place of business in New York, New York. Midway began providing investment advisory services in May 2001. Robert Sherak is the principal owner of Sonoma Investment Partners, LLC (“Sonoma”), which wholly owns Midway. Midway serves as the investment manager to the Funds and the Managed Account (each as described below) (collectively, the “Clients”). Midway does not participate in wrap fee programs.

Advisory Services Offered

The Funds

Midway serves as the investment manager or adviser to several private investment partnerships or companies (each a “Fund” and together the “Funds”). Each Fund is exempt from being a registered investment company under the Investment Company Act of 1940, as amended, in reliance on Section 3(c)(1) thereof. The interests or shares of each Fund have not been registered under the Securities Act of 1933 and are offered to investors as a private placement under Rule 506 thereunder.

Midway manages the Midway Market Neutral Fund, LLC, a U.S. domiciled Fund (“Midway Domestic”) and the Midway Market Neutral International Fund, Ltd., a Cayman Islands domiciled Fund (“Midway International”). Midway Domestic and Midway International are collectively referred to in this Brochure as the “Feeder Funds.” The Feeder Funds seek to attain their investment objectives by investing their assets in Midway Market Neutral International Master Fund, Ltd. a Cayman Islands based master fund managed by Midway (“Midway Master Fund”). Midway Master Fund has the same investment objective and strategy as each of the Feeder Funds (as described below).

Midway provides investment management services tailored to the specific investment guidelines set forth in the confidential private placement memoranda of each of the Feeder Funds. Subject to these investment guidelines, Midway has discretion and authority to manage client assets. Midway is authorized to make all investment decisions, buy and sell securities, issue instructions to the Funds’ custodians, select broker-dealers to execute securities transactions and vote proxies, if applicable, and make similar decisions, except that as a general matter Midway is not responsible for filing class action claims and generally does not pursue or commence litigation on behalf of the Funds. Underlying investors in the Feeder Funds are not clients and accordingly do not have the ability to impose restrictions on investing in certain securities or types of securities. Midway offers and sells interests or shares in the Feeder Funds in private transactions solely to “accredited investors,” as defined in Rule 501 of the Securities Act of 1933, that are either “qualified clients” as defined in Rule 205-3(d)(1) of the

Investment Advisers Act of 1940, as amended (the “Advisers Act”) or certain employees of Midway and/or its affiliates.

The Funds are managed to achieve long-term capital appreciation while emphasizing preservation of capital through investment in fixed-income securities and other related financial instruments. While the confidential private placement memoranda for each of the Feeder Funds gives Midway discretion with respect to the types of securities the Midway Master Fund may purchase on behalf of the Feeder Funds, Midway will purchase and sell for each Feeder Fund, through its investment in the Midway Master Fund, primarily mortgage-related securities, contract rights and derivatives, including stripped mortgage-backed securities (“SMBs”) (such as agency and non-agency interest only (“IOs”), Inverse IOs, Inverse Floaters and principal only (“POs”) securities), mortgage-backed securities (“MBSs”), collateralized mortgage obligations (“CMOs”), real estate mortgage investment conduits (“REMICs”), and other derivative instruments. The Feeder Funds, through their investment in Midway Master Fund, may also invest a portion of their assets in other types of U.S. and non-U.S. sovereign debt and other investment-grade debt instruments and their related currencies as well as lower-grade securities. The Midway Master Fund, on behalf of the Feeder Funds, may utilize other securities, options, cash instruments, interest rate swaps, mortgage servicing rights, futures and other derivatives for hedging purposes. The Midway Master Fund uses leverage and trades on margin.

The Managed Account

Midway currently provides investment advisory services to one separately managed account (the “Managed Account”). The Managed Account’s investment objective and guidelines are generally the same as those applicable to the Funds. Accordingly, while specific investments may differ, the types of financial instruments that may be used are the same as those used by the Funds, as outlined in the agreement entered into between Midway and the Managed Account. To the extent appropriate for other large or strategic investors, Midway may establish additional separately managed accounts.

Fee arrangements and terms for the Managed Account, and any future managed accounts, are and will be individually negotiated. Accordingly a managed account may be, and the Managed Account is, subject to different terms and fees than those of the Funds. Managed account relationships are generally subject to significant account minimums.

Assets under Management

As of December 31, 2013, Midway managed, on a discretionary basis, Client assets totaling \$2,582,015,337. Midway does not manage client assets on a non-discretionary basis.

Item 5 – Fees and Compensation

Management Fees

Each Client pays Midway a management fee that is calculated as a percentage of assets under management by Midway. Management fees for the Funds are set out in detail in the confidential private placement memorandum for each of the Feeder Funds. These fees are payable monthly in arrears based on the month-end asset value as of the last business day of the immediately preceding calendar month (before taking into account any withdrawals as of such day). Each underlying investor in a Feeder Fund is allocated a portion of the fee attributable to that investor's holdings in such Feeder Fund excluding any amount held for such investor in a Special Liquidating Sub-Account (as defined below). The management fee paid to Midway with respect to all investments made prior to March 1, 2005, is equal to 1.5% per year, or 0.125% per month. The management fee paid to Midway with respect to all investments made on or after March 1, 2005, is equal to 2% per year, or 0.166% per month. While the Midway Master Fund does not charge its own management fees, Midway, for administrative convenience, may elect to charge the management fees associated with the Feeder Funds at the Midway Master Fund level. Management fees associated with Designated Investments (as defined in Item 8 below) are payable upon the disposition of the designated assets or an investor's withdrawal from the applicable Feeder Fund.

The Managed Account generally pays, and future managed account clients generally will pay, Midway on the basis of a monthly or other periodic fee that is computed as a percentage of the value of the assets under management. All such fee arrangements are individually negotiated and set forth in the investment management agreement.

Performance-Based Compensation

At the end of each fiscal year, with respect to Midway Domestic, The Midway Group, LLC (an affiliate of Midway and the managing member of Midway Domestic), and with respect to Midway International, the Investment Manager, may receive performance-based compensation in compliance with Rule 205-3 under the Advisers Act. The performance-based compensation is equal to 20% of the net profits of each Feeder Fund during the relevant period above a "high water mark" (i.e., the previous highest net asset value at which performance-based compensation was paid). The performance-based compensation is made pro rata from the account of each underlying Feeder Fund investor in the amount attributable to that investor's holdings in such Feeder Fund. If Midway ceases to act as the investment manager of a Feeder Fund, or an underlying investor withdraws its assets from a Feeder Fund, the performance-based compensation will be allocated on a pro rata basis. While the Midway Master Fund does not receive performance-based compensation attributable to assets invested in the Midway Master Fund, Midway, for administrative convenience, may cause the performance-based compensation to be paid at the Midway Master Fund level. Performance-based compensation attributable to Designated Investments (as defined in Item 8 below) is

payable upon the disposition of the designated assets or an investor's withdrawal from the applicable Feeder Fund.

Midway generally receives performance-based compensation from the Managed Account, and generally will receive performance-based compensation from any future managed account clients, on the basis of a percentage of the net capital appreciation in such client's portfolio during a specified period, subject to a "high water mark." All such fee arrangements are individually negotiated.

Fee Differential

In extremely limited circumstances, certain underlying investors in the Feeder Funds may pay lower fees or have other unique arrangements such as the waiver or rebate of fees or greater transparency. In addition, investors such as those who are otherwise affiliated with Midway, or who provide large or initial investments in a Feeder Fund, may have specially tailored arrangements with respect to their investment in a Feeder Fund. These arrangements could create preferences or priorities for certain investors in the Feeder Funds as compared to other investors. Midway may, in its sole discretion, enter into these arrangements with specific Feeder Fund investors without the consent of, or specific notice to, other Feeder Fund investors. In addition, Midway may, in the future, exclude certain Midway employees from being subject to management and performance fees.

Early Withdrawal and Related Charges

Any capital contribution that is withdrawn from a Feeder Fund before the completion of the investor's commitment period is subject to an early withdrawal fee, which may be waived in Midway's discretion or the discretion of one of its affiliates, as set out in detail in the Feeder Funds' confidential private placement memoranda. The commitment period for investors in the Feeder Funds is one year. Investors who withdraw a capital contribution prior to the end of the one-year period will pay an early withdrawal fee of 5% of the amount withdrawn. All early withdrawal charges are received as income by each Feeder Fund, as applicable. For the purposes of determining the amount of the withdrawal, contributions are treated on a first-in, first-out basis.

Other Fees

All fees paid to Midway are separate from fees related to brokerage commissions, transaction fees, software and research expenses, audit, legal and administrative fees and other related costs and expenses which may be incurred by a Fund. The Funds will also incur other charges imposed by custodians, brokers, and other third parties, such as custodial fees, transaction related expenses, transfer taxes, wire transfer and other fees. Such charges, fees and commissions are exclusive of and in addition to Midway's fees. Midway does not receive a portion of these other commissions, fees and costs.

The Managed Account incurs, and other managed account clients will incur, comparable brokerage and other transaction costs. (Please refer to the "Brokerage Practices" section

in Item 12 for additional information.) Shared expenses of the Managed Account and Funds will generally be allocated pro rata based on assets under management.

Each Fund will indemnify and hold harmless Midway and/or its affiliates from and against all liabilities, claims, costs and expenses that may arise in connection with the performance of its duties (including management of the Fund's investments and execution of investment trades), provided that such liabilities, claims, costs and expenses did not result from such persons' bad faith, fraud or willful misconduct. The investment management agreement with the Managed Account includes, and any future managed account clients will include, similar language that is individually negotiated.

Billing Method

The Funds' administrator deducts from the account of each investor in each Feeder Fund the monthly management fee. The Funds' administrator deducts from the account of each investor in each Feeder Fund any applicable performance-based compensation. Midway does not rebate any portion of a management fee once it has been paid. Because management fees are paid in arrears, there is no foreseeable circumstance under which a claim for a rebate of management fees could arise.

Midway does not deduct advisory fees or other expenses directly from the Managed Account (nor does it have the power to do so without the consent/action of the Managed Account client). Midway submits an invoice to the Managed Account on a quarterly basis for management and performance-based fees. The Managed Account reviews and approves the invoice and forwards it on to the custodian, instructing the custodian to wire the funds to Midway.

Other Compensation

Neither Midway nor any of its employees receives compensation for the sale of securities or other investment products.

ERISA Clients

Midway is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts pursuant to the Employee Retirement Income and Securities Act ("ERISA"). Any assets subject to ERISA that are deemed to be "plan assets" are subject to specific rules and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation and the prohibition of certain transactions. In order to avoid causing assets of any of the Funds to be deemed "plan assets," each Feeder Fund seeks to restrict the aggregate investment by benefit plan investors to under 25% of the total value of each class of equity interests in each Feeder Fund.

Valuation and Pricing

A conflict of interest exists in valuing Clients' investments because Midway has an incentive to value the portfolio aggressively in order to improve performance, attract new underlying investors to the Funds and/or new managed account clients, and increase its performance-based compensation. Unless specifically provided otherwise in a Feeder Fund's confidential private placement memorandum or in the investment management agreement with a managed account client, Midway mitigates this conflict by relying on independent dealers for valuations.

The liquid portion of the portfolio used for hedging purposes is typically priced according to the last available sales price at which such securities are traded on the principle exchange. For the less liquid portion of the portfolio (i.e., inverse IOs, IOs and POs) Midway makes its best efforts to price these holdings based on the average valuation or quotes received from two independent dealers and/or recognized securities pricing services that provide marks for such securities, including dealers from which such securities may have been purchased.

If, in their sole discretion, the portfolio manager and risk manager believe that any of the dealer marks are unreasonable, Midway will ask such dealers to revalue the bond at issue. If a dealer maintains its original valuation, Midway will accept the valuation of the bond as originally issued for its month end evaluation. If a dealer revises its valuation, Midway will use the revised value. No one at Midway has the authority to override, ignore, or discard a dealer mark.

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

Midway receives performance-based compensation from each of its Clients (that is compensation based on a share of capital gains on or capital appreciation of the assets of the Client). Performance-based compensation will be in conformity with Rule 205-3 under the Advisers Act. Please refer to Item 5 for additional information. Fees for managed account clients may vary as negotiated between Midway and each such client, and may be higher or lower than fees paid by the Funds, which may create an incentive for Midway to provide investment opportunities to one client over another. As a result, Midway has addressed this conflict of interest by implementing policies and procedures related to the allocation of investments and investment opportunities (see Item 12). If Midway determines that an investment or trading opportunity is appropriate for more than one Client, Midway allocates such investment or trading opportunity among the Clients in a manner it determines, exercising its judgment in good faith, to be fair and equitable, taking into consideration all allocations among such Clients taken as a whole. Midway is not required to provide every opportunity to each Client.

As a result of the performance-based fees, Midway may have an incentive to make investments that are riskier or more speculative than it otherwise might make in the absence of compensation based on the performance of its Clients. Midway endeavors to

ensure that investments made for the Funds and Managed Accounts are appropriate without regard to the potential for performance compensation.

Item 7 – Types of Clients

Midway provides investment advisory services to U.S. and non-U.S. private investment funds that are exempt from being registered investment companies under the Investment Company Act of 1940, as amended. Please refer to Item 4 for a list of such Fund clients.

In order to qualify for investment in a Feeder Fund, underlying investors must certify that they are “accredited investors” as defined in Rule 501 of the Securities Act of 1933 and “qualified clients” as defined Rule 205-3(d)(1) of the Advisers Act. Midway reserves the right to reject any investment in whole or in part. Investors in the Funds are generally:

- high net worth individuals;
- pension and profit sharing plans;
- charitable organizations and/or foundations;
- corporations, partnerships, LLCs or other businesses; and
- trusts.

Midway also provides investment advisory services to a Managed Account that is an institutional investor. The Managed Account is a “qualified client” within the meaning of Rule 205-3(d)(1) of the Advisers Act. Midway individually negotiates minimum contribution amounts with managed account clients.

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

Methods of Analysis

Midway manages the portfolios of the Funds in accordance with the investment strategy described in the confidential private placement memorandum for each Feeder Fund. The investment strategies and risks set forth below are summaries, and are not intended to be a complete statement of the investment strategies and related risks applicable to an investment in the Funds or the Managed Account. Investors should review the complete private placement memorandum for each Fund and/or the Managed Account and other governing documents for a complete statement of the strategy and risks related to each Fund and/or account.

Midway uses the following methods of analysis in formulating investment advice and/or managing client assets:

Fundamental Analysis: Midway attempts to measure the intrinsic value of a security by forecasting economic and housing market conditions, which are key factors in

determining prepayment speeds of the underlying loans or pools in the security. These conditions include the overall economy, mortgage rates, homeowners' ability to refinance, government policy (current and proposed), and home price trends in different regions within the United States. Once the prepayment speeds are forecasted Midway estimates the true discounted cash flow value of the security. Fundamental analysis is the primary foundation of Midway's research efforts.

Quantitative Analysis: Through the use of models, Midway attempts to project the portfolio's response to various interest rate scenarios. In order to do so, Midway simulates interest rate paths to analyze the sensitivity of the loans to prepayment, given these interest rate scenarios. Quantitative analysis is important to the formulation of Midway's investment strategies.

A risk of using quantitative analysis is that the models used may be based on assumptions that may prove to be incorrect.

Risks for all forms of analysis: The securities analysis methods that Midway uses all rely on the assumption that the companies whose securities Midway purchases and sells, the rating agencies that review these securities, and other publicly-available sources of information about these securities are providing accurate and unbiased data. While Midway is alert to indications that data may be incorrect, there is always a risk that Midway's analysis may be compromised by inaccurate or misleading information.

Investment Strategies

The Funds' investment objective and the investment objective of the Managed Account is to achieve long-term capital appreciation while emphasizing the preservation of capital through investment in fixed-income securities and other related financial instruments. The Feeder Funds each seek to attain their investment objective by investing their assets in Midway Master Fund, which has the same investment objective.

Midway uses the following, among other, strategies in managing each Client's assets, consistent with the Client's investment objectives and risk tolerance as stated in the confidential private placement memorandum for each Fund, and/or the investment management agreement for the Managed Account:

Midway's Clients invest primarily in mortgage-related securities, contract rights and derivatives, including MBSs, CMOs, REMICs, SMBs (such as agency and non-agency IOs, inverse IOs and POs securities) and other derivative instruments. Midway may also invest a portion of the assets of each client portfolio in other types of U.S. and non-U.S. sovereign debt and other investment-grade debt instruments and their related currencies as well as lower-grade securities. Midway may utilize other securities, options, cash instruments, interest rate swaps, mortgage servicing rights, futures and other derivatives for hedging purposes. The degree to which Midway hedges in a client account depends on Midway's assessment of prevailing risks, market conditions, price levels and other factors. Typically, Midway seeks to maintain low levels of exposure to certain major

risks associated with interest rate levels and changes as well as prepayments. However, there can be no assurance that the clients' hedging transactions will be successful. Midway intends to use leverage, and to trade on margin.

The Funds may invest, from time to time, in, or designate existing investments as, illiquid securities, referred to as "Designated Investments." Designated Investments are valued at the lower of cost, market or as otherwise determined by Midway. Only investors in a Fund who were invested in the Fund on the date an investment is acquired or designated as a Designated Investment will share in the appreciation or depreciation of any such Designated Investment. Investors admitted to a Fund after the acquisition or designation of a Designated Investment will not participate in the gain, loss or income from that Designated Investment.

Risks of Loss Related to Investment Strategies

Hedging: Midway may place both long positions and short positions in certain asset classes in client accounts, primarily for hedging purposes. As part of their general strategy, the client portfolios may acquire positions that expose them to significant interest rate and prepayment risks but Midway typically hedges against those risks by acquiring assets whose value should move in the opposite direction of those acquired positions that have these exposures.

Midway typically hedges in its clients' accounts through the purchase and/or sale of various financial instruments. These instruments include:

- U.S. Treasury securities;
- debt securities issued or guaranteed by government agencies or instrumentalities of the United States, the obligations of which are expressly backed by the full faith and credit of the United States or government-sponsored enterprises;
- debt securities issued or guaranteed by government-sponsored enterprises;
- debt securities issued or guaranteed by non-U.S. governments, non-U.S. agencies or non-U.S. government-sponsored entities that are denominated in other currencies;
- swaps, caps, floors and other derivatives on interest rates, currency exchange rates, and the credit of one or more issuers;
- futures and forward contracts;
- MBS pass-throughs and MBS derivatives; and
- options on any of the foregoing.

The success of Midway's hedging strategy will be subject to Midway's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the client's portfolio being hedged. The prices of those investments that are being hedged may decline substantially and the value of investments used for hedging purposes may not offset such decreases as anticipated. The characteristics of many assets change as markets change or time passes. Thus, success in its hedging strategy will also be subject

to Midway's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. While the Funds and/or the Managed Account may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund and/or Managed Account, as applicable, than if it had not engaged in any such hedging transactions. For a variety of reasons, Midway may not seek to hedge certain portfolio holdings, or may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Moreover, each client's portfolio will always be exposed to certain risks that cannot be perfectly hedged. Many securities cash flows and market valuations are unusually sensitive to interest rate changes.

Current Market Conditions: Recent events in the financial sector have resulted in an unusually high degree of volatility in the financial markets. Both debt and equity markets, domestic and foreign, have experienced, and may continue to experience, increased volatility and turmoil. These conditions have particularly affected issuers that have exposure to the real estate, mortgage and credit markets. In addition, the U.S. Government has taken a number of unprecedented actions to support certain financial and other institutions and segments of the financial markets that have experienced extreme volatility and, in some cases, a lack of liquidity. These events and possible continued market turbulence may have a negative effect on the investments in Midway's client portfolios.

Leverage and Financing Risk: Midway may leverage the investments of the Funds and/or the Managed Account in an effort to enhance returns. Accordingly, Midway may pledge the assets of the Funds and/or the Managed Account in order to borrow additional funds for investment purposes. In addition, the use of leverage may be subject to regulatory limits, contractual limitations imposed by prime brokers and other lenders and risk management concerns.

While leverage presents opportunities for increasing the total return of the Funds and/or the Managed Account, as applicable, it has the effect of potentially increasing losses as well. A change in market prices, interest rates, or other factors affecting the value of portfolio investments may produce a relatively greater profit or loss in a leveraged position. The cumulative effect of the use of leverage in a market that moves adversely to the client's investments could result in a substantial loss to the client, which would be greater than if leverage were not employed.

In general, the anticipated use of leverage results in certain additional risks to the Funds and/or the Managed Account. For example, should the securities pledged to lenders to secure borrowings, or derivative contracts subject to variation margin, decline in value, the client's account could be subject to "margin calls," pursuant to which Midway must either deposit additional funds or securities with the lender or counterparty, or suffer mandatory liquidation of the pledged securities or contracts to compensate for the decline in value. In the event of a sudden drop in the value of the assets of a Fund or the Managed Account, Midway might not be able to liquidate assets quickly enough to

satisfy its margin requirements. Furthermore, Midway may use cash reserves of a client account to satisfy its margin requirements.

The Funds and/or the Managed Account obtain financing to leverage their portfolios from various banks or other institutions. While Midway attempts to negotiate the terms of these financing arrangements, its ability to do so is limited. The Funds and/or the Managed Account are therefore exposed to changes in the value that a financial institution ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position, and/or such financial institution's willingness to continue to provide any such credit to the Fund and/or Managed Account, as applicable. Because Midway currently has no alternative credit facility that could be used to finance its client portfolios in the absence of financing from banks or other institutions, it could be forced to liquidate its portfolio on short notice to meet its financing obligations. The forced liquidation of all or a portion of a client's portfolio at distressed prices could result in significant losses to the applicable client.

Model and Data Risk: Given the complexity of the clients' investments and strategies, Midway relies heavily on analytical models (both proprietary models developed by Midway, and those supplied by third parties) and information and data supplied by third parties (collectively, "Models and Data"). Midway uses Models and Data to value investments or potential investments and also in connection with the hedging of client investments.

When Models and Data prove to be incorrect, misleading, or incomplete, any decisions made in reliance thereon expose the client portfolios to potential risks. For example, by relying on Models and Data, especially valuation models, Midway may be induced to buy certain investments at prices that are too high, to sell certain other investments at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty Models and Data may prove to be unsuccessful.

Some of the analytical models used by Midway, such as mortgage prepayment models or mortgage default models, are predictive in nature. Using predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses on a cash flow and/or a mark-to-market basis. In addition, the predictive models used by Midway may differ substantially from those models used by other market participants, with the result that valuations based on these predictive models may be substantially higher or lower for certain investments than actual market prices. Furthermore, since predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data.

General Risk of Loss Statement: As with any investments, investing in securities involves a risk of loss. Future returns are not guaranteed and the client may lose money on investments. The securities markets are volatile and clients should carefully consider the amount of risk and/or loss they are willing to bear. Midway in no way guarantees

performance, and at any time, the value of assets invested may fluctuate and be worth less than the amount originally invested. A client should only invest assets it will not need for current purposes and that can be invested on a long-term basis, usually a minimum of five (5) to seven (7) years. These risks apply to underlying investors in the client Funds as well.

Risks Related to Specific Types of Securities in Which the Clients Invest

As set forth above, Midway generally recommends investment in mortgage-related securities, contract rights and derivatives, including inverse IOs, CMOs, REMICs, SMBs (such as agency and non-agency IO and PO securities), and other derivative instruments. The Funds and/or the Managed Account may, however, invest in other assets.

Mortgage-Related Securities Generally: Mortgage-related securities are collateralized by residential or commercial mortgages or pools of residential or commercial mortgages. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related and private organizations. Mortgage-related securities are subject to credit risk associated with the performance by the mortgagors. As with other interest-bearing securities, the prices of mortgage-related securities are affected by changes in interest rates. Although generally the value of a mortgage-related security may increase when interest rates rise, this is not true for all mortgage-related securities. For certain classes of mortgage-related securities an increase in rates inversely affects the coupon of the security, which may lead to a decrease in the value of the security. In the event that interest rates decrease there is a risk of prepayments in the underlying mortgage collateral. Prepayment risk can lead to fluctuations in value of the mortgage-related security, which may be pronounced. For this and other reasons, a mortgage-related security's stated maturity may be shortened by unscheduled prepayments on the underlying mortgages. Therefore, it is not possible to predict accurately the security's return to an investor. During periods of rapidly rising interest rates, prepayments of mortgage-related securities may occur at slower than expected rates. Slower prepayments effectively may lengthen a mortgage-related security's expected maturity, which generally would cause the value of such security to fluctuate more widely in response to changes in interest rates.

Risks of Investment in Residential Mortgage Securities: The assets held by the Funds and/or the Managed Account may include mortgage-related securities, government-related securities, government-sponsored securities and other securities backed by residential mortgage loans ("Residential Mortgage Securities"). Violations of certain provisions of federal, state and local laws, as well as actions by governmental agencies, authorities and attorneys general, may limit the ability of a servicer to collect all or part of the principal of, or interest on, the mortgage loans that serve as security for the Residential Mortgage Securities. Violations could also subject the entity that made the loans to damages and administrative enforcement (including disgorgement of prior interest and fees paid). In particular, if a loan seller fails to comply with certain requirements of federal and state laws, this could subject the seller (and other assignees of the mortgage loans) to monetary penalties and result in the obligors' rescinding the

mortgage loans against the seller and any subsequent holders of the mortgage loans, even if the assignee was not responsible for and was unaware of those violations. The terms of the documents used to create Residential Mortgage Securities typically entitle the holders of the securitized loans to contractual indemnification against these liabilities. For example, the sellers of loans placed in a Residential Mortgage Security typically represent that each mortgage loan was in compliance with applicable federal and state laws and regulations at the time it was made. If there is a breach of that representation, the seller will be obligated to cure the breach or repurchase or replace the affected mortgage loan. If the seller is unable or otherwise fails to satisfy these obligations, the yield on the Residential Mortgage Securities may be materially and adversely affected. Due to the well-publicized recent deterioration in the housing market, many of the sellers that issued these indemnifications no longer exist or are unable to financially respond to their indemnification obligations. As a result, holders of interests in the Residential Mortgage Securities, such as the Funds and/or the Managed Account, may ultimately have to absorb the losses arising from the sellers' violations.

Furthermore, the volume of new and modified laws and regulations at both the federal and state levels relating to Residential Mortgage Securities and residential mortgage loans has increased in recent years. It is possible that these laws, including any litigation resulting from increased enforcement, might result in additional significant costs and liabilities, which could adversely affect the Funds' and/or the Managed Account's returns.

Credit Risk: The issuers of debt instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. In addition, major economic downturns and financial market swings have adversely affected, and could in the future adversely affect, the ability of some of the issuers of such instruments to repay principal and pay interest thereon and may increase the incidence of default for such instruments.

The price of an instrument is affected by the credit quality of its issuer and the borrower, the market for such instrument and whether payments are made on the assets underlying such instrument. Changes in the financial condition of an issuer, changes in general economic conditions, and changes in specific economic conditions that affect a particular type of issuer, can impact the credit quality of an issuer. Lower quality instruments are often considered to be speculative in nature and involve greater risk of default, and tend to be more sensitive to these changes than higher quality instruments. Instruments that are unrated or below investment grade may be unlikely to have the capacity to pay interest and repay principal when due, in the event of adverse business, financial, or economic conditions.

It is not expected that the mortgage-related securities will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on mortgage-related securities will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Each of the rating agencies have been downgrading, or placing for downgrade review, the ratings it assigned to numerous tranches of MBSs, asset-backed securities (“ABSs”) and CDOs. MBSs, ABSs and CDOs with exposure to non-prime residential mortgage loans that were issued between 2005 and 2008 have been subjected to unusually severe ratings downgrades. Numerous MBSs, ABSs and CDOs that were originally rated AAA (or equivalent) by one or more rating agencies have been downgraded and the ratings on some of these securities have fallen or may fall below investment grade. It is likely that such adverse rating actions on MBSs, ABSs and CDOs will continue in the foreseeable future. The Funds and/or the Managed Account may invest in MBSs, ABSs and CDOs, the ratings of which (i) may already be downgraded, withdrawn or not confirmed, (ii) may be in the process of being downgraded, withdrawn or not confirmed or (iii) may be subject to future ratings downgrades, withdrawals or confirmation failures.

Interest Rate Risk: The most fundamental risk to any portfolio of mortgage-related securities is a shift in interest rates. To the extent that the cash flow from such a security is known in advance, the present value (*i.e.*, discounted value) of that cash flow decreases as interest rates increase; to the extent that the cash flow is contingent, the dollar value of the payment may be linked to then prevailing interest rates. Callable or prepayable investments such as MBSs and ABSs react very differently from other fixed income securities: their durations can vary dramatically as interest rates move, making them much more difficult to hedge. Many are “negatively convex,” meaning that price increases may be limited in relation to price declines. Some of these securities can have unusually high durations (rising dramatically in price when rates fall, and falling dramatically in price when rates rise); others can have highly negative durations (falling dramatically in price when rates fall, and rising dramatically in price when rates rise). While Midway will attempt to control the duration of the Funds’ and/or the Managed Account’s portfolio of negatively convex instruments through various hedging transactions, this is difficult not only because these securities are very sensitive to many factors, but also because these factors interact in complicated ways.

Prepayment Risk: MBSs are subject to the risk of prepayment on the loans underlying such securities (including voluntary prepayments by the obligors and liquidations due to default and foreclosures). The frequency at which prepayments (including voluntary prepayments by the obligors and involuntary prepayments due to defaults and foreclosures) occur on loans underlying MBSs will be 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, mortgage obligors tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. To the extent that prepayment rates are different than anticipated, the average yield of investments in MBSs may be adversely affected. The interest rate sensitivity of any particular pool of loans depends upon the allocation of cash flow from the underlying mortgage loans. Certain types of MBS contain complex interest rate and cash flow provisions and may be highly volatile with respect to market value, yield and total return to maturity.

IOs are generally valued using various assumptions of likely prepayment behavior of the underlying borrower. The market value of the IO is sensitive to both the market's expectations on prepayments and actual prepayment behavior over time. To estimate the valuation of an IO, the Investment Adviser models the option-adjusted spread ("OAS"), which is the yield spread on the security over the forward swap curve after subtracting the estimated cost of hedging away the short call optionality of the underlying mortgages. If prepayments are faster than estimated at the time of purchase, the IO investment will return less than the estimated OAS. If actual prepayments speeds are such that the sum of the remaining interest payments is less than the cost of purchasing and hedging the IO security, the Funds will likely suffer material losses.

Although ABSs are generally less likely to experience substantial prepayments than are MBSs, certain of the factors that affect the rate of prepayments on MBSs also affect the rate of prepayments on ABSs. However, during any particular period, the predominant factors affecting prepayment rates on MBSs and ABSs may be different.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many MBSs and ABSs will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these MBSs and ABSs may be adversely affected by changes in prepayments in any interest rate environment.

The underlying mortgages of CMOs and other MBSs in which Midway invests will frequently have caps and floors which limit the maximum amount by which the loan rate to the residential borrower may change up or down (i) per reset or adjustment interval and (ii) over the life of the loan. Some residential mortgage loans restrict periodic adjustments by limiting changes in the borrower's monthly principal and interest payments rather than limiting interest rate changes. These payment caps may result in negative amortization. In addition, because of the pass-through of prepayments of principal on the underlying securities, MBSs are often subject to more rapid prepayment of principal than their stated maturity would indicate.

The adverse effects of prepayments may impact clients' portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that Midway may have constructed for these investments, resulting in a loss to the client's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many MBSs and ABSs to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Volatility Risk: An IO security may be short an embedded prepayment option. Given the prepayment optionality of the IO security, the value of the IO can become increasingly sensitive to mortgage rate changes as the prevailing mortgage rate gets closer to the

weighted average coupon (“WAC”). As the prevailing mortgage rate falls below the WAC minus the fixed cost of refinancing, prepayment expectations increase rapidly as more and more borrowers in the security are economically incentivized to refinance. Thus, as discussed earlier, the price of the IO exhibits negative convexity to changes in mortgage rates. As the mortgage bond prepayment option goes in the money, the price of the IO drops more rapidly than simple duration would suggest. When the bond goes out of the money as mortgage rates rise well above the WAC, the discounter (as well as the fact that people may still prepay for non-economic reasons) generally reduces the rate of price appreciation on the bond below that suggested by duration.

Midway attempts to maintain the duration (price sensitivity to interest rate movements) of each Fund close to zero. It does so by taking positions in hedges with duration characteristics contrary of that of IOs. However, the hedges do not display convexity characteristics opposite to IOs. Because historically realized volatility has been less than implied volatility, Midway generally elects to leave a certain amount of convexity in the portfolio as long as it remains under certain estimated risk thresholds. As a result, the Funds will generally have a negative convexity profile to interest rate movements. When interest rates change, the duration of the IO and hedge will misalign, and will need to be rebalanced, or “delta hedged.” Midway seeks to rebalance the remaining effects of interest rate movements on duration through delta hedging.

The resulting convexity exposure between the hedges and the risk position can lead to duration gaps, where a large magnitude of interest rate shock will have an adverse impact on the portfolio. In these instances, in a decreasing rate environment, the hedge will generally underperform the gain in the long IO. Conversely, in an increasing rate environment, the hedges will generally depreciate in value more than the IO will appreciate. These performance differentials may lead to losses by the Funds.

To reduce the convexity in the portfolio, Midway may purchase POs, swaps, swaptions, Treasury futures and options, and mortgage options which generally are positively convex and benefit from increased volatility. In general, Midway expects that the long positions in these securities will benefit from large interest rate movements. However, this method of hedging convexity is quite expensive. In times of increased volatility, consistent with the aim to keep the Funds within stated risk parameters, the Funds will often purchase more of these options. Buying convexity insurance through options will, however, likely have an adverse effect on the carry and therefore reduce the Funds’ return.

The pricing and characteristics for certain of these hedging instruments are based off swap and Treasury rates, rather than mortgage rates. The underlying assumption is that swap, Treasury and mortgage rates are highly correlated, and therefore a hedge on the volatility of the swap or Treasury rate should help in situations where mortgage rates experience moves of large magnitude. However, in purchasing Treasury or swap optionality, Midway is hedging with different rates than its underlying positions, and there may be times when swap or Treasury rates move differently from mortgage rates.

There may also be times when the volatility of swap and Treasury rates differs from mortgage rates. In those instances, the Funds can suffer losses.

Libor Curve Risk: The current coupon on an Inverse IO is calculated by subtracting a benchmark rate, typically one-month Libor (London Interbank Offering Rate) from a predetermined strike rate. Thus, an increase in the one-month Libor rate will decrease the coupon on the bond. Therefore, the value of an Inverse IO is affected by the projected future Libor interest rates, or “the Libor curve.” Because an Inverse IO coupon floats inversely to Libor rates, the sensitivity of the market price to Libor rates is larger for Inverse IOs than for most other fixed rate instruments. When Libor increases, the Inverse IO will decrease in value not only because the discounter (or opportunity cost) increases, but also because the Inverse IO’s coupon cash flow decreases. Most problematic is if Libor increases beyond the predetermined Inverse IO strike price, in which case the coupon equals zero, and all cash flow from the Inverse IO ceases.

In the event that Libor rates and forward Libor rates rise rapidly, these investments will incur substantial losses as the prices on these Inverse IO instruments fall steeply. In order to mitigate potential losses from the reductions in coupons, the Funds may take short positions in Eurodollar futures, interest rate swaps and Treasury rate products, among other instruments, to hedge the fluctuation in Libor rates.

Default Risk: MBSs and ABSs are exposed to the default probability of the underlying loans and recovery rates on those liquidated loans. The default rates of loans backing these securities is dependent on a number of factors including national and regional economic growth, real estate values, the level of interest rates, the strength of new origination platforms, and other factors. Recovery values will be dependent largely on regional and national real estate values among other things, although real estate values are a function of other economic variables.

Subordinate credit support tranches are leveraged with respect to defaults. Many of these tranches have credit support that may change with the prepayments of the underlying loans. The ultimate performance of these tranches is thus dependent on both the default (involuntary prepayment) and voluntary prepayment performance of the underlying pool. Although Midway attempts to minimize defaults in the client’s portfolios, it will in general not attempt to hedge default risk. The Funds and/or the Managed Account will be exposed to economic recession, decline in real-estate prices, changes in the availability of mortgage financing, and other risks.

Stripped MBS: Midway invests in stripped MBSs which are created by segregating the cash flows from underlying mortgage loans or mortgage securities to create two or more new financial instruments, each with a specified percentage of the underlying security’s principal or interest payments. Mortgage securities may be partially stripped so that each investor class receives some interest and some principal. When securities are completely stripped, however, all of the interest is distributed to holders of a certain type of securities, known as IOs, and the entire principal is distributed to holders of another type of securities known as POs. Strips can be created in a pass-through structure or as

tranches of a CMO. The yields to maturity on IOs and POs are very sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets. If the underlying mortgage assets experience greater than anticipated prepayments of principal, the Funds and/or the Managed Account may not fully recoup their initial investment in IOs. Conversely, if the underlying mortgage assets experience less than anticipated prepayments of principal, the yield on POs could be materially and adversely affected.

Derivatives: Although the Funds and the Managed Account will not focus on derivative products related to mortgages (“Derivatives”), Midway may invest in Derivatives from time to time. These are financial instruments that derive their performance, at least in part, from the performance of an underlying asset, index or interest rate. Derivatives can be volatile and involve various types and degrees of risk, depending upon the characteristics of the particular Derivative and the portfolio as a whole. Derivatives may entail investment exposures that are greater than their cost would suggest, meaning that a small investment in Derivatives could have a large potential impact on the performance of a client’s portfolio.

The risks generally associated with Derivatives include the risks that:

- the value of the Derivative will change in a manner detrimental to the Fund or Managed Account;
- before purchasing the Derivative, the client will not have the opportunity to observe its performance under all market conditions;
- another party to the Derivative may fail to comply with the terms of the Derivative contract;
- the Derivative may be difficult to purchase or sell; and
- the Derivative may involve indebtedness or economic leverage, such that adverse changes in the value of the underlying asset could result in a loss substantially greater than the amount invested in the derivative itself or in heightened price sensitivity to market fluctuations.

Debt and Other Income Securities: The Funds and/or the Managed Account invest in fixed-income securities. Fixed-income securities are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security’s value as a result of changes in interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. This inverse relationship means, in general, that the values of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Market risk relates to the changes in the risk or perceived risk of an issuer, country or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. A Fund or the Managed Account could lose money if the issuer of a fixed income security is unable to pay interest or repay principal when due. Credit risk applies to most fixed income securities. The values of fixed-income securities may also be affected by changes in the credit rating or financial condition of the issuing entities.

The foregoing does not purport to be a complete explanation of the risks involved in trading securities or with respect to any of Midway's trading strategies.

Item 9 – Disciplinary Information

As a registered investment adviser, Midway is required to disclose whether there are any legal or disciplinary events that would be material to a Client's or a prospective client's evaluation of Midway or the integrity of Midway's management persons. Midway has no such legal or disciplinary actions to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

Midway has a material business relationship with The Midway Group, LLC, which serves as the managing member of Midway Domestic and is wholly owned by Sonoma. The Midway Group, LLC is not a registered investment adviser. Midway also has a material business relationship with Sonoma, which wholly owns Midway. Sonoma is not a registered investment adviser.

Neither Midway nor any of its management persons are registered or have an application pending to register as a broker-dealer or as registered representative of a broker-dealer. Neither Midway nor any of its management persons are registered or have an application pending as a futures commission merchant, commodity pool operator or commodity trading advisor, or as an associated person of any of the foregoing.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

As an investment manager to the Funds and the Managed Account, Midway may give advice, or take action or refrain from taking action, any of which may differ from advice given, action taken or not taken or the timing of any action for any other Fund and/or the Managed Account. Further, Midway may recommend or effect transactions on behalf of its Clients in securities which it or any of its affiliated persons may buy or sell for their own accounts. Midway is not a broker-dealer and does not act as a principal or broker in connection with Client transactions. Midway, and persons related to Midway, including its officers, directors and employees, may buy, sell, or have a financial interest in securities recommended to Clients either by investing directly in the Funds managed by Midway or otherwise, through independent transactions in personal accounts subject to Midway's Code of Ethics (the "Code") described below. Potential conflicts of interest in connection with such transactions are generally disclosed to Clients herein and otherwise.

Midway has adopted a Code in an effort to avoid possible conflicts of interest, the inappropriate use of material non-public information and to ensure the propriety of its employees' and Clients' trading activities. The Code is based on the principle that Midway personnel owe a fiduciary duty to Midway's Clients and investors in the Funds and must place the interests of Midway's Clients and investors above their own. The Code is distributed to each employee at the time of hire and employees are required to certify annually that they have reviewed and understand the policies and procedures set forth in the Code, complied with its requirements and reported all information required by the Code.

Employees are required to provide Midway's Chief Compliance Officer with a report of their, and their immediate family members', securities holdings within ten (10) days of commencing employment with Midway. In addition, employees are required to submit a report, within forty-five (45) days of the end of the calendar year, listing securities held by the employee, any immediate family member and/or any account in which the employee and/or an immediate family member had a beneficial interest or had investment discretion over, as of December 31 of that year. In addition, employees are required to submit a report listing their securities transactions and the securities transactions of all immediate family members made during the previous quarter, within thirty (30) days of the end of each calendar quarter. If an Employee has been providing personal trading information on an ongoing basis to the Chief Compliance Officer (i.e., copies of monthly statements), then the Employee need only certify that the transactions and holdings information that the Chief Compliance Officer maintains is accurate and complete.

Midway implemented the following procedures in order to monitor potential conflicts of interest with respect to employees' buying or selling of securities at the same time as the Funds and/or Managed Account.

Midway maintains a Restricted Trading List (the "Restricted List"). The Restricted List is a list of securities and security types subject to trading restrictions for employee accounts and the accounts of their immediate family members. The placement of a security type on the Restricted List restricts personal trading in the specified issuer until Midway's Chief Compliance Officer removes the issuer from the Restricted List.

With respect to securities that are not on the Restricted List, and subject to the exceptions below, all employees must receive preclearance approval prior to effecting securities transactions in their personal accounts or the accounts of immediate family members, including securities on Midways "Grey List." Generally, securities of all broker-dealers that are counterparties to Midway and/or sponsors of the issuers held by a Midway Client are placed on the Grey List.

The foregoing preclearance requirement does not apply for certain excepted securities, including equities traded on an exchange (except to the extent that they are Midway counterparties in which case such securities are subject to preclearance, or equities held by a Midway Client, in which case such securities are prohibited), direct obligations of the U.S. government, high quality short-term debt instruments, and other specified

securities. In addition, employees are permitted to trade in IOs and POs with a market value of less than \$150,000 if it is not being held by a Midway Client and was not held by a Midway Client within the previous 30 days.

Employees that violate the Code may be subject to sanctions as determined by Senior Management.

The foregoing is only a summary of the provisions of the Code and is qualified in its entirety by the detailed provisions appearing in the full text of the Code. Clients, prospective clients, investors and prospective investors in the Funds may obtain a copy of the Code by contacting Midway's Chief Compliance Officer.

Midway does not engage in any principal transactions with the Funds and will not buy securities from, or sell securities to, a Managed Account Client without making the required disclosures to, and obtaining the consent of, such client.

Midway does not currently, but is permitted to, engage in cross trades. Midway may use an unaffiliated broker-dealer or custodian to cross investments and/or cash between Client accounts if Midway expects such transaction to be in the best interests of each participant. However, no accounts subject to ERISA with less than \$100 million in assets may be included in any cross trade. In the event Midway effects cross trades through an unaffiliated broker-dealer or custodian: (i) the portfolio manager will complete a trade ticket showing the positions and/or cash that are to be crossed; (ii) the portfolio manager will provide the trade ticket to a trader, who will determine that the positions are freely tradable and not subject to any restriction; (iii) the trader or portfolio manager will instruct the broker-dealer(s) and/or custodian(s) to cross the assets at the midpoint between the current national best bid and offer; (iv) any transaction costs will be divided equally between the participants; and (v) the trader will reconcile the trade confirmations against the trade ticket to detect any errors.

Item 12 – Brokerage Practices

Midway is obligated to seek to obtain best execution for its Clients. Best execution generally means lowest transaction cost for brokerage services rendered combined with best market price in order to minimize total purchase cost or maximize total sales proceeds. Other brokerage and trading services may be considered in analyzing execution practices including but not limited to the promptness of execution, confidentiality of trading activity, clearance and settlement, order positioning and financial stability. Midway's Best Execution Committee meets to evaluate best execution, review for compliance with, and other conflicts around, Midway's best execution practices.

Midway effects trades in the over-the-counter market through broker dealers that, acting as principal, charge markups, markdowns or other charges in connection with such trades. Broker-dealers in the over-the-counter markets do not charge commissions.

Thus, Midway's objective in seeking best execution is to obtain or sell securities at the best price under the circumstances.

Most of the Funds' and Managed Account's assets are comprised of illiquid securities that are traded over the counter and therefore do not have a quoted price. In most instances Midway will purchase the whole tranche, and therefore is unable to back-test the execution of the trade versus a benchmark. Furthermore, certain trades are unique in that there is only one dealer selling a bond. Midway attempts to purchase bonds that offer attractive returns given the purchase price. Midway's ability to negotiate and come to an agreement on a trade price is based on Midway's assumptions about value, and therefore is subjective. Midway generally sells illiquid securities through "bid wanted in competition" auctions or "reverse inquiries." Midway may also sell illiquid securities through broker-dealers or counterparties that Midway, in its discretion, determines is suitable and competent to sell such security.

Most of the hedges in the Funds' portfolio are made up of liquid assets. Transactions for Midway in liquid assets, including repurchase agreements, may be executed only with or through broker-dealers and counterparties on an approved trading list maintained by Midway. The members of the Best Execution Committee are the only employees authorized to add/remove broker-dealers and counterparties from the approved trading list. With respect to such approved trading list and counterparty exposure, Midway may conduct initial and periodic reviews of individual broker-dealers and counterparties. For arrangements where the counterparty exposure is expected to be significant, the reviews will generally be more intensive. Midway directs trades to the broker-dealer it believes will provide best execution considering all relevant circumstances.

In selecting a counterparty and market through which to effect a trade, and in determining whether a transaction represents the best execution, Midway is permitted to consider a range of quantitative and qualitative factors, including but not limited to the following:

- Price;
- Reputation;
- Reliability, both historically and as an ongoing matter;
- Access to underwritten offerings of fixed income securities;
- Nature of the security and availability of market makers;
- Desired timing of transactions and size of trades;
- Confidentiality of trading activity, particularly in less liquid sectors;
- Market intelligence and knowledge regarding trading activity;
- A salesperson's knowledge of Midway's investment process;
- A salesperson's ability to harness his or her firm's resources to the benefit of Midway's Clients;
- Size and type of transaction;
- Access to liquidity;
- Execution efficiency;
- Responsiveness;
- Capital utilization; and

- Financial Responsibility.

Midway trades for the benefit of Clients through prime brokerage arrangements that are designed to allow trading with multiple brokers while centralizing clearance and custody through prime brokers. Under these arrangements, Midway places trades through accounts with different executing brokers in the name of one of its prime brokers for the benefit of its Clients. Midway directs delivery of funds or securities to a prime broker who is responsible for custody, clearance and settlement services including matching trades with executing brokers and delivering account confirms and statements to Midway. Midway may also use electronic trading systems to execute trades. These systems charge transaction fees that are included in the price of the security.

Prime brokers may, as an incident to their services (and not for any additional compensation), sponsor conferences or seminars or provide “capital introduction services” in which consultants and prospective institutional investors may be introduced to Midway or the Funds managed by Midway, consistent with applicable private offering restrictions. Midway utilizes “capital introduction services” but does not take into account such services when selecting its prime brokers. Midway separately evaluates that its prime broker otherwise provides best execution.

Midway does not use soft dollars to pay for third-party research. While Midway may from time to time receive unsolicited research from broker-dealers and may use broker-dealers that provide it with such research, Midway does not make brokerage decisions based on such research.

Brokers to Midway’s Clients may refer investors to the Funds or engage in other transactions with Midway. From time to time, providers of client brokerage services also provide incidental consulting services and other advice with respect to Midway’s operations and/or other matters on a formal or informal basis. The provision of such services or advice may not be subject to formal agreements and may not be compensated, depending on the extent of the services provided. Provision of services or advice, including client or investor referrals, could provide Midway with an incentive to select the respective broker-dealer for Client transactions without regard to best execution. Midway, however, does not select broker-dealers based on the receipt of such services or advice and has made a determination that each of the broker-dealers it uses provides it with best execution in light of the best execution factors described above. Midway will provide compensation that we consider to be arm’s length in any situation where such services or advice have material value and will not allocate brokerage transactions to a provider of such services or advice as compensation for client or investor referrals or other services or advice in violation of our duties to our Clients. Some broker-dealers may recommend that Midway be invited to make presentations and proposals for potential clients’ business, which could raise a conflict of interest.

Midway does not participate in directed brokerage arrangements.

Due to the specialized nature of the MBS market, Client orders are not aggregated for the long portion, but may be aggregated with securities being purchased for hedging purposes. Orders for the same security that are entered on behalf of multiple accounts may be aggregated, when aggregation is considered to be in the best interest of such accounts.

Subsequent orders for the same security that are entered during the same trading day may be aggregated with any *unfilled* portions of orders that may be outstanding at that time; orders already *filled* shall be allocated separately from subsequent orders.

Midway may allocate investment opportunities among its Clients. The fairness of a given allocation depends on the facts and circumstances involved. However, in determining how much of a security to allocate to a particular account, Midway may consider one or more of the following factors related to the account or the particular investment: investment restrictions, investment objectives, risk tolerance, leverage constraints, time horizon, tax sensitivity, nature and size, tolerance for portfolio turnover, liquidity and size limitations, availability of cash or buying power, desired market capitalization range, suitability, credit quality of the security, maturity of the security and eligibility to participate in a trade pursuant to compliance regulations. Midway may also consider if an allocation would result in (a) a *de minimis* allocation to the account, or an amount less than the minimum denomination available for a particular security; (b) if an allocation would result in unbalancing the diversification of the portfolio (based on factors including, but not limited to, industry, geography, issuer, and credit quality); or (c) other factors in Midway's professional judgment. In addition, illiquid bonds valued at less than \$2 million will generally be unable to be split for allocation purposes and will be allocated to a single Client based on the factors described above.

Once allocation decisions are made orders will generally be allocated (1) based on the orders placed for each account or (2) pro-rata based on the order size if the order is only partially filled (adjusted for, among other things, available cash, round lots or certain minimum basis points holding as determined by the portfolio manager). Exceptions to the pro-rata allocation policy may be made based on (i) the size of the account; (ii) the necessity to obtain a certain level of holdings according to the specific benchmark of the Client; or (iii) redemptions or subscriptions of the Client. All aggregated trades will be allocated using the same price per bond.

With respect to accounts that have large cash positions, for example as a result of a recent influx of cash into the account or a requirement to invest excess cash balances, Midway may generally execute transactions to immediately invest these high cash balances which are not subject to the foregoing allocation procedures.

Item 13 – Review of Accounts

Midway's portfolio managers review Client accounts on a regular basis for appropriateness of holdings and transactions in light of the Client's investment strategy

and routinely discuss risk related to the portfolios. Midway has developed investment risk management systems and reports that allow investment personnel to monitor position level and portfolio level risk. Risks, including investment restrictions and internal risk limits (e.g., rate sensitivities, position size, leverage, collateral type, etc.), are actively monitored by the Managing Director of Risk Management and portfolio managers. The Managing Director of Risk Management and portfolio managers review the reports on at least a monthly basis. The review of such reports enables the Managing Director of Risk and portfolio managers to determine whether portfolio investments are consistent with Client guidelines and monitor position level and portfolio level risk.

Midway communicates regularly with its Clients and the underlying investors in the Feeder Funds by providing monthly written reports. These reports set forth unaudited performance, or unaudited estimated performance where performance is not available, of the Fund and other market information. Midway also provides investors in the Funds with a copy of the Fund's audited financial report and the information necessary for the investor to complete its annual federal income tax return, as applicable. Midway also responds to periodic requests by Fund investors to value the investor's investment and to provide certain additional information.

Item 14 – Client Referrals and Other Compensation

In addition to the previously described services that Midway receives from prime brokers (i.e., capital introduction), Midway has entered into a relationship with a properly registered third party and, from time to time, may enter into additional such relationships, pursuant to which it compensates the third party for soliciting investors to invest in the Funds and/or to establish a managed account. For managed account clients, disclosure is made to each client regarding the relationship and the associated fee prior to or at the time that the client enters into an investment management agreement, pursuant to Rule 206(4)-3 under the Advisers Act. All investments referred to a Fund through a third-party relationship will be subject to the Fund's standard terms and conditions and will not be subject to any incremental fees or allocations payable by Midway as a result of such solicitation agreement. Investors who are referred by a third party and open a managed account will also not be subject to any incremental fees or allocations payable by Midway as a result of such solicitation agreement.

Item 15 – Custody

All Client assets are held in custody by qualified custodians; however Midway is deemed to have custody of certain Fund assets since it is the investment adviser to the Funds or an affiliate serves as the managing member for the Funds. Midway complies with the custody requirements of Rule 206(4)-2 of the Advisers Act by subjecting the Funds to an annual audit in accordance with GAAP conducted by an independent public accountant registered with the Public Company Accounting Oversight Board and distributing audited

financial statements to the underlying investors within 120 days after the end of the Funds' fiscal year.

Midway does not have custody of Managed Account clients. Managed Account clients will receive account statements from their qualified custodian and should carefully review those statements.

Item 16 – Investment Discretion

Midway's fiduciary duty requires it to give investment advice that is suitable and appropriate to each Client, and to have an adequate basis in fact for its investment recommendations. Midway has been granted discretionary authority to manage the securities accounts of its Clients. Pursuant to this grant of discretionary authority, Midway is authorized to purchase and sell securities, select brokers, and negotiate commission rates subject to the investment guidelines and other relevant terms set forth in the private placement memoranda for each Fund and/or the investment management agreement of the Managed Account client. For managed account clients, terms specific to discretionary investment authority are individually negotiated and documented in the investment management agreement.

Item 17 – Voting Client Securities

While Midway does not expect to be called upon to vote proxies based on the securities purchased for its Client accounts, it does have the authority to do so on behalf of its Clients. As required by Rule 206(4)-6 of the Advisers Act, Midway has adopted a proxy voting policy, which provides that Midway will act in the best interest of its Clients in determining whether and how to vote on any proxy voting matter. If and to the extent that they do arise, Midway shall vote proxies in accordance with its guidelines. Midway generally will vote proxies so as to promote the long-term economic value of the underlying securities. Each proxy proposal will be considered on its own merits, and an independent determination will be made whether to support or oppose management's position. If such proxy votes arise, Midway shall retain the proxy voting records for six years or such other period as may be required by applicable law or regulation.

Due to the nature of Midway's investment program and the types of investments made on behalf of its Clients, Midway is rarely requested to vote proxies on behalf of its Clients in traditional operating companies (i.e., publicly traded securities). As Midway primarily invests in MBSs on behalf of its Clients, there is a higher likelihood that Midway would receive requests in connection with amendments, consents and/or resolutions as a result of investments in loans.

Midway's portfolio managers shall consult with the Chief Compliance Officer and Chief Financial Officer concerning the best method to resolve any actual or apparent conflicts of interest between the interests of Midway and its Clients, in a manner that affords

priority to the interests of the clients. If the conflict is personal to a portfolio manager, the portfolio manager will designate others to address the issues presented by the proxy vote.

Clients may obtain a copy of the proxy voting policy and information on how (if at all) Midway voted client securities by addressing a request for such policy or information to Midway's Chief Compliance Officer.

Item 18 – Financial Information

Midway has no financial commitment that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to Clients. Midway has not been the subject of a bankruptcy proceeding.