

Item 1 – Cover Page

Form ADV, Part 2: Brochure

ARMOUR CAPITAL MANAGEMENT LP

3001 Ocean Drive, Suite 201

Vero Beach, Florida 32963

(772) 617-4340

January 9, 2015

This Form ADV, Part 2 (the "Brochure") provides information about the qualifications and business practices of ARMOUR Capital Management LP ("we," "us," or "ACM"), formerly known as ARMOUR Residential Management LLC. If you have any questions about the contents of this Brochure, please contact us by telephone at (772) 617-4340 and/or by email to: info@armourcap.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

From time to time, ACM refers to itself as a "registered investment advisor" or describes itself as "registered." Registration does not include or imply a certain level of skill or training. Neither the SEC, the securities regulatory authority of any state, nor the securities regulatory authority of any other jurisdiction has approved or disapproved ACM's regulatory status, or passed upon the adequacy or accuracy of this Brochure.

Additional information about ACM is also available on the SEC's website at www.advisorinfo.sec.gov.

Item 2 – Material Changes

This Brochure contains our annual updating amendments for 2014. We have updated this Brochure to disclose the following changes:

- to update Item 4 herein for the amount of the assets under management held by each of ACM's two clients, ARMOUR Residential REIT, Inc. ("ARMOUR") and JAVELIN Mortgage Investment Corp. ("JAVELIN") and for the composition of those assets; and
- to update Item 5 and Item 14 herein to indicate that Staton Bell Blank Check LLC, a Delaware limited liability company ("SBBC" or "Sub-Manager"), which, along with us, is party to sub-management agreements dated November 6, 2009 and October 5, 2012, is now controlled and primarily owned by us. Two of our limited partners have smaller minority interests in SBBC.

This Brochure uses certain capitalized terms such as "Initial Term," "Sub-Management Agreement," "Base Management Fee" and "Sub-Manager Base Management Fee" in the disclosures with respect to both ARMOUR and JAVELIN. When used this way, such capitalized terms should be read to relate to the specific client in the context in which they appear.

Item 3 – Table of Contents

Item 1 – Cover Page.....	i
Form ADV, Part 2: Brochure.....	i
Item 2 – Material Changes	ii
Item 4 – Advisory Business	1
Item 5 – Fees and Compensation	5
Item 6 – Performance-Based Fees and Side-By-Side Management	17
Item 7 – Types of Clients.....	19
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	21
Item 9 – Disciplinary Information	39
Item 10 – Other Financial Industry Activities and Affiliations	40
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	41
Item 12 – Brokerage Practices	42
Item 13 – Review of Accounts.....	43
Item 14 – Client Referrals and Other Compensation.....	44
Item 15 – Custody	45
Item 16 – Investment Discretion.....	46
Item 17 – Voting Client Securities.....	48
Item 18 – Financial Information	49

Item 4 – Advisory Business

ACM is a Delaware limited partnership that commenced its management business on November 6, 2009. ACM changed its name from ARMOUR Residential Management LLC ("ARRM") and converted from a Delaware limited liability company on December 19, 2014. ACM's general partners are Remmiz LLC and Stacumny LLC, which are Florida limited liability companies controlled by two of our limited partners, Jeffrey J. Zimmer and Scott J. Ulm, respectively.

ACM manages the business affairs of ARMOUR, a publicly-traded REIT (NYSE: ARR, ARR PrA, and ARR PrB) that invests primarily in hybrid adjustable rate, adjustable rate, and fixed rate residential mortgage backed securities issued or guaranteed by a U.S. Government-sponsored entity ("GSE"), such as the Federal National Mortgage Association (more commonly known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (more commonly known as Freddie Mac), or guaranteed by the Government National Mortgage Administration, a U.S. Government corporation (more commonly known as Ginnie Mae) (collectively, "Agency Securities"), pursuant to a management agreement entered into between ARRM and ARMOUR on November 6, 2009. The management agreement, which was initially amended and restated on November 6, 2009, was set to expire on November 6, 2014 (the "Initial Term"), but was further amended and restated on June 18, 2012 to extend the Initial Term for ten (10) years from June 18, 2012 until June 18, 2022 (the "New Initial Term"). The management agreement, was again amended and restated on February 25, 2014 (the "Third Amended and Restated Management Agreement") to clarify, among other things, that (i) Gross Equity Raised (as defined under Item 5), which is used to calculate ACM's compensation, excludes: (a) the value of securities repurchased by ARMOUR, and (b) dividends paid by ARMOUR to the extent that such dividends are deemed a return of capital for tax purposes; (ii) a Corporate Event (as defined in the Third Amended and Restated Management Agreement) will be deemed a termination without cause, entitling us to a termination fee, as described below, if such a Corporate Event occurs during the term of the Third Amended and Restated Management Agreement; and (iii) upon a termination of the Third Amended and Restated Management Agreement by ARMOUR without cause, the Third Amended and Restated Management Agreement provides that ARMOUR shall pay us a termination fee equal to the greater of (a) the Base Management Fee (as defined under Item 5) as calculated immediately prior to the effective date of the termination of the Third Amended and Restated Management Agreement for the remainder of the then current term, or (b) three times the Base Management Fee paid to us in the preceding twelve-month period before such termination, calculated as of the effective date of the termination.

Mr. Ulm is the Co-Chief Executive Officer, Chief Investment Officer, Co-Vice Chairman, and Head of Risk Management of ARMOUR. Mr. Zimmer is the Co-Chief Executive Officer, President, and Co-Vice Chairman of ARMOUR. James R. Mountain is the Chief Financial Officer, Treasurer and Secretary of ARMOUR. Mark Gruber is the Chief Operating Officer and Head of Portfolio Management of ARMOUR.

ACM also manages the business affairs of JAVELIN, a publicly-traded REIT (NYSE: JMI) that invests primarily in hybrid adjustable rate, adjustable rate, and fixed rate residential mortgage backed securities. Some of these securities are Agency Securities. JAVELIN also invests in other securities backed by residential mortgages, for which the payment of principal

and interest is not guaranteed by a GSE or government agency (collectively, “Non-Agency Securities”), which may benefit from credit enhancement derived from structural elements such as subordination, overcollateralization, or insurance. From time to time, a portion of JAVELIN’s portfolio may be invested in unsecured notes and bonds issued by U.S. Government-sponsored entities (collectively, “Agency Debt”), pursuant to a management agreement entered into between ARRM and JAVELIN on October 5, 2012. The management agreement was amended and restated on March 5, 2014 (the “First Amended and Restated Management Agreement”) to clarify, among other things, that (i) Gross Equity Raised (as defined under Item 5), which is used to calculate ACM's compensation, excludes: (a) the value of securities repurchased by JAVELIN, and (b) dividends paid by JAVELIN to the extent that such dividends are deemed a return of capital for tax purposes; (ii) a Corporate Event (as defined in the First Amended and Restated Management Agreement) will be deemed a termination without cause, entitling us to a termination fee, as described below, if such a Corporate Event occurs during the term of the First Amended and Restated Management Agreement; and (iii) upon a termination of the First Amended and Restated Management Agreement by JAVELIN without cause, the First Amended and Restated Management Agreement provides that JAVELIN shall pay us a termination fee equal to the greater of (a) the Base Management Fee (as defined under Item 5) as calculated immediately prior to the effective date of the termination of the First Amended and Restated Management Agreement for the remainder of the then current term, or (b) three times the Base Management Fee paid to us in the preceding twelve-month period before such termination, calculated as of the effective date of the termination. The Third Amended and Restated Management Agreement and the First Amended and Restated Management Agreement are collectively referred to as the “Management Agreements”.

Mr. Ulm is the Co-Chief Executive Officer, Chief Investment Officer, Co-Vice Chairman and Head of Risk Management of JAVELIN. Mr. Zimmer is the Co-Chief Executive Officer, President and Co-Vice Chairman of JAVELIN. James R. Mountain is the Chief Financial Officer, Treasurer and Secretary of JAVELIN. Mark Gruber is the Chief Operating Officer and Head of Portfolio Management of JAVELIN.

Under the Management Agreements listed above, ACM is responsible for (i) advising ARMOUR and JAVELIN with respect to arranging for and managing the acquisition, financing, management, and disposition of their investments, (ii) evaluating the duration risk and prepayment risk of their investments and arranging borrowing and interest rate risk mitigation strategies, and (iii) coordinating their capital raising activities. In conducting these activities, ACM also advises ARMOUR and JAVELIN on formulating and implementing their operating strategies and policies, arranging for their acquisition of assets, monitoring the performance of their assets, arranging for various types of financing and interest rate risk mitigation strategies, and providing administrative and managerial services in connection with their day-to-day operations, as may be required from time to time for their management and assets.

We manage the business affairs of ARMOUR and JAVELIN in conformity with certain restrictions, including contractual restrictions, investment guidelines, and any other material operating policies adopted by ARMOUR and JAVELIN. Our role as the manager of ARMOUR and JAVELIN is subject to the direction and oversight of their respective board of directors. Under the Management Agreements, ARMOUR and JAVELIN, in their discretion, are able to limit our management, services, and other activities performed by us pursuant to their

Management Agreements. Additionally, under the Management Agreements, ARMOUR and JAVELIN have the right to limit our duties.

This limitation of duties in ARMOUR's discretion is to "mortgage assets." Pursuant to the Third Amended and Restated Management Agreement, "mortgage assets" means the following asset types of ARMOUR, which ARMOUR may determine from time to time, shall be solely managed by us:

- mortgage securities (or interests therein), including (a) adjustable-rate, hybrid adjustable-rate, and pass-through certificates (including GNMA certificates, FNMA certificates and FHLMC certificates), (b) collateralized mortgage obligations, (c) securities representing interests in, or secured by, agency wrapped mortgages on real property other than pass-through certificates and CMOs, (d) agency mortgage derivative securities and other agency mortgage-backed and mortgage collateralized obligations, and (e) mortgage derivative securities;
- U.S. government issued bills, notes and bonds including general obligations of the agencies of the U.S. government (including, but not limited to GNMA, FNMA and FHLMC); and
- short-term investments, including short-term bank certificates of deposit, short-term U.S. Treasury securities, short-term U.S. government agency securities, commercial paper, repurchase agreements, short-term CMOs, short-term asset backed securities, and other similar types of short-term investment instruments, all of which will have maturities or average lives of less than one (1) year.

This limitation of duties in JAVELIN's discretion is to "mortgage assets." Pursuant to the First Amended and Restated Management Agreement, "mortgage assets" means the following asset types of JAVELIN, which JAVELIN may determine from time to time, shall be solely managed by us:

- mortgage securities (or interests therein), including (a) adjustable-rate, hybrid adjustable-rate, and pass-through certificates (including GNMA certificates, FNMA certificates and FHLMC certificates), (b) other securities backed by residential mortgages, in which payment of principal and interest is not guaranteed by a government agency, (c) collateralized mortgage obligations, (d) securities representing interests in, or secured by, agency wrapped mortgages on real property other than pass-through certificates and CMOs, (e) agency mortgage derivative securities and other agency mortgage-backed and mortgage collateralized obligations, and (f) mortgage derivative securities;
- U.S. government issued bills, notes, and bonds including general obligations of the agencies of the U.S. government (including, but not limited to GNMA, FNMA and FHLMC); and
- short-term investments, including short-term bank certificates of deposit, short-term U.S. Treasury securities, short-term U.S. government agency securities, commercial

paper, repurchase agreements, short-term CMOs, short-term asset backed securities, and other similar types of short-term investment instruments, all of which will have maturities or average lives of less than one (1) year.

Under the Management Agreements, ARMOUR's and JAVELIN's boards of directors are able to direct us to perform similar management and services for any of their subsidiaries; provided, however, that we neither have the right nor the obligation to supervise any other manager, or to manage or otherwise participate in any way in any securitization transaction undertaken by ARMOUR or JAVELIN, or any joint venture formed by ARMOUR or JAVELIN.

As of December 31, 2014, we managed approximately \$15,300,000,000 in assets, consisting of 100% of Agency Securities for ARMOUR.

As of December 31, 2014, we managed approximately \$1,200,000,000 in assets, consisting of 87% of Agency Securities and 13% of Non-Agency Securities for JAVELIN.

Item 5 – Fees and Compensation

ARMOUR

Base Management Fee

For the services we render under the Third Amended and Restated Management Agreement, ARMOUR pays us each month in arrears compensation equal to 1/12th of the sum of (a) 1.5% of the "Gross Equity Raised" up to \$1 billion plus (b) 0.75% of the "Gross Equity Raised" in excess of \$1.0 billion (the "**Base Management Fee**") within one (1) Business Day after the end of such month. Pursuant to the Third Amended and Restated Management Agreement, the Base Management Fee shall not ever be less than 1/12th of the "Annual Minimum Fee," defined as \$900,000 for each fiscal year of the Third Amended and Restated Management Agreement. In the event of a termination of our Third Amended and Restated Management Agreement, the Base Management Fee shall be pro-rated based upon the number of days elapsed in such calendar month of termination prior to the effective date of such termination. Under our Third Amended and Restated Management Agreement, "Gross Equity Raised" means an amount in dollars calculated as of the date of determination that is equal to (a) the initial equity capital that ARMOUR raised following the consummation of its merger on November 6, 2009, plus (b) equity capital raised in public or private issuances of ARMOUR's equity securities (calculated before underwriting fees and distribution expenses, if any), less (c) capital returned to the stockholders of ARMOUR (which shall include (i) the purchase price of equity securities repurchased by ARMOUR, and (ii) dividends paid by ARMOUR to the extent that such dividends are deemed a return of capital for tax purposes), as adjusted to exclude (d) one-time charges pursuant to changes in GAAP and certain non-cash charges after discussion between us and ARMOUR's board of directors and approved by a majority of ARMOUR's board of directors.

We do not receive any incentive-based compensation from ARMOUR.

We use the proceeds from the Base Management Fee in part to pay compensation to our officers and personnel who, notwithstanding that certain of them also are officers of ARMOUR, receive no compensation directly from ARMOUR.

Termination Fee

ARMOUR is obligated to pay us a termination fee equal to the greater of (a) the Base Management Fee as calculated immediately prior to the effective date of the termination of the Third Amended and Restated Management Agreement for the remainder of the then current term, or (b) three (3) times the cumulative Base Management Fees paid to us in the preceding full twelve (12) months, calculated as of the effective date of the termination of the Third Amended and Restated Management Agreement, only if ARMOUR terminates the Third Amended and Restated Management Agreement without "Cause" (as defined in the Third Amended and Restated Management Agreement). During the New Initial Term of the Third Amended and Restated Management Agreement, ARMOUR may only terminate the Third Amended and Restated Management Agreement for Cause, or in connection with a Corporate Event.

Sub-Manager Fee

We have also entered into a sub-management agreement, dated November 6, 2009 (the "Sub-Management Agreement"), with SBBC, which is an entity controlled and primarily owned by us. Two of our limited partners have smaller minority interests in SBBC. Pursuant to the Sub-Management Agreement, SBBC provides certain operating and investment advisory services to us. Pursuant to the Sub-Management Agreement, SBBC provides the following services to support ACM's performance of services to ARMOUR under the Third Amended and Restated Management Agreement, in each case upon reasonable request by us: (i) serving as a consultant to us with respect to the periodic review of ARMOUR's investment guidelines; (ii) identifying for us potential new lines of business and investment opportunities for ARMOUR; (iii) identifying for and advising us with respect to selection of independent contractors that provide investment banking, securities brokerage, mortgage brokerage and other financial services, due diligence services, underwriting review services, legal and accounting services, and all other services as may be required relating to ARMOUR's investments; (iv) advising us with respect to ARMOUR's stockholder and public relations matters; (v) advising and assisting us with respect to ARMOUR's capital structure and capital raising; and (vi) advising us on negotiating agreements relating to programs established by the U.S. government. In exchange for such services, we pay SBBC a sub-management fee of 25% of the net Base Management Fee earned by us under the Third Amended and Restated Management Agreement with ARMOUR (the "Sub-Manager Base Management Fee"). The Sub-Management Agreement continues in effect until it is terminated in accordance with its terms.

Reimbursement of Expenses

ARMOUR pays all of its and our costs and expenses (including for goods and services obtained from third parties) incurred solely on behalf of ARMOUR or any subsidiary or in connection with the Third Amended and Restated Management Agreement, except for the cost and expenses not reimbursable under the Third Amended and Restated Management Agreement, which are costs and expenses specifically required to be borne by us under the Third Amended and Restated Management Agreement. The expenses required to be paid by us are described later in this Item 5. The expenses required to be paid by ARMOUR include:

- all costs and expenses associated with ARMOUR's formation and capital raising activities, including, without limitation, the costs and expenses of the preparation of its registration statements, and any and all costs and expenses of any public offering of ARMOUR, any subsequent offerings and any filing fees and costs of ARMOUR being a public company, including, without limitation, filings with the SEC, the Financial Industry Regulatory Authority ("FINRA"), and any exchange or over the counter market, among other such entities;
- all of ARMOUR's costs and expenses of ARMOUR in connection with the acquisition, disposition, financing, interest rate risk mitigation, administration, and ownership of its or any of its subsidiary's investment assets (including, without limitation, the assets in which ARMOUR invests) and including, without limitation, costs and expenses incurred in contracting with third parties, including any person controlling, controlled by, or under common control with us (as may be approved by

ARMOUR pursuant to the terms of the Third Amended and Restated Management Agreement), to provide such services, such as legal fees, accounting fees, consulting fees, trustee fees, appraisal fees, insurance premiums, commitment fees, brokerage fees, guaranty fees, ad valorem taxes, costs of foreclosure, maintenance, repair, and improvement of property, and premiums for insurance on property owned by ARMOUR or any subsidiary of it;

- all costs and expenses relating to the acquisition of, and maintenance and upgrades to, ARMOUR's portfolio analytics and accounting systems (including, but not limited to Bloomberg);
- all costs and expenses of money ARMOUR or its subsidiaries borrow, including, without limitation, principal, interest, and the costs associated with the establishment and maintenance of any credit facilities, warehouse loans, and other indebtedness of ARMOUR and its subsidiaries (including commitment fees, legal fees, closing, and other costs);
- all taxes and license fees applicable to ARMOUR or any subsidiary of it, including interest and penalties thereon;
- all legal, audit, accounting, underwriting, brokerage, listing, filing, rating agency, registration, and other fees, printing, engraving, clerical, personnel, and other expenses, and taxes of ARMOUR incurred in connection with the issuance, distribution, transfer, registration, and stock exchange listing of ARMOUR's or any of its subsidiary's equity securities or debt securities;
- other than our obligations, all fees paid to and expenses of third party advisors and independent contractors, consultants, managers, and other agents (other than us) engaged by ARMOUR or any subsidiary of it or by us for ARMOUR's account or any subsidiary of it (other than us) and all employment expenses of the personnel employed by ARMOUR or any subsidiary of ARMOUR, including, without limitation, the salaries (base and bonuses alike), wages, equity based compensation of such personnel, and payroll taxes;
- all insurance costs incurred by ARMOUR or any subsidiary of it and including, but not limited to, insurance paid for by ARMOUR to insure us for liabilities as a result of being the manager for ARMOUR;
- all custodian, transfer agent, and registrar fees and charges incurred by ARMOUR;
- all compensation and fees paid to directors of ARMOUR or any subsidiary of it, all expenses of directors of ARMOUR or any subsidiary of it (including those directors who are also employees of ours), the cost of directors and officer's liability insurance and premiums for errors and omissions insurance, and any other insurance deemed necessary or advisable by ARMOUR's board of directors for the benefit of ARMOUR and its directors and officers (including those directors who are also employees of ours), the cost of all meetings of ARMOUR's board of directors, and the cost of

travel, hotel accommodations, food, and entertainment for all participants in meetings of ARMOUR's board of directors;

- all third party legal, accounting, and auditing fees and expenses and other similar services relating to ARMOUR or any of its subsidiary's operations (including, without limitation, all quarterly and annual audit or tax fees and expenses);
- all legal, expert, and other fees and expenses relating to any actions, proceedings, lawsuits, demands, causes of action, and claims, whether actual or threatened, made by or against ARMOUR, or which ARMOUR is authorized or obligated to pay under applicable law or its "governing instruments" (as defined in the Third Amended and Restated Management Agreements) or by its board of directors;
- any judgment or settlement of pending or threatened proceedings (whether civil, criminal, or otherwise) against ARMOUR or any subsidiary of ARMOUR, or against any trustee, director, or officer of ARMOUR or any subsidiary of ARMOUR in his capacity as such for which ARMOUR or any subsidiary of it is required to indemnify such trustee, director, or officer by any court or governmental agency, or settlement of pending or threatened proceedings;
- at all times all travel and related expenses of directors, officers, and employees of ARMOUR and us incurred in connection with meetings related to ARMOUR's business, attending meetings of its board of directors or its holders of securities or any subsidiary of it or performing other business activities that relate to ARMOUR or any subsidiary of it, including, without limitation, travel and expenses incurred in connection with the purchase, financing, refinancing, sale, or other disposition of the assets in which ARMOUR invests or other investments of ARMOUR's; provided, however, that ARMOUR shall only be responsible for a proportionate share of such expenses, as reasonably determined by us in good faith after full disclosure to ARMOUR, in instances in which such expenses were not incurred solely for the benefit of ARMOUR;
- all expenses of organizing, modifying, or dissolving ARMOUR or any subsidiary of it, costs preparatory to entering into a business or activity, and costs of winding up or disposing of a business or activity of ARMOUR or its subsidiaries;
- all expenses relating to payments of dividends or interest or distributions in cash or any other form made or caused to be made by ARMOUR's board of directors to or on account of holders of ARMOUR's securities or any subsidiary of it, including, without limitation, in connection with any dividend reinvestment plan;
- all expenses of third parties relating to communications to holders of equity securities or debt securities issued by ARMOUR or any of its subsidiaries and the other bookkeeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of governmental bodies or agencies, including any costs of computer services in connection with this function, the cost of printing and mailing certificates

for such securities and proxy solicitation materials and reports to holders of ARMOUR or any of its subsidiary's securities and reports to third parties required under any indenture to which ARMOUR or any of its subsidiaries is a party;

- all expenses relating to any office or office facilities maintained by ARMOUR or any of its subsidiaries (other than any office of ours and/or any person controlling, controlled by, or under common control with us, which are our obligations), including, without limitation, rent, telephone, utilities, office furniture, equipment, machinery, and other office expenses for any other persons ARMOUR's board of directors authorizes ARMOUR to hire;
- all costs and expenses related to the design and maintenance of ARMOUR's web site or sites and associated with any computer software or hardware that is used solely for ARMOUR;
- other than our obligations, all other costs and expenses relating to ARMOUR's business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing, and disposing of the assets in which ARMOUR invests, including, without limitation, appraisal, reporting, audit, and legal fees;
- other than our obligations below, and subject to a line item budget approved in advance by ARMOUR's board of directors, all other expenses actually incurred by us, any person controlling, controlled by, or under common control with us (as may be approved by ARMOUR pursuant to the terms of the Third Amended and Restated Management Agreement) or his or her respective officers, employees, representatives or agents, or any person controlling, controlled by, or under common control with such respective officers, employees, representatives or agents (as may be approved by ARMOUR pursuant to the terms of the Third Amended and Restated Management Agreement) which are reasonably necessary for the performance of our duties and functions under the Third Amended and Restated Management Agreement, including, without limitation, any fees or expenses relating to our compliance with all governmental and regulatory matters).

We are responsible for the following obligations that are not eligible to be reimbursed by ARMOUR:

- employment expenses of the personnel employed by us, including, without limitation, salaries (base and bonuses alike), wages, payroll taxes, and the cost of employee benefit plans of such personnel (but excluding any stock of ARMOUR that its board of directors may determine to grant to such personnel, which stock shall not reduce employment expenses otherwise payable by us or cause us or ARMOUR to pay any payroll taxes in respect thereof); and
- rent, telephone, utilities, office furniture, equipment, machinery, and other office, internal, and overhead expenses of us required for ARMOUR's day to day operations, including, bookkeeping, clerical and back office services provided by us (except that

ARMOUR shall pay for supplies applicable to operations (paper, software, presentation materials, etc.)).

Moreover, subject to ARMOUR's right to retain other managers and its right to limit our authorizations, we are authorized, for and on behalf, and at ARMOUR's sole cost and expense, to employ such securities dealers (including affiliates of us) for the purchase and sale of ARMOUR's mortgage assets managed by us as may, in our reasonable judgment, be necessary to obtain the best commercially available net results taking into account such factors as ARMOUR's policies, price, dealer spread, the size, type, and difficulty of the transaction involved, the firm's general execution and operational facilities, and the firm's risk in positioning the securities involved. Consistent with this policy, and subject to the foregoing caveats with respect to ARMOUR's rights, we are authorized to direct the execution of ARMOUR's portfolio transactions to dealers and brokers furnishing statistical information or research deemed by us to be reasonably necessary to the performance of our investment advisory functions for ARMOUR.

In addition, we may retain the services of third parties (including affiliates of us), for and on ARMOUR's behalf, including, without limitation, accountants, legal counsel, appraisers, insurers, brokers, dealers, transfer agents, registrars, developers, investment banks, financial advisors, banks, and other lenders and others as we may deem reasonably necessary or advisable in connection with ARMOUR's management and operations.

ARMOUR will be responsible for the costs and expenses related to the retention of such third parties except that (a) it is not responsible for costs and expenses that are our obligations described above and (b) we are responsible for such costs and expenses (unless otherwise approved by ARMOUR's board of directors) if a third party is retained to (i) make decisions to invest in and dispose of the assets in which ARMOUR invests, (ii) provide administrative, data processing, or clerical services, or prepare ARMOUR's financial records, or (iii) prepare a report summarizing ARMOUR's acquisitions of the assets in which it invests, portfolio compensation and characteristics, credit quality (if applicable), or performance of the portfolio, with respect to assets that ARMOUR has determined shall be managed by us.

We have the right to cause any of our services under the Third Amended and Restated Management Agreement to be rendered by our employees or any person controlling, controlled by, or under common control with us. In that case, ARMOUR is responsible to pay or reimburse us or such person controlling, controlled by, or under common control with us for the reasonable and actually incurred cost and expense of performing such services by such person, including, without limitation, administrative support services specifically requested by ARMOUR if the costs and expenses of such person would have been reimbursable under the Third Amended and Restated Management Agreement if such person were an unaffiliated third party, or if such service had been performed by us.

JAVELIN

Base Management Fee

For the services we render under the First Amended and Restated Management Agreement, JAVELIN pays us each month in arrears compensation equal to 1/12th of the sum of (a) 1.5% of the "Gross Equity Raised" (including JAVELIN's initial public offering and concurrent private placement on October 9, 2012) up to \$1 billion plus (b) 1.0% of "Gross Equity Raised" in excess of \$1.0 billion (the "Base Management Fee") within one (1) Business Day after the end of such month. In the event of a termination of our First Amended and Restated Management Agreement, the Base Management Fee shall be pro-rated based upon the number of days elapsed in such calendar month of termination prior to the effective date of such termination. Under our First Amended and Restated Management Agreement, "Gross Equity Raised" means an amount in dollars calculated as of the date of determination that is equal to (a) the initial equity capital of JAVELIN which followed its initial public offering and the concurrent private placement, plus (b) equity capital raised in public or private issuances of JAVELIN's equity securities, including its initial public offering (calculated before underwriting fees and distribution expenses, if any are payable by us), less (c) capital returned to the stockholders of JAVELIN (which shall include (i) the purchase price of equity securities repurchased by JAVELIN, and (ii) dividends paid by JAVELIN to the extent that such dividends are deemed a return of capital for tax purposes), as adjusted to exclude (d) one-time charges pursuant to changes in GAAP and certain non-cash charges after discussion between ACM and the board of directors and approved by a majority of JAVELIN's board of directors.

We do not receive any incentive-based compensation from JAVELIN.

We use the proceeds from the Base Management Fee in part to pay compensation to our officers and personnel who, notwithstanding that certain of them also are officers of JAVELIN, receive no compensation directly from JAVELIN.

Termination Fee

JAVELIN is obligated to pay us a termination fee equal to the greater of (a) the Base Management Fee as calculated immediately prior to the effective date of the termination of the First Amended and Restated Management Agreement for the remainder of the then current term, or (b) three (3) times the cumulative Base Management Fees paid to us in the preceding full twelve (12) months, calculated as of the effective date of the termination of the First Amended and Restated Management Agreement, only if JAVELIN terminates the First Amended and Restated Management Agreement without "Cause" (as defined in the First Amended and Restated Management Agreement). During the initial term of the First Amended and Restated Management Agreement, which expires on October 5, 2017 (the "Initial Term"), JAVELIN may only terminate the First Amended and Restated Management Agreement for Cause, or in connection with a Corporate Event.

Sub-Manager Fee

We have also entered into a sub-management agreement, dated October 5, 2012 (the "Sub-Management Agreement"), with SBBC, which is an entity controlled and primarily owned

by us. Two of our limited partners have smaller minority interests in SBBC. Pursuant to the Sub-Management Agreement, SBBC provides the following services to support ACM's performance of services to JAVELIN under the First Amended and Restated Management Agreement, in each case upon reasonable request by us: (i) serving as a consultant to us with respect to the periodic review of JAVELIN's investment guidelines; (ii) identifying for us potential new lines of business and investment opportunities for JAVELIN; (iii) identifying for and advising us with respect to selection of independent contractors that provide investment banking, securities brokerage, mortgage brokerage and other financial services, due diligence services, underwriting review services, legal and accounting services, and all other services as may be required relating to JAVELIN's investments; (iv) advising us with respect to JAVELIN's stockholder and public relations matters; (v) advising and assisting us with respect to JAVELIN's capital structure and capital raising; and (vi) advising us on negotiating agreements relating to programs established by the U.S. government. In exchange for such services, we pay SBBC a monthly retainer of \$115,000 and a sub-management fee of 25% of the net Base Management Fee earned by us under the First Amended and Restated Management Agreement with JAVELIN (the "Sub-Manager Base Management Fee") less an expense allowance of \$83,333.33, which shall be subject to increase from time to time to reflect actual increases in such costs subject to the mutual agreement between us and SBBC. The Sub-Management Agreement further provides that, upon the election of SBBC to terminate the Sub-Management Agreement, at the time of the expiration of the Initial Term of the First Amended and Restated Management Agreement, JAVELIN shall pay SBBC a final payment of 6.16 times the annualized rate of the last three (3) monthly payments of the Sub-Manager Base Management Fee (the "Final Payment"). The Final Payment shall be paid on the date that is 60 days after the election of SBBC to terminate the Sub-Management Agreement. The Sub-Management Agreement continues in effect until it is terminated in accordance with its terms.

Reimbursement of Expenses

JAVELIN pays all of its and our costs and expenses (including for goods and services obtained from third parties) incurred solely on behalf of JAVELIN or any subsidiary or in connection with the First Amended and Restated Management Agreement, except for the cost and expenses not reimbursable under the First Amended and Restated Management Agreement, which are costs and expenses specifically required to be borne by us under the First Amended and Restated Management Agreement. The expenses required to be paid by us are described later in this Item 5. The expenses required to be paid by JAVELIN include:

- all costs and expenses associated with JAVELIN's formation and capital raising activities, including, without limitation, the costs and expenses of the preparation of its registration statements, and any and all costs and expenses of any public offering of JAVELIN, any subsequent offerings, and any filing fees and costs of JAVELIN being a public company, including, without limitation, filings with the SEC, FINRA, and any exchange or over the counter market, among other such entities;
- all of JAVELIN's costs and expenses of JAVELIN in connection with the acquisition, disposition, financing, interest rate risk mitigation, administration, and ownership of its or any of its subsidiary's investment assets (including, without limitation, the assets in which JAVELIN invests) and, including, without limitation, costs and

- expenses incurred in contracting with third parties, including any person controlling, controlled by, or under common control with us (as may be approved by JAVELIN pursuant to the terms of the First Amended and Restated Management Agreement), to provide such services, such as legal fees, accounting fees, consulting fees, trustee fees, appraisal fees, insurance premiums, commitment fees, brokerage fees, guaranty fees, ad valorem taxes, costs of foreclosure, maintenance, repair and improvement of property, and premiums for insurance on property owned by JAVELIN or any subsidiary of it;
- all costs and expenses relating to the acquisition of, and maintenance and upgrades to, JAVELIN's portfolio analytics and accounting systems (including, but not limited to Bloomberg);
 - all costs and expenses of money JAVELIN or its subsidiaries borrow, including, without limitation, principal, interest, and the costs associated with the establishment and maintenance of any credit facilities, warehouse loans, and other indebtedness of JAVELIN and its subsidiaries (including commitment fees, legal fees, closing, and other costs);
 - all taxes and license fees applicable to JAVELIN or any subsidiary of it, including interest and penalties thereon;
 - all legal, audit, accounting, underwriting, brokerage, listing, filing, rating agency, registration, and other fees, printing, engraving, clerical, personnel, and other expenses, and taxes of JAVELIN incurred in connection with the issuance, distribution, transfer, registration, and stock exchange listing of JAVELIN's or any of its subsidiary's equity securities or debt securities;
 - other than our obligations, all fees paid to and expenses of third party advisors and independent contractors, consultants, managers, and other agents (other than us) engaged by JAVELIN or any subsidiary of it or by us for JAVELIN's account or any subsidiary of it (other than us) and all employment expenses of the personnel employed by JAVELIN or any subsidiary of JAVELIN, including, without limitation, the salaries (base and bonuses alike), wages, equity based compensation of such personnel, and payroll taxes;
 - all insurance costs incurred by JAVELIN or any subsidiary of it and including, but not limited to, insurance paid for by JAVELIN to insure us for liabilities as a result of being the manager for JAVELIN;
 - all custodian, transfer agent, and registrar fees and charges incurred by JAVELIN;
 - all compensation and fees paid to directors of JAVELIN or any subsidiary of it, all expenses of directors of JAVELIN or any subsidiary of it (including those directors who are also employees of ours), the cost of directors and officer's liability insurance and premiums for errors and omissions insurance, and any other insurance deemed necessary or advisable by JAVELIN's board of directors for the benefit of JAVELIN

and its directors and officers (including those directors who are also employees of ours), the cost of all meetings of JAVELIN's board of directors, and the cost of travel, hotel accommodations, food, and entertainment for all participants in meetings of JAVELIN's board of directors;

- all third party legal, accounting, and auditing fees and expenses and other similar services relating to JAVELIN or any of its subsidiary's operations (including, without limitation, all quarterly and annual audit or tax fees and expenses);
- all legal, expert, and other fees and expenses relating to any actions, proceedings, lawsuits, demands, causes of action, and claims, whether actual or threatened, made by or against JAVELIN, or which JAVELIN is authorized or obligated to pay under applicable law or its "governing instruments" (as defined in the Management Agreements) or by its board of directors;
- any judgment or settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against JAVELIN or any subsidiary of JAVELIN, or against any trustee, director, or officer of JAVELIN or any subsidiary of JAVELIN in his capacity as such for which JAVELIN or any subsidiary of it is required to indemnify such trustee, director, or officer by any court or governmental agency, or settlement of pending or threatened proceedings;
- at all times all travel and related expenses of directors, officers, and employees of JAVELIN and us incurred in connection with meetings related to JAVELIN's business, attending meetings of its board of directors or its holders of securities or any subsidiary of it, or performing other business activities that relate to JAVELIN or any subsidiary of it, including, without limitation, travel and expenses incurred in connection with the purchase, financing, refinancing, sale, or other disposition of the assets in which JAVELIN invests or other investments of JAVELIN; provided, however, that JAVELIN shall only be responsible for a proportionate share of such expenses, as reasonably determined by us in good faith after full disclosure to JAVELIN, in instances in which such expenses were not incurred solely for the benefit of JAVELIN;
- all expenses of organizing, modifying, or dissolving JAVELIN or any subsidiary of it, costs preparatory to entering into a business or activity, and costs of winding up or disposing of a business or activity of JAVELIN or its subsidiaries;
- all expenses relating to payments of dividends or interest or distributions in cash or any other form made or caused to be made by JAVELIN's board of directors to or on account of holders of JAVELIN's securities or any subsidiary of it, including, without limitation, in connection with any dividend reinvestment plan;
- all expenses of third parties relating to communications to holders of equity securities or debt securities issued by JAVELIN or any of its subsidiaries and the other bookkeeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other

requirements of governmental bodies or agencies, including any costs of computer services in connection with this function, the cost of printing and mailing certificates for such securities and proxy solicitation materials and reports to holders of JAVELIN or any of its subsidiary's securities and reports to third parties required under any indenture to which JAVELIN or any of its subsidiaries is a party;

- all expenses relating to any office or office facilities maintained by JAVELIN or any of its subsidiaries (other than any office of ours and/or any person controlling, controlled by, or under common control with us, which are our obligations), including, without limitation, rent, telephone, utilities, office furniture, equipment, machinery, and other office expenses for any other persons JAVELIN's board of directors authorizes JAVELIN to hire;
- all costs and expenses related to the design and maintenance of JAVELIN's web site or sites and associated with any computer software or hardware that is used solely for JAVELIN;
- other than our obligations, all other costs and expenses relating to JAVELIN's business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing, and disposing of the assets in which JAVELIN invests, including, without limitation, appraisal, reporting, audit, and legal fees;
- other than our obligations below, and subject to a line item budget approved in advance by JAVELIN's board of directors, all other expenses actually incurred by us, any person controlling, controlled by, or under common control with us (as may be approved by JAVELIN pursuant to the terms of the First Amended and Restated Management Agreement) or his or her respective officers, employees, representatives, or agents, or any person controlling, controlled by, or under common control with such respective officers, employees, representatives, or agents (as may be approved by JAVELIN pursuant to the terms of the First Amended and Restated Management Agreement) which are reasonably necessary for the performance of our duties and functions under the First Amended and Restated Management Agreement, including, without limitation, any fees or expenses relating to our compliance with all governmental and regulatory matters); and
- all other expenses of JAVELIN's or any of its subsidiaries that are not our obligations under the First Amended and Restated Management Agreement.

We are responsible for the following obligations that are not eligible to be reimbursed by JAVELIN:

- employment expenses of the personnel employed by us, including, without limitation, salaries (base and bonuses alike), wages, payroll taxes, and the cost of employee benefit plans of such personnel (but excluding any stock of JAVELIN that its board of directors may determine to grant to such personnel, which stock shall not reduce

employment expenses otherwise payable by us or cause us or JAVELIN to pay any payroll taxes in respect thereof); and

- rent, telephone, utilities, office furniture, equipment, machinery, and other office, internal, and overhead expenses of us required for JAVELIN's day to day operations, including, bookkeeping, clerical, and back office services provided by us (except that JAVELIN shall pay for supplies applicable to operations (paper, software, presentation materials, etc.)).

Moreover, subject to JAVELIN's right to retain other managers and its right to limit our authorizations, we are authorized, for and on behalf, and at JAVELIN's sole cost and expense, to employ such securities dealers (including affiliates of us) for the purchase and sale of JAVELIN's mortgage assets managed by us as may, in our reasonable judgment, be necessary to obtain the best commercially available net results taking into account such factors as JAVELIN's policies, price, dealer spread, the size, type, and difficulty of the transaction involved, the firm's general execution and operational facilities, and the firm's risk in positioning the securities involved. Consistent with this policy, and subject to the foregoing caveats with respect to JAVELIN's rights, we are authorized to direct the execution of JAVELIN's portfolio transactions to dealers and brokers furnishing statistical information or research deemed by us to be reasonably necessary to the performance of our investment advisory functions for JAVELIN.

In addition, we may retain the services of third parties (including affiliates of us), for and on JAVELIN's behalf, including, without limitation, accountants, legal counsel, appraisers, insurers, brokers, dealers, transfer agents, registrars, developers, investment banks, financial advisors, banks and other lenders, and others as we may deem reasonably necessary or advisable in connection with JAVELIN's management and operations.

JAVELIN will be responsible for the costs and expenses related to the retention of such third parties except that (a) it is not responsible for costs and expenses that are our obligations described above, and (b) we are responsible for such costs and expenses (unless otherwise approved by JAVELIN's board of directors) if a third party is retained to (i) make decisions to invest in and dispose of the assets in which JAVELIN invests, (ii) provide administrative, data processing, or clerical services or prepare JAVELIN's financial records, or (iii) prepare a report summarizing JAVELIN's acquisitions of the assets in which it invests, portfolio compensation and characteristics, credit quality (if applicable) or performance of the portfolio, with respect to assets that JAVELIN has determined shall be managed by us.

We have the right to cause any of our services under the First Amended and Restated Management Agreement to be rendered by our employees or any person controlling, controlled by, or under common control with us. In that case, JAVELIN is responsible to pay or reimburse us or such person controlling, controlled by, or under common control with us for the reasonable and actually incurred cost and expense of performing such services by such person, including, without limitation, administrative support services specifically requested by JAVELIN if the costs and expenses of such person would have been reimbursable under the First Amended and Restated Management Agreement if such person were an unaffiliated third party, or if such service had been performed by us.

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

ARMOUR

We do not accept performance-based fees based, for example, on a share of capital gains on or capital appreciation of, the assets of ARMOUR. Because we only manage the business and operations of ARMOUR, there is no conflict of interest based on charging different fee schedules to different clients.

As described above in Item 5, ARMOUR pays us each month in arrears compensation equal to 1/12th of the sum of (a) 1.5% of the "Gross Equity Raised" up to \$1 billion plus (b) 0.75% of the "Gross Equity Raised" in excess of \$1.0 billion within one (1) Business Day after the end of such month. Under our Third Amended and Restated Management Agreement, "Gross Equity Raised" means an amount in dollars calculated as of the date of determination that is equal to (a) the initial equity capital that ARMOUR raised following the consummation of its merger on November 6, 2009, plus (b) equity capital raised in public or private issuances of ARMOUR's equity securities (calculated before underwriting fees and distribution expenses, if any), less (c) capital returned to the stockholders of ARMOUR (which shall include (i) the purchase price of equity securities repurchased by ARMOUR, and (ii) dividends paid by ARMOUR to the extent that such dividends are deemed a return of capital for tax purposes), as adjusted to exclude (d) one-time charges pursuant to changes in GAAP and certain non-cash charges after discussion between us and ARMOUR's Board of Directors and approved by a majority of ARMOUR's Board of Directors.

As a result of a fee structure that is based on Gross Equity Raised and not tied to ARMOUR's performance, we may not be sufficiently incentivized to pursue business that maximizes risk-adjusted returns on ARMOUR's investment portfolio. Instead, we are incentivized to increase Gross Equity Raised (for example, by recommending follow-on stock offerings), which may not necessarily be in line with the interests of ARMOUR's stockholders. Moreover, under the Third Amended and Restated Management Agreement, we have a contractual and a fiduciary relationship with ARMOUR. We make a determination, exercising our judgment in good faith, as to whether an investment opportunity is appropriate for ARMOUR. Factors in making such a determination may include ARMOUR's liquidity, ARMOUR's overall investment strategy and objectives, the composition of ARMOUR's existing portfolio, the size or amount of the available investment opportunity, the characteristics of the securities involved, the liquidity of the markets in which the securities trade, the risks involved, and other factors relating to ARMOUR and the investment opportunity.

We may in the future adopt additional conflicts of interest resolution policies and procedures designed to protect the business interests of ARMOUR.

JAVELIN

We do not accept performance-based fees based, for example, on a share of capital gains on or capital appreciation of, the assets of JAVELIN. Because we only manage the business and operations of JAVELIN, there is no conflict of interest based on charging different fee schedules to different clients.

As described above in Item 5, JAVELIN pays us each month in arrears compensation equal to 1/12th of the sum of (a) 1.5% of the "Gross Equity Raised" (including the Company's initial public offering and concurrent private placement) up to \$1 billion plus (b) 1.0% of "Gross Equity Raised" in excess of \$1.0 billion (the "Base Management Fee") within one (1) Business Day after the end of such month. Under our First Amended and Restated Management Agreement, "Gross Equity Raised" means an amount in dollars calculated as of the date of determination that is equal to (a) the initial equity capital of JAVELIN which followed our initial public offering and the concurrent private placement, plus (b) equity capital raised in public or private issuances of JAVELIN's equity securities, including our initial public offering (calculated before underwriting fees and distribution expenses, if any are payable by us), less (c) capital returned to the stockholders of JAVELIN (which shall include (i) the purchase price of equity securities repurchased by JAVELIN, and (ii) dividends paid by JAVELIN to the extent that such dividends are deemed a return of capital for tax purposes), as adjusted to exclude (d) one-time charges pursuant to changes in GAAP and certain non-cash charges after discussion between the Manager and the board of directors and approved by a majority of JAVELIN's board of directors.

As a result of a fee structure that is based on Gross Equity Raised and not tied to JAVELIN's performance, we may not be sufficiently incentivized to pursue business that maximizes risk-adjusted returns on JAVELIN's investment portfolio. Instead, we are incentivized to increase Gross Equity Raised (for example, by recommending follow-on stock offerings), which may not necessarily be in line with the interests of JAVELIN's stockholders. Moreover, under the First Amended and Restated Management Agreement, we have a contractual and a fiduciary relationship with JAVELIN. We make a determination, exercising our judgment in good faith, as to whether an investment opportunity is appropriate for JAVELIN. Factors in making such a determination may include JAVELIN's liquidity, JAVELIN's overall investment strategy and objectives, the composition of JAVELIN's existing portfolio, the size or amount of the available investment opportunity, the characteristics of the securities involved, the liquidity of the markets in which the securities trade, the risks involved, and other factors relating to JAVELIN and the investment opportunity.

We may in the future adopt additional conflicts of interest resolution policies and procedures designed to protect the business interests of JAVELIN.

Item 7 – Types of Clients

Client 1- ARMOUR:

ACM provides investment and portfolio management services, among other business services, to ARMOUR, a publicly-traded REIT that invests primarily in Agency Securities, pursuant to the Third Amended and Restated Management Agreement between us and ARMOUR (please refer to Item 4 for further details). From time to time, a portion of ARMOUR's assets may be invested in unsecured notes and bonds issued by GSEs (collectively, "Agency Debt"), U.S. Treasuries and money market instruments, subject to certain income tests ARMOUR must satisfy for its qualification as a REIT. ARMOUR was organized as a Maryland corporation in 2008.

ARMOUR seeks attractive long-term investment returns by investing its equity capital and borrowed funds in its targeted asset class of Agency Securities. ARMOUR earns returns on the spread between the yield on its assets and its costs, including the cost of the funds it borrows, after giving effect to its hedges. ARMOUR intends to qualify and has elected to be taxed as a REIT under the Internal Revenue Code ("the Code"). ARMOUR is generally not subject to federal income tax to the extent that it distributes its taxable income to its stockholders and as long as it satisfies the ongoing REIT requirements including meeting certain asset, income and stock ownership tests. ARMOUR also conducts its business so as not to become regulated as an "investment company" under the Investment Company Act of 1940 (the "1940 Act") by relying on the exclusion provided by Section 3(c)(5)(c) of the 1940 Act as interpreted by the staff of the SEC. ARMOUR's business plan is to identify and acquire Agency Securities, finance its acquisitions with borrowings under a series of short-term repurchase agreements at the most competitive interest rates available to it and then cost-effectively hedge its interest rate and other risks based on its entire portfolio of assets, liabilities and derivatives and its view of the market. Successful implementation of ARMOUR's business plan requires it to address interest rate risk, maintain adequate liquidity and effectively hedge interest rate risks. We assist ARMOUR in executing its business plan in a manner consistent with its intention of qualifying as a REIT and to avoid regulation under the 1940 Act.

Client 2- JAVELIN:

ACM provides investment and portfolio management services, among other business services, to JAVELIN, a publicly-traded REIT that invests in Agency Securities, Non-Agency Securities, and other mortgage-related investments pursuant to the First Amended and Restated Management Agreement between us and JAVELIN (please refer to Item 4 for further details). From time to time, a portion of JAVELIN's assets may be invested in unsecured notes and bonds issued by GSEs (collectively, "Agency Debt"), U.S. Treasuries and money market instruments, subject to certain income tests JAVELIN must satisfy for its qualification as a REIT. JAVELIN was organized as a Maryland corporation in 2012.

JAVELIN seeks attractive long-term investment returns by investing its equity capital and borrowed funds in its targeted asset class. JAVELIN earns returns on the spread between the yield on its assets and its costs, including the cost of the funds it borrows, after giving effect to its hedges. JAVELIN intends to qualify and has elected to be taxed as a REIT under the Code.

JAVELIN is generally not subject to federal income tax to the extent that it distributes its taxable income to its stockholders and as long as it satisfies the ongoing REIT requirements including meeting certain asset, income and stock ownership tests. JAVELIN also conducts its business so as not to become regulated as an "investment company" under the 1940 Act by relying on the exclusion provided by Section 3(c)(5)(c) of the 1940 Act as interpreted by the staff of the SEC. JAVELIN's business plan is to identify and acquire its target assets, finance its acquisitions with borrowings under a series of short-term repurchase agreements at the most competitive interest rates available to it and then cost-effectively hedge its interest rate and other risks based on its entire portfolio of assets, liabilities and derivatives and our view of the market. Successful implementation of JAVELIN's business plan requires it to address interest rate risk, maintain adequate liquidity and effectively hedge interest rate risks. We assist JAVELIN in executing its business plan in a manner consistent with its intention of qualifying as a REIT and to avoid regulation under the 1940 Act.

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

ARMOUR

Our Investment Strategy

ARMOUR relies on our expertise to construct selectively and manage actively a diversified mortgage investment portfolio and to identify asset classes that, when properly financed and hedged, are designed to produce attractive risk-adjusted returns across a variety of market conditions and economic cycles. We focus on asset selection and the relative value of various sectors within the mortgage market. We believe that the residential mortgage market will undergo dramatic change in the coming years as the role of GSEs is diminished, which we expect to create attractive investment opportunities for ARMOUR. Therefore, we change the composition of ARMOUR's investment portfolio as we believe changes to market conditions, risks and valuations warrant. Consequently, ARMOUR may experience investment gains or losses when it sells instruments that we believe no longer provide attractive risk-adjusted returns relative to other sectors of the mortgage market.

Through our rigorous research, stringent investment underwriting analysis and disciplined security selection, we invest in and manage a portfolio of mortgage investments with attractive risk-adjusted yields. In general, we evaluate investment opportunities by reviewing: cash flow characteristics of underlying mortgages and properties; borrower credit quality; regional economic factors, including the potential for growth or contraction, future demand for residential and commercial properties and the potential for home price appreciation or depreciation; and potential drivers of defaults and loss characteristics of underlying collateral.

Our goal is for ARMOUR to profit not only from current earnings generated by its investment portfolio, but also from the identification of investment opportunities whose relative value, arising from current or expected market trends and dislocations, has diverged from other investment opportunities. Specifically, we evaluate the risk/return characteristics of individual investment opportunities against other mortgage investment opportunities as well as opportunities in other investment sectors. Our selection of assets focuses on investments that are expected to generate attractive returns relative to other investments with similar levels of risk and are expected to benefit from expected trends within the mortgage market.

The factors we consider in selecting Agency Securities include, but are not limited to, items such as interest rates, property prices, other economic indicators and loan level and borrower characteristics. These factors drive our projections of prepayments, loan modifications, defaults and loss severities. In addition, these loan cash flow projections, which may be adjusted to reflect servicer specific behavior, in combination with the deal structure, allow us to project security returns under a variety of scenarios and to select securities that provide attractive returns given the specific level of risk.

We employ our expertise and experience in financing selected assets within ARMOUR's investment portfolio, when appropriate and prudent, and to hedge its investment portfolio to manage prepayment, credit and interest rate risks as applicable.

Our active management strategy involves buying and selling securities in all sectors of the mortgage market. Therefore, the composition of ARMOUR's investment portfolio varies as we believe changes to market conditions, risks and valuations warrant. Consequently, ARMOUR may experience investment gains or losses when it sells instruments that we no longer believe provides attractive risk-adjusted returns relative to other sectors of the mortgage market.

We expect ARMOUR's target asset allocation to evolve over time as opportunities emerge and, as we currently believe will occur, as the government, through the Federal Housing Administration ("FHA") and GSEs, reduces its involvement in the U.S. housing finance market.

Investment Methods

We assist ARMOUR in carefully selecting and purchasing primarily Agency Securities, either in initial offerings or on the secondary market through broker-dealers or similar entities. We may also assist ARMOUR in identifying originators and intermediaries with which to enter into arrangements to source collateral for these securities.

We also assist ARMOUR in utilizing to-be-announced forward contracts ("TBAs") in order to invest in Agency Securities or to hedge its investments. Pursuant to these TBAs, ARMOUR would agree to purchase, for future delivery, Agency Securities with certain principal and interest terms and certain types of underlying collateral, but the particular securities to be delivered would not be identified until shortly before the TBA settlement date. ARMOUR's ability to purchase Agency Securities through TBAs may be limited by the 75% income and asset tests applicable to REITs.

We may assist ARMOUR in carefully selecting and investing directly in residential mortgage loans (prime mortgage loans and non-prime mortgage loans) through direct purchases of loans from mortgage originators and through purchases of loans on the secondary market. ARMOUR may also enter into purchase agreements with a number of loan originators and intermediaries, including mortgage bankers, commercial banks, savings and loan associates, home builders, credit unions and other mortgage conduits. We advise ARMOUR regarding investing primarily in mortgage loans secured by properties within the United States.

Investment Guidelines

We provide investment advisory services to ARMOUR with the following investment guidelines in mind:

- to not make investments that would cause ARMOUR to fail to qualify as a REIT for federal income tax purposes;
- to not make investments that would cause ARMOUR to be regulated as an investment company under the 1940 Act; and
- to invest in ARMOUR's target assets, which consist primarily of Agency Securities.

Borrowing Strategy

We advise and assist ARMOUR in borrowing against investments in its target assets primarily using repurchase agreements. These borrowings generally have maturities that range from one month or less up to one year, although occasionally ARMOUR may enter into longer dated borrowing agreements to more closely match the rate adjustment period of the securities it owns. Depending on market conditions, ARMOUR may enter into additional repurchase arrangements with similar longer-term maturities or a committed borrowing facility. In order to finance its Agency Securities, we advise ARMOUR to borrow between six and ten times the amount of its stockholders' equity with respect to Agency Securities, but ARMOUR is not limited to those ranges. The level of ARMOUR's borrowings may vary periodically depending on market conditions.

Despite recent credit market developments and prevailing trends, we believe ARMOUR's target assets will continue to be eligible for financing in the repurchase agreement market.

Hedging Strategy

We may use a variety of strategies to hedge a portion of ARMOUR's exposure to interest rate, prepayment and credit risk to the extent that we believe is prudent, taking into account our investment strategy, the cost of the hedging transactions and ARMOUR's intention to qualify as a REIT. As a result, we may advise ARMOUR to not hedge certain interest rate, prepayment or credit risks if we believe that bearing such risks enhances ARMOUR's return relative to its risk/return profile.

Interest Rate Risk

We assist ARMOUR in hedging some of its exposure to potential interest rate mismatches between the interest ARMOUR earns on its longer term investments and the borrowing costs on its shorter term borrowings. Because ARMOUR's leverage is primarily in the form of repurchase agreements, its financing costs will fluctuate based on short-term interest rate indices, such as LIBOR. Because some of ARMOUR's investments are in assets that have fixed rates of interest and mature in up to 30 years, the interest it earns on those assets will generally not move in tandem with the interest rates that it pays on its repurchase agreements, which generally have a maturity of less than one year. As a result, ARMOUR may experience reduced income or losses based on these rate movements. In order to mitigate such risk, we may assist ARMOUR in utilizing certain hedging techniques as discussed below.

We design interest rate risk mitigation strategies to reduce the impact on ARMOUR's income caused by the potential adverse effects of changes in interest rates on its assets and liabilities. Subject to complying with REIT requirements, we use derivative instruments to mitigate the risk of adverse changes in interest rates on the value of its assets as well as the differences between the interest rate adjustments on its assets and borrowings. These strategies will consist primarily of ARMOUR purchasing or selling futures contracts and may also include entering into interest rate swap, interest rate cap or interest rate floor agreements, purchasing put and call options on securities or securities underlying futures contracts, or entering into forward rate agreements. Although we advise ARMOUR that it is not limited in its use of interest rate

risk mitigation strategies, we advise ARMOUR to limit its use of derivative instruments to only those techniques described above and to enter into derivative transactions only with counterparties that we believe have a strong credit rating to help mitigate the risk of counterparty default or insolvency. These transactions are entered into solely for the purpose of mitigating interest rate risk. Since ARMOUR does not elect hedge accounting treatment as prescribed by GAAP, its operating results may reflect greater volatility than otherwise would be the case, because gains or losses on the derivative instruments may not be offset by changes in the fair values or cash flows of the related investment or borrowing transactions within the same accounting period, or ever.

We assess ARMOUR's interest rate risk by estimating the effective duration of its assets and the effective duration of its liabilities and by estimating the time difference between the interest rate adjustment of its assets and the interest rate adjustment of its liabilities. Effective duration essentially measures the market price volatility of financial instruments as interest rates change. We estimate effective duration using various financial models and empirical data. Different models and methodologies can produce different effective duration estimates for the same securities.

Prepayment Risk

Because residential borrowers are able to prepay their mortgage loans (which underlie the Agency Securities in which ARMOUR invests) at par at any time, ARMOUR faces the risk that it will experience a return of principal on its investments earlier than anticipated, and it may have to invest that principal at potentially lower yields. Because prepayments on residential mortgages generally accelerate when interest rates decrease and slow when interest rates increase, mortgage securities typically have “negative convexity.” In other words, certain mortgage securities in which ARMOUR invests may increase in price more slowly than most bonds, or even fall in value, as interest rates decline. Conversely, certain mortgage securities in which ARMOUR invests may decrease in value more quickly than similar duration bonds as interest rates increase. In order to manage ARMOUR's prepayment and interest rate risks, we monitor, among other things, its “duration gap” and convexity exposure. Duration is the relative expected percentage change in market value of its assets that would be caused by a parallel change in short and long-term interest rates. Convexity exposure relates to the way the duration of a mortgage security changes when the interest rate and prepayment environment changes.

Credit Risk

We advise ARMOUR to accept mortgage credit exposure at levels we deem prudent, which is an integral part of our diversified investment strategy. Therefore, ARMOUR may retain all or a portion of the credit risk on its investments in Agency Securities. We seek to manage this risk through prudent asset selection, pre-acquisition due diligence, post-acquisition performance monitoring, sale of assets where we identify negative credit trends, the use of various types of credit enhancements and by using non-recourse financing, which limits ARMOUR's exposure to credit losses to the specific pool of mortgages subject to the non-recourse financing. Our overall management of credit exposure may also include credit default swaps or other financial derivatives that we believe are appropriate.

We follow a disciplined security selection process and help ARMOUR to be, in essence, a relative value investor in its target assets. We have conducted with respect to Agency Securities, top-down market assessments of the various segments of the mortgage-related investments market in order to identify the most attractive segments and investment opportunities consistent with ARMOUR's portfolio objectives and risk management strategy. In employing this detailed analysis, we seek to identify the best values available in mortgage-related investments. We select ARMOUR's mortgage-related investments based on extensive bottom-up analysis including, among other factors, financial structure, prepayment trends, average remaining life and expected duration, amortization schedules, fixed versus floating interest rates, geographic concentration, property type, loan-to-value ratios, origination characteristics and credit scores. Considering the large size of the mortgage-related investments market, we believe we can be very selective with ARMOUR's investments and buy only the securities we deem to be the most attractive.

Portfolio Construction

We help ARMOUR realize returns to its investors by constructing a well-balanced portfolio consisting primarily of Agency Securities with a focus on managing various associated risks, including credit, interest rate, prepayment, and financing risk. We use our fixed income expertise across the range of asset classes within the mortgage-related investments markets to build a portfolio that seeks to balance income, cash, capital, leverage and the aforementioned risks. Through the careful and disciplined selection of assets, and continual portfolio monitoring, we believe we can build and maintain an investment portfolio that provides value to ARMOUR's stockholders over time, both in absolute terms and relative to other mortgage-related investment portfolios.

Analytical Tools, Infrastructure and Expertise

Our experienced investment team constructs and manages ARMOUR's mortgage-related investment portfolio through the use of focused qualitative and quantitative analysis, which helps it manage risk on a security-by-security and portfolio basis. We rely on a variety of analytical tools and models to assess ARMOUR's investments and risk management. We focus on in-depth analysis of the numerous factors that influence ARMOUR's target assets, including:

- fundamental market and sector review;
- cash flow analysis;
- controlled risk exposure; and
- prudent balance sheet management.

We also use these tools to guide the interest rate risk mitigation strategies we have developed to the extent consistent with ARMOUR's requirements for qualification as a REIT.

Strategic Relationships and Experience

We maintain relationships with financial intermediaries including prime brokers, investment banks, broker-dealers and asset custodians. We believe these relationships enhance our ability to source, finance, protect and mitigate the interest rate risk on ARMOUR's

investments and, thus, enable it to succeed in various credit and interest rate environments. Our management has many years of experience and well-established contacts within the mortgage-backed securities markets and the capital and financing markets generally, and is able to bring our personal relationships to bear for ARMOUR's benefit and the benefit of its stockholders.

Risk Factors

Investing in Agency Securities involves risk of loss that ARMOUR should be prepared to bear. ARMOUR should consider carefully the material risks described below. If any of the following events occur in the course of our providing management and investment services, ARMOUR's business, financial condition and operating results may be materially adversely affected. In that event, the trading price of its securities could decline, and ARMOUR could lose all or part of its investments.

Risks Related to Our Management and Conflicts of Interest

- *ARMOUR depends on ACM and particularly key personnel including Mr. Ulm and Mr. Zimmer. The loss of those key personnel could severely and detrimentally affect ARMOUR's operations;*
- *There are conflicts of interest in ARMOUR's relationship with us and our affiliates, which could result in decisions that are not in the best interests of its stockholders;*
- *The manner of determining the management fee may not provide sufficient incentive to us to maximize risk adjusted returns on ARMOUR's investment portfolio since it is based on Gross Equity Raised and not on its performance;*
- *ARMOUR's Third Amended and Restated Management Agreement was not negotiated on an arm's-length basis and the terms, including fees payable, may not be as favorable to ARMOUR as if they were negotiated with an unaffiliated third party; and*
- *ACM has competing duties to other entities, which could result in decisions that are not in the best interests of ARMOUR's stockholders or warrant holders.*

Risks Related to Financing Strategies, Guidelines and Policies

- *Our failure to make investments on favorable terms that satisfy ARMOUR's investment strategy and otherwise generate attractive risk adjusted returns initially and consistently from time to time in the future would materially and adversely affect ARMOUR;*
- *If ARMOUR experiences losses as a result of its leverage policy, such losses would reduce the amounts available for distribution to its stockholders. Because the assets that ARMOUR expects to acquire may experience periods of illiquidity, ARMOUR may be prevented from selling its Agency Securities at opportune times and prices; and*

- *ARMOUR's leverage strategy increases the risks of its operations, which could reduce its net income and the amount available for distributions or cause it to suffer a loss.*

Risks Related to Structural And Market Conditions For Our Client's Investments

- *We may not be able to assist ARMOUR in operating its business or implementing its operating policies and strategies successfully;*
- *Market conditions may upset the historical relationship between interest rate changes and prepayment trends, which would make it more difficult for us to analyze ARMOUR's portfolio;*
- *Interest rate mismatches between ARMOUR's Agency Securities and its borrowings used to fund its purchases of these securities may reduce ARMOUR's income during periods of changing interest rates;*
- *Interest rate caps on ARMOUR's adjustable rate Agency Securities may reduce its income or cause it to suffer a loss during periods of rising interest rates;*
- *Mitigating against interest rate exposure may adversely affect ARMOUR's earnings and our interest rate risk mitigation transactions on behalf of ARMOUR may fail to protect ARMOUR from the losses that they were designed to offset;*
- *We may not be able to execute desired interest risk mitigation transactions at favorable prices for ARMOUR;*
- *Our use of derivative instruments on ARMOUR's behalf may expose ARMOUR to counterparty and termination risks;*
- *Competition may prevent us from assisting ARMOUR in acquiring Agency Securities at favorable yields and that would harm its results of operations;*
- *We may not be able to help ARMOUR acquire investments at favorable prices;*
- *We cannot predict the impact, if any, on ARMOUR's earnings or cash available for distribution to its stockholders of the FHFA's proposed revisions to Fannie Mae's, Freddie Mac's and Ginnie Mae's existing infrastructures to align the standards and practices of the three entities;*
- *We cannot predict the impact of the U.S. Federal Reserve's policy of buying Agency Securities on the prices and liquidity of Agency Securities or other securities in which ARMOUR invests, although the U.S. Federal Reserve's action could increase the prices of ARMOUR's target assets and reduce the spread on its investments; and*
- *The adoption of further derivatives legislation by Congress could have an adverse impact on our ability to hedge risks associated with ARMOUR's business.*

Risks Related to Our Client's Corporate Structure

- *Maintenance of ARMOUR's exclusion under the 1940 Act will impose limits on its business;*
- *Although ARMOUR has no intention to do so, it may use proceeds from equity and debt offerings and other financings to fund distributions, which will decrease the amount of capital available for purchasing its target assets;*
- *We may assist ARMOUR in changing its target assets, financing strategy, and operational policies without the consent of ARMOUR's stockholders, which may adversely affect the market price of ARMOUR's common stock and its ability to make distributions to stockholders; and*
- *We are highly dependent on information and communication systems. System failures, security breaches or cyber-attacks of networks or systems could significantly disrupt our business and negatively affect our services to ARMOUR.*

Risks Related to Federal Income Tax

- *Rapid changes in the values of ARMOUR's target assets may make it more difficult for it to maintain its qualification as a REIT or its exclusion under the 1940 Act;*
- *ARMOUR's intended qualification as a REIT subjects it to a broad array of financial and operating parameters that may influence its business and investment decisions and limit its flexibility in reacting to market developments;*
- *REIT distribution requirements could adversely affect ARMOUR's ability to execute its business plan;*
- *Complying with REIT requirements may cause ARMOUR to forgo otherwise attractive opportunities;*
- *Complying with REIT requirements may force us to liquidate otherwise attractive investments for ARMOUR;*
- *The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect ARMOUR's ability to qualify as a REIT;*
- *ARMOUR may be required to report taxable income for certain investments in excess of the economic income it ultimately realizes from them;*
- *To the extent we invest in construction loans on ARMOUR's behalf, ARMOUR may fail to qualify as a REIT if the IRS successfully challenges our estimates of the fair market value of land improvements that will secure those loans;*

- *Even if ARMOUR qualifies and remains qualified as a REIT, it may face other tax liabilities that reduce ARMOUR's cash flow; and*
- *The tax on prohibited transactions limits our ability to engage in transactions on ARMOUR's behalf, including certain methods of securitizing mortgage loans, which would be treated as prohibited transactions for federal income tax purposes.*

JAVELIN

Our Investment Strategy

JAVELIN relies on our expertise to construct selectively and manage actively a diversified mortgage investment portfolio and to identify asset classes that, when properly financed and hedged, are designed to produce attractive risk-adjusted returns across a variety of market conditions and economic cycles. We focus on asset selection and the relative value of various sectors within the mortgage market. We believe that the residential mortgage market will undergo dramatic change in the coming years as the role of GSEs is diminished, which we expect to create attractive investment opportunities for JAVELIN. Therefore, we change the composition of JAVELIN's investment portfolio as we believe changes to market conditions, risks and valuations warrant. Consequently, JAVELIN may experience investment gains or losses when we sell instruments that we believe no longer provide attractive risk-adjusted returns relative to other sectors of the mortgage market.

Through our rigorous research, stringent investment underwriting analysis and disciplined security selection, we invest in and manage a portfolio of mortgage investments with attractive risk-adjusted yields. In general, we evaluate investment opportunities by reviewing: cash flow characteristics of underlying mortgages and properties; borrower credit quality; regional economic factors, including the potential for growth or contraction, future demand for residential and commercial properties and the potential for home price appreciation or depreciation; and potential drivers of defaults and loss characteristics of underlying collateral.

Our goal is for JAVELIN to profit not only from current earnings generated by its investment portfolio, but also from the identification of investment opportunities whose relative value, arising from current or expected market trends and dislocations, has diverged from other investment opportunities. Specifically, we evaluate the risk/return characteristics of individual investment opportunities against other mortgage investment opportunities as well as opportunities in other investment sectors. Our selection of assets focuses on investments that are expected to generate attractive returns relative to other investments with similar levels of risk and are expected to benefit from expected trends within the mortgage market.

The factors we consider in selecting Agency Securities and Non-Agency Securities include, but are not limited to, items such as interest rates, property prices, other economic indicators and loan level and borrower characteristics. These factors drive our projections of prepayments, loan modifications, defaults and loss severities. In addition, these loan cash flow projections, which may be adjusted to reflect servicer specific behavior, in combination with the

deal structure, allow us to project security returns under a variety of scenarios and to select securities that provide attractive returns given the specific level of risk.

We employ our expertise and experience in financing selected assets within JAVELIN's investment portfolio, when appropriate and prudent, and to hedge its investment portfolio to manage prepayment, credit and interest rate risks as applicable.

Our active management strategy involves buying and selling securities in all sectors of the mortgage market. Therefore, the composition of JAVELIN's investment portfolio varies as we believe changes to market conditions, risks and valuations warrant. Consequently, JAVELIN may experience investment gains or losses when it sells instruments that we no longer believe provide attractive risk-adjusted returns relative to other sectors of the mortgage market.

We expect JAVELIN's target asset allocation to evolve over time as opportunities emerge and, as we currently believe will occur, the government, through the Federal Housing Administration ("FHA") and GSEs, reduces its involvement in the U.S. housing finance market.

Investment Methods

We assist JAVELIN in carefully selecting and purchasing Agency Securities, Non-Agency Securities, and other mortgage-related investments, either in initial offerings or on the secondary market through broker-dealers or similar entities. We may also assist JAVELIN in identifying originators and intermediaries with which to enter into arrangements to source collateral for these securities.

We also assist JAVELIN in utilizing TBAs in order to invest in Agency and Non-Agency Securities or to hedge its investments. Pursuant to these TBAs, JAVELIN would agree to purchase, for future delivery, Agency or Non-Agency Securities with certain principal and interest terms and certain types of underlying collateral, but the particular securities to be delivered would not be identified until shortly before the TBA settlement date. JAVELIN's ability to purchase Agency and Non-Agency Securities through TBAs may be limited by the 75% income and asset tests applicable to REITs.

We may assist JAVELIN in carefully selecting and investing directly in residential mortgage loans (prime mortgage loans and non-prime mortgage loans) through direct purchases of loans from mortgage originators and through purchases of loans on the secondary market. JAVELIN may also enter into purchase agreements with a number of loan originators and intermediaries, including mortgage bankers, commercial banks, savings and loan associates, home builders, credit unions and other mortgage conduits. We advise JAVELIN regarding investing primarily in mortgage loans secured by properties within the United States.

Investment Guidelines

Our investment advisory services are subject to the following investment guidelines that have been adopted by the board of directors of JAVELIN:

- no investment shall be made that would cause JAVELIN to fail to qualify as a REIT for federal income tax purposes;

- no investment shall be made that would cause JAVELIN to be regulated as an investment company under the 1940 Act; and
- JAVELIN's investment portfolio shall consist of its target assets.

JAVELIN may change these investment guidelines at any time with the approval of its board of directors.

Borrowing Strategy

We advise and assist JAVELIN in borrowing against investments in its target assets primarily using repurchase agreements. These borrowings generally have maturities that range from one month or less up to one year, although occasionally JAVELIN may enter into longer dated borrowing agreements to more closely match the rate adjustment period of the securities it owns. Depending on market conditions, JAVELIN may enter into additional repurchase arrangements with similar longer-term maturities or a committed borrowing facility. In order to finance its Agency and Non-Agency Securities, we advise JAVELIN to borrow between six and ten times the amount of its stockholders' equity with respect to Agency Securities and between one and three times the amount of its stockholders' equity with respect to its Non-Agency Securities, but JAVELIN is not limited to those ranges. The level of JAVELIN's borrowings may vary periodically depending on market conditions.

Despite recent credit market developments and prevailing trends, we believe JAVELIN's target assets will continue to be eligible for financing in the repurchase agreement market.

Hedging Strategy

We may use a variety of strategies to hedge a portion of JAVELIN's exposure to interest rate, prepayment and credit risk to the extent that we believe is prudent, taking into account our investment strategy, the cost of the hedging transactions and JAVELIN's intention to qualify as a REIT. As a result, we may advise JAVELIN to not hedge certain interest rate, prepayment or credit risks if we believe that bearing such risks enhances JAVELIN's return relative to its risk/return profile.

Interest Rate Risk

We assist JAVELIN in hedging some of its exposure to potential interest rate mismatches between the interest JAVELIN earns on its longer term investments and the borrowing costs on its shorter term borrowings. Because JAVELIN's leverage is primarily in the form of repurchase agreements, its financing costs will fluctuate based on short-term interest rate indices, such as LIBOR. Because some of JAVELIN's investments are in assets that have fixed rates of interest and mature in up to 30 years, the interest it earns on those assets will generally not move in tandem with the interest rates that it pays on its repurchase agreements, which generally have a maturity of less than one year. As a result, JAVELIN may experience reduced income or losses based on these rate movements. In order to mitigate such risk, we may assist JAVELIN in utilizing certain hedging techniques as discussed below.

We design interest rate risk mitigation strategies to reduce the impact on JAVELIN's income caused by the potential adverse effects of changes in interest rates on its assets and liabilities. Subject to complying with REIT requirements, we use derivative instruments to mitigate the risk of adverse changes in interest rates on the value of its assets as well as the differences between the interest rate adjustments on its assets and borrowings. These strategies will consist primarily of JAVELIN purchasing or selling futures contracts and may also include entering into interest rate swap, interest rate cap or interest rate floor agreements, purchasing put and call options on securities or securities underlying futures contracts, or entering into forward rate agreements. Although we advise JAVELIN that it is not limited in its use of interest rate risk mitigation strategies, we advise JAVELIN to limit its use of derivative instruments to only those techniques described above and to enter into derivative transactions only with counterparties that we believe have a strong credit rating to help mitigate the risk of counterparty default or insolvency. These transactions are entered into solely for the purpose of mitigating interest rate risk. Since JAVELIN does not elect hedge accounting treatment as prescribed by GAAP, its operating results may reflect greater volatility than otherwise would be the case, because gains or losses on the derivative instruments may not be offset by changes in the fair values or cash flows of the related investment or borrowing transactions within the same accounting period, or ever.

We assess JAVELIN's interest rate risk by estimating the effective duration of its assets and the effective duration of its liabilities and by estimating the time difference between the interest rate adjustment of its assets and the interest rate adjustment of its liabilities. Effective duration essentially measures the market price volatility of financial instruments as interest rates change. We estimate effective duration using various financial models and empirical data. Different models and methodologies can produce different effective duration estimates for the same securities.

Prepayment Risk

Because residential borrowers are able to prepay their mortgage loans (which underlie the mortgage-backed securities that are collateralized by residential mortgages ("RMBS") in which JAVELIN invests) at par at any time, JAVELIN faces the risk that it will experience a return of principal on its investments earlier than anticipated, and it may have to invest that principal at potentially lower yields. Because prepayments on residential mortgages generally accelerate when interest rates decrease and slow when interest rates increase, mortgage securities typically have "negative convexity." In other words, certain mortgage securities in which JAVELIN invests may increase in price more slowly than most bonds, or even fall in value, as interest rates decline. Conversely, certain mortgage securities in which JAVELIN invests may decrease in value more quickly than similar duration bonds as interest rates increase. In order to manage JAVELIN's prepayment and interest rate risks, we monitor, among other things, its "duration gap" and convexity exposure. Duration is the relative expected percentage change in market value of its assets that would be caused by a parallel change in short and long-term interest rates. Convexity exposure relates to the way the duration of a mortgage security changes when the interest rate and prepayment environment changes.

Credit Risk

We advise JAVELIN to accept mortgage credit exposure at levels we deem prudent, which is an integral part of our diversified investment strategy. Therefore, JAVELIN may retain all or a portion of the credit risk on its investments in residential and commercial mortgage loans as well as on the loans underlying JAVELIN's RMBS and mortgage-backed securities that are collateralized by commercial mortgages ("CMBS"). We seek to manage this risk through prudent asset selection, pre-acquisition due diligence, post-acquisition performance monitoring, sale of assets where we identify negative credit trends, the use of various types of credit enhancements and by using non-recourse financing, which limits JAVELIN's exposure to credit losses to the specific pool of mortgages subject to the non-recourse financing. Our overall management of credit exposure may also include credit default swaps or other financial derivatives that we believe are appropriate.

We follow a disciplined security selection process and help JAVELIN to be, in essence, a relative value investor in its target assets. We vary the percentage mix of our Agency and Non-Agency mortgage investments in an effort to actively adjust JAVELIN's credit exposure and to improve the risk/return profile of our investment portfolio. In employing this detailed analysis, we seek to identify the best values available in mortgage-related investments. We select JAVELIN's mortgage-related investments based on extensive bottom-up analysis including, among other factors, financial structure, prepayment trends, average remaining life and expected duration, amortization schedules, fixed versus floating interest rates, geographic concentration, property type, loan-to-value ratios, origination characteristics and credit scores. Considering the large size of the mortgage-related investments market, we believe we can be very selective with JAVELIN's investments and buy only the securities we deem to be the most attractive.

Portfolio Construction

We help JAVELIN realize returns to its investors by constructing a well-balanced portfolio consisting primarily of mortgage-related investments with a focus on managing various associated risks, including credit, interest rate, prepayment, and financing risk. We use our fixed income expertise across the range of asset classes within the mortgage-related investments markets to build a portfolio that seeks to balance income, cash, capital, leverage and the aforementioned risks. Through the careful and disciplined selection of assets, and continual portfolio monitoring, we believe we can build and maintain an investment portfolio that provides value to JAVELIN's stockholders over time, both in absolute terms and relative to other mortgage-related investment portfolios.

Analytical Tools, Infrastructure and Expertise

Our experienced investment team constructs and manages JAVELIN's mortgage-related investment portfolio through the use of focused qualitative and quantitative analysis, which helps it manage risk on a security-by-security and portfolio basis. We rely on a variety of analytical tools and models to assess JAVELIN's investments and risk management. We focus on in-depth analysis of the numerous factors that influence JAVELIN's target assets, including:

- fundamental market and sector review;

- cash flow analysis;
- controlled risk exposure; and
- prudent balance sheet management.

We also use these tools to guide the interest rate risk mitigation strategies we have developed to the extent consistent with JAVELIN's requirements for qualification as a REIT.

Strategic Relationships and Experience

We maintain relationships with financial intermediaries including prime brokers, investment banks, broker-dealers and asset custodians. We believe these relationships enhance our ability to source, finance, protect and mitigate the interest rate risk on JAVELIN's investments and, thus, enable it to succeed in various credit and interest rate environments. Our management has many years of experience and well-established contacts within the mortgage-backed securities markets and the capital and financing markets generally, and is able to bring our personal relationships to bear for JAVELIN's benefit and the benefit of its stockholders.

Risk Factors

Investing in Agency Securities and Non-Agency Securities involves risk of loss that JAVELIN should be prepared to bear. JAVELIN should consider carefully the material risks described below. If any of the following events occur in the course of our providing management and investment services, JAVELIN's business, financial condition and operating results may be materially adversely affected. In that event, the trading price of its securities could decline, and JAVELIN could lose all or part of its investments.

Risks Related to Our Management and Conflicts of Interest

- ***JAVELIN depends on ACM and particularly key personnel including Mr. Ulm and Mr. Zimmer. The loss of those key personnel could severely and detrimentally affect its operations;***
- ***There are conflicts of interest in JAVELIN's relationship with us and our affiliates, which could result in decisions that are not in the best interests of its stockholders;***
- ***Our First Amended and Restated Management Agreement was not negotiated on an arm's-length basis and the terms, including fees payable, may not be as favorable to JAVELIN as if they were negotiated with an unaffiliated third party;***
- ***ACM has competing duties to other entities, which could result in decisions that are not in the best interests of JAVELIN's stockholders; and***
- ***The manner of determining the management fee may not provide sufficient incentive to us to maximize risk adjusted returns on JAVELIN's investment portfolio since it is based on its Gross Equity Raised and not on its performance.***

Risks Related to Financing Strategies, Guidelines and Policies

- *Our failure to make investments on favorable terms that satisfy JAVELIN's investment strategy and otherwise generate attractive risk adjusted returns initially and consistently from time to time in the future would materially and adversely affect JAVELIN;*
- *We leverage JAVELIN's portfolio investments in Mortgage-backed Securities ("MBS"), which may adversely affect its return on its investments and may reduce cash available for distribution to JAVELIN's stockholders; and*
- *JAVELIN's leverage strategy increases the risks of its operations, which could reduce its net income and the amount available for distributions or cause it to suffer a loss.*

Risks Related to Structural And Market Conditions For Our Client's Investments

- *We and our affiliates do not have extensive experience in acquiring or financing non-agency securities and other mortgage-related investments;*
- *We may not be able to assist JAVELIN in operating its business or implementing its operating policies and strategies successfully;*
- *Market conditions may upset the historical relationship between interest rate changes and prepayment trends, which would make it more difficult for us to analyze JAVELIN's portfolio;*
- *The residential mortgage loans in which JAVELIN invests and that underlie the Non-Agency Securities in which we invest on JAVELIN's behalf may be subject to delinquency, foreclosure and loss, which could result in significant losses to JAVELIN;*
- *JAVELIN may not control the special servicing of the mortgage loans included in the MBS in which it may invest and, in such cases, the special servicer may take actions that could adversely affect its interests;*
- *JAVELIN's investments may include subordinated tranches of MBS which are subordinate in right of payment to more senior securities;*
- *Investments in non-investment grade MBS may be illiquid, may have a higher risk of default and may not produce current returns;*
- *Our due diligence of potential investments may not reveal all of the potential liabilities associated with such investments and may not reveal other weaknesses in such investments, which could lead to investment losses;*

- *JAVELIN may be adversely affected by risks affecting borrowers or the asset or property types in which its investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions;*
- *JAVELIN may invest in non-prime mortgage loans or investments collateralized by non-prime mortgage loans, which are subject to increased risks;*
- *Interest rate mismatches between JAVELIN's MBS and its borrowings used to fund its purchases of these securities may reduce JAVELIN's income during periods of changing interest rates;*
- *Interest rate caps on JAVELIN's adjustable rate MBS may reduce its income or cause it to suffer a loss during periods of rising interest rates;*
- *Mitigating against interest rate exposure may adversely affect JAVELIN's earnings and our interest rate risk mitigation transactions on behalf of JAVELIN may fail to protect JAVELIN from the losses that they were designed to offset;*
- *We may not be able to execute desired interest risk mitigation transactions at favorable prices for JAVELIN;*
- *Our use of derivative instruments on JAVELIN's behalf may expose JAVELIN to counterparty and termination risks;*
- *JAVELIN's investments are recorded at fair value, and quoted prices or observable inputs may not be available to determine such value, resulting in the use of significant unobservable inputs to determine value;*
- *Competition may prevent us from assisting JAVELIN in acquiring MBS at favorable yields and that would harm its results of operations;*
- *We may not be able to help JAVELIN acquire investments at favorable prices.*
- *We cannot predict the impact, if any, on JAVELIN's earnings or cash available for distribution to its stockholders of the FHFA's proposed revisions to Fannie Mae's, Freddie Mac's and Ginnie Mae's existing infrastructures to align the standards and practices of the three entities;*
- *We cannot predict the impact of the U.S. Federal Reserve's policy of buying Agency Securities on the prices and liquidity of Agency Securities or other securities in which JAVELIN invests, although the U.S. Federal Reserve's action could increase the prices of JAVELIN's target assets and reduce the spread on its investments; and*
- *The adoption of derivatives legislation by Congress could have an adverse impact on our ability to hedge risks associated with JAVELIN's business.*

Risks Related to Our Client's Corporate Structure

- *JAVELIN's board of directors has approved very broad investment guidelines for us and will not approve each investment and financing decision we make;*
- *We may assist JAVELIN in changing its target assets, financing strategy, and operational policies without the consent of JAVELIN's stockholders, which may adversely affect the market price of JAVELIN's common stock and its ability to make distributions to stockholders;*
- *Maintenance of JAVELIN's exclusion under the 1940 Act imposes limits on its business; and*
- *We are highly dependent on information and communication systems. System failures, security breaches or cyber-attacks of networks or systems could significantly disrupt our business and negatively affect our services to JAVELIN.*

Risks Related to Federal Income Tax

- *Rapid changes in the values of JAVELIN's target assets may make it more difficult for it to maintain its qualification as a REIT or its exclusion under the 1940 Act;*
- *JAVELIN's intended qualification as a REIT subjects it to a broad array of financial and operating parameters that may influence its business and investment decisions and limit its flexibility in reacting to market developments;*
- *REIT distribution requirements could adversely affect JAVELIN's ability to execute its business plan;*
- *Even if JAVELIN qualifies and remains qualified as a REIT, it may face other tax liabilities that reduce its cash flow;*
- *Complying with REIT requirements may cause us to forgo otherwise attractive opportunities for JAVELIN;*
- *Complying with REIT requirements may force us to liquidate otherwise attractive investments for JAVELIN;*
- *The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect JAVELIN's ability to qualify as a REIT;*
- *JAVELIN may be required to report taxable income for certain investments in excess of the economic income ultimately realized from them;*

- *To the extent we invest in construction loans on JAVELIN's behalf, JAVELIN may fail to qualify as a REIT if the IRS successfully challenges our estimates of the fair market value of land improvements that will secure those loans;*
- *Liquidation of assets may jeopardize JAVELIN's REIT qualification or create additional tax liability for it; and*
- *The tax on prohibited transactions limits our ability to engage in transactions on JAVELIN's behalf, including certain methods of securitizing mortgage loans, which would be treated as prohibited transactions for federal income tax purposes.*

Item 9 – Disciplinary Information

Investment advisors registered with the SEC are required to disclose all material facts regarding any legal or disciplinary events that could be important to a client's evaluation of ACM or the integrity of ACM's management. ACM has no such legal or disciplinary actions to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

ACM has arrangements that are material to its advisory business with its affiliates, ARMOUR and JAVELIN. As described above in Item 4, ACM has entered into Management Agreements with ARMOUR and JAVELIN through which ACM manages the business and affairs of ARMOUR and JAVELIN.

We receive a monthly management fee each from ARMOUR and JAVELIN that is based on the total of all Gross Equity Raised, as measured as of the date of determination (i.e., each month), regardless of ARMOUR's and/or JAVELIN's performance. Accordingly, the possibility exists that we will receive significant management fees for a given month despite the fact that ARMOUR and/or JAVELIN could experience a net loss during that month. Our entitlement to such significant nonperformance-based compensation may not provide us with sufficient incentive to devote the time and effort to source and maximize risk-adjusted returns on ARMOUR's and/or JAVELIN's investment portfolio, which could, in turn, adversely affect their ability to pay dividends to their stockholders and the market price of their common stock. Further, the management fee structure may give us the incentive to maximize Gross Equity Raised by the issuance of new equity securities or the retention of existing equity, regardless of the effect of these actions on ARMOUR's and/or JAVELIN's existing stockholders. In other words, the management fee structure rewards us based primarily on the size of ARMOUR's and JAVELIN's equity, and not on their financial returns to stockholders. Nevertheless, we make a determination, exercising our judgment in good faith, as to whether an investment opportunity is appropriate for ARMOUR and/or JAVELIN. Factors in making such a determination may include ARMOUR's and JAVELIN's liquidity, ARMOUR's and JAVELIN's overall investment strategy and objectives, the composition of ARMOUR's and JAVELIN's existing portfolio, the size or amount of the available investment opportunity, the characteristics of the securities involved, the liquidity of the markets in which the securities trade, the risks involved, and other factors relating to ARMOUR and/or JAVELIN and the investment opportunity.

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

We have adopted a code of ethics for avoiding prohibited acts and eliminating potential conflicts of interests. Policies against over-reaching, self-dealing, insider trading, and conflicts of interest are set forth in ACM's code of ethics. Among other matters, the code of ethics forbids any partner, officer, affiliate or employee of ACM from trading, either personally or on behalf of others on material non-public information or communicating material non-public information to others in violation of the law.

In addition, the code of ethics set forth restrictions on the receipt of gifts, outside employment and other matters. ACM believes that its code of ethics is appropriate to prevent or eliminate potential conflicts of interest between ACM and its employees, general partners, ARMOUR and JAVELIN. Yet, ARMOUR and JAVELIN should be aware that no set of rules can anticipate or avoid all potential conflicts of interest.

We do not and will not purchase portfolio assets from, or sell them to, ARMOUR's and JAVELIN's directors or officers, ARMOUR or JAVELIN, or any of our or their affiliates, or engage in any transaction in which they have a direct or indirect pecuniary interest (other than their respective Management and Sub-Management Agreements) in any circumstances.

We do not have a policy that expressly prohibits our officers, partners or any of our affiliates from engaging for their own account in business activities of the types conducted by us. However, our code of conduct contains a conflicts of interest policy that prohibits our officers and employees from engaging in any transaction that involves an actual conflict of interest with ARMOUR and JAVELIN.

We may in the future adopt additional conflicts of interest resolution policies and procedures designed to support the equitable allocation and to prevent the preferential allocation of investment opportunities among entities with overlapping investment objectives.

If you would like to receive a copy of ACM's code of ethics, contact ACM by telephone at (772) 617-4340 or submit a written request to: 3001 Ocean Drive, Suite 201, Vero Beach, Florida 32963.

Item 12 – Brokerage Practices

We consider a number of factors in selecting broker-dealers for client transactions, including:

- Demonstrated expertise in the type of transaction;
- Proposed fees and execution levels; and
- Market share, execution, sales, and trading capabilities.

We compare proposed fees to other comparable executed transactions as well as competing offers depending on the nature of the transaction. In addition to fees, estimated execution levels are considered carefully against comparable transactions.

ARMOUR

We have a relationship with AVM, L.P., a securities broker-dealer and unaffiliated third party, which ARMOUR contracts for clearing and settlement services for its securities and derivative transactions, as well as assistance with financing transaction services such as repurchase financing and management of margin arrangements between ARMOUR and its lenders for each of its repurchase agreements, which is beneficial to ARMOUR in addressing the potential scarcity of repurchase funding.

JAVELIN

With respect to the investment services we provide JAVELIN, JAVELIN also contracts for clearing and settlement services for its securities and derivative transactions, as well as assistance with financing transaction services such as repurchase financing and management of margin arrangements between JAVELIN and its lenders for each of its repurchase agreements, which is beneficial to JAVELIN in addressing the potential scarcity of repurchase funding.

Item 13 – Review of Accounts

We review the performance of our client accounts, ARMOUR and JAVELIN, on a daily basis, monitoring changes in price levels, financing, and hedging costs. On a monthly basis, we review the prepayment performance of all mortgage-backed securities, which data is only updated monthly. The review is conducted daily by our Head of Portfolio Management and our Chief Analyst. They are supervised by two of our employees, Scott J. Ulm and Jeffrey J. Zimmer.

ARMOUR

ARMOUR files with the SEC and posts on its website, www.armourreit.com, a monthly report containing detail on portfolio composition, prepayment performance, hedging, and financing. On a quarterly basis, ARMOUR files a Form 10-Q, and annually it files a Form 10-K with the SEC.

JAVELIN

JAVELIN files with the SEC and posts on its website, www.javelinreit.com, a monthly report containing detail on portfolio composition, prepayment performance, hedging, and financing. On a quarterly basis, JAVELIN files a Form 10-Q, and annually it files a Form 10-K with the SEC.

Item 14 – Client Referrals and Other Compensation

ARMOUR

As described above in Item 5, we have entered into the Sub-Management Agreement with SBBC, or Sub-Manager, which is an entity controlled and primarily owned by us. Two of our limited partners have smaller minority interests in SBBC. Pursuant to the Sub-Management Agreement, SBBC provides certain operating and investment advisory services to us. In exchange for such services, we pay SBBC a Sub-Manager Base Management Fee equal to 25% of the net Base Management Fee earned by us under the Third Amended and Restated Management Agreement with ARMOUR. The Sub-Management Agreement continues in effect until it is terminated in accordance with its terms.

JAVELIN

As described above in Item 5, we have also entered into a Sub-Management Agreement with SBBC or Sub-Manager, which is an entity controlled and primarily owned by us. Two of our limited partners have smaller minority interests in SBBC. Pursuant to the Sub-Management Agreement, SBBC provides services to support ACM's performance of services to JAVELIN under the First Amended and Restated Management Agreement. In exchange for such services, we pay SBBC a monthly retainer of \$115,000 and a Sub-Manager Base Management Fee equal to 25% of the net Base Management Fee earned by us under the First Amended and Restated Management Agreement with JAVELIN. The Sub-Management Agreement further provides that, upon the election of SBBC to terminate the Sub-Management Agreement, at the time of the expiration of the Initial Term of the First Amended and Restated Management Agreement, JAVELIN shall pay SBBC a Final Payment of 6.16 times the annualized rate of the last three (3) monthly payments of the Sub-Manager Base Management Fee. The Final Payment shall be paid on the date that is 60 days after the election of SBBC to terminate the Sub-Management Agreement. The Sub-Management Agreement continues in effect until it is terminated in accordance with its terms.

Item 15 – Custody

Neither we nor our related persons have custody of ARMOUR's or JAVELIN's funds, bank accounts or securities.

Item 16 – Investment Discretion

ARMOUR

As described above in Item 4 and Item 8, we have discretionary authority to determine the type and amount of Agency Securities to be bought and sold for ARMOUR's account, subject to certain limitations.

We manage the business affairs of ARMOUR in conformity with certain restrictions, including contractual restrictions, investment guidelines and any other material operating policies adopted by ARMOUR. Our role as the manager of and investment advisor to ARMOUR is subject to the direction and oversight of ARMOUR's board of directors. Under the Third Amended and Restated Management Agreement, ARMOUR, in its discretion, is able to limit our management, services, and other activities performed by us pursuant to the Third Amended and Restated Management Agreement. Additionally, under the Third Amended and Restated Management Agreement, ARMOUR has the right to limit our duties, in ARMOUR's discretion, to "mortgage assets."

Under the Third Amended and Restated Management Agreement, ARMOUR's board of directors is able to direct us to perform similar management and services for any of ARMOUR's subsidiaries; provided, however, that we neither have the right nor the obligation to supervise any other manager, or to manage or otherwise participate in any way in any securitization transaction undertaken by ARMOUR or any joint venture formed by ARMOUR.

We provide investment advisory services to ARMOUR with the following investment guidelines in mind:

- to not make investments that would cause ARMOUR to fail to qualify as a REIT for federal income tax purposes;
- to not make investments that would cause ARMOUR to be regulated as an investment company under the 1940 Act; and
- to invest in ARMOUR's target assets, which consist primarily of Agency Securities.

JAVELIN

As described above in Item 4 and Item 8, we have discretionary authority to determine the type and amount of Agency Securities and Non-Agency Securities to be bought and sold for JAVELIN's account, subject to certain limitations.

We manage the business affairs of JAVELIN in conformity with certain restrictions, including contractual restrictions, investment guidelines and any other material operating policies adopted by JAVELIN. Our role as the manager of and investment advisor to JAVELIN is subject to the direction and oversight of JAVELIN's board of directors. Under the First Amended and Restated Management Agreement, JAVELIN, in its discretion, is able to limit our management, services, and other activities performed by us pursuant to the First Amended and

Restated Management Agreement. Additionally, under the First Amended and Restated Management Agreement, JAVELIN has the right to limit our duties, in JAVELIN's discretion, to "mortgage assets."

Under the First Amended and Restated Management Agreement, JAVELIN's board of directors is able to direct us to perform similar management and services for any of JAVELIN's subsidiaries; provided, however, that we neither have the right nor the obligation to supervise any other manager, or to manage or otherwise participate in any way in any securitization transaction undertaken by JAVELIN or any joint venture formed by JAVELIN.

Our investment advisory services are subject to the following investment guidelines that have been adopted by the board of directors of JAVELIN:

- no investment shall be made that would cause JAVELIN to fail to qualify as a REIT for federal income tax purposes;
- no investment shall be made that would cause JAVELIN to be regulated as an investment company under the 1940 Act; and
- JAVELIN's investment portfolio shall consist of its target assets, which consists of Agency Securities and Non-Agency Securities.

JAVELIN may change these investment guidelines at any time with the approval of its board of directors.

Item 17 – Voting Client Securities

ACM has not accepted and will not accept authority to vote ARMOUR's or JAVELIN's securities. Therefore, we are not required to adopt proxy voting guidelines and procedures in accordance with Rule 206(4)-6 of the Investment Advisers Act of 1940.

Item 18 – Financial Information

Registered investment advisers may be required in this Item 18 to provide investors with certain financial information or disclosures about their financial condition. ACM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. In addition, ACM has no financial commitment that impairs its ability to meet contractual commitments to ARMOUR and JAVELIN, and ACM has not been the subject of a bankruptcy proceeding.