



## Item 1 – Cover Page

# ZAIS GROUP, LLC

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March 31, 2015

This brochure provides information about the qualifications and business practices of ZAIS Group, LLC (“ZAIS Group” or “ZAIS”). If you have any questions about the contents of this brochure, please contact us at (732) 978-7551 and/or [karen.shapiro@zaisgroup.com](mailto:karen.shapiro@zaisgroup.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

ZAIS is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Additional information about ZAIS is also available on the SEC website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

Since the last annual update on March 31, 2014:

Item 4 – Advisory Business - As of December 31, 2014, ZAIS Group, LLC's sole owner was ZAIS Group Parent, LLC ("ZGP") (formerly known as River Rain, LLC). On March 17, 2015, ZAIS Group Holdings, Inc. (formerly known as HF2 Financial Management, Inc., a NASDAQ-listed public company) acquired a 66.5% interest in and became the managing member of ZGP. Christian Zugel, the former managing member of ZGP and the founder and chief investment officer of ZAIS Group, LLC, together with members of the Zugel family (including certain trusts for which members of the Zugel family are beneficiaries) and other founding members of ZGP retained a 33.5% interest in ZGP following the completion of the March 17, 2015 transaction. ZGP remains the sole owner of ZAIS Group, LLC. No change of control over ZAIS occurred as a result of this transaction.

Historically, ZAIS Group's AUM has fluctuated from time to time. ZAIS Group's AUM has declined significantly from its peak of \$11.7 billion prior to the financial crisis in 2008 to \$4.1 billion as of December 31, 2014, largely attributable to the return of investor capital from certain private equity style funds, the termination of certain collateralized debt obligations transactions ("CDOs") managed by ZAIS Group, certain investor redemptions and the challenges of raising significant new assets to replace those assets being returned to investors. These challenges stem largely from structured credit products being disfavored by investors in the continuing low interest rate environment. In this environment, investor inflows have gravitated toward equity and macro managers as interest rates remained relatively flat, a trend that will likely continue until interest rates rise to a level presenting more attractive yields.

Item 10 – Other Financial Industry Activities and Affiliations – On August 12, 2014, Form ADV Part I was amended to include ZAIS Leveraged Loan Manager 2, LLC and ZAIS Leveraged Loan Manager 3, LLC as additional Relying Advisers. On February 20, 2015, Form ADV Part I was amended to include ZAIS Leveraged Loan Manager 4, LLC as an additional Relying Adviser.

On March 20, 2015, the Board of Directors of ZAIS Group Holdings, Inc., unanimously approved ZAIS's termination of its business operations in Shanghai including commencing the orderly liquidation of ZAIS Solutions Shanghai Co., Ltd.

We will provide you with a new brochure as necessary based on material changes or new information, at any time, without charge.



FORM ADV, PART 2A

You may request our brochure by contacting Karen L. Shapiro, Chief Compliance Officer, at 732-978-7551 or [karen.shapiro@zaisgroup.com](mailto:karen.shapiro@zaisgroup.com). Our brochure is also available on our web site [www.zaisgroup.com](http://www.zaisgroup.com), free of charge.

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## Item 4 – Advisory Business

ZAIS Group was established as a Delaware limited liability company in July 1997 and is registered as an investment adviser with the United States Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended. ZAIS is also registered as a Commodity Pool Operator and Commodity Trading Advisor with the Commodities Futures Trading Commission, and is a member of the National Futures Association. ZAIS Group (UK) Limited, ZAIS's London subsidiary, is authorized and regulated by the Financial Conduct Authority in the United Kingdom. ZAIS is owned 100% by ZAIS Group Parent, LLC. The managing member of ZAIS Group Parent, LLC is ZAIS Group Holdings, Inc. ("ZGH"), a NASDAQ traded corporation. No change of control over ZAIS occurred as a result of this transaction.

ZAIS's mortgage investment platform brings together a team of experienced mortgage investors with analytical and risk management systems focused on the residential and commercial mortgage sectors to invest in opportunities across the mortgage markets. ZAIS provides investment advice on the following types of mortgage related products:

- Residential Whole Loans
- Residential Mortgage Backed Securities (RMBS)
- Asset Backed Securities
- Commercial Real Estate
- Commercial Mortgage Backed Securities (CMBS)

Using ZAIS's credit expertise, analytics platform, market share and experienced credit analysts, ZAIS provides investment management services to portfolios of corporate debt. ZAIS provides investment advice on corporate products including:

- Investment Grade Credit
- High Yield Credit
- Senior Secured Bank Debt

These investments are subject to credit, liquidity, interest rate, market, operations, fraud and structural risks. In addition, concentrations in particular investments and in investments issued or guaranteed by affiliated obligors, serviced by the same servicer, managed by the same collateral manager or backed by underlying collateral located in a specific geographic region may subject investors to additional risk.

ZAIS offers a range of alternative and traditional investment strategies through private accounts and pooled investment vehicles, described below. The terms of private accounts are

negotiated when each account is established and the documents are executed. Every private account has a signed agreement identifying the type of instruments the account will invest in, any restrictions on the types of investments and the services ZAIS provides. The offering documents for each pooled investment vehicle identify the type of instruments in which the vehicle will invest, any investment restrictions or limitations and the advisory services that ZAIS will provide.

ZAIS REIT Management, LLC, a ZAIS subsidiary, provides investment management services to ZAIS Financial Corp. ("ZFC"), a publicly traded real estate investment trust [NYSE: ZFC]. Unless otherwise stated, the information in this brochure does not relate to ZFC. You may find more information about ZFC in its SEC filings, which are available at [www.sec.gov](http://www.sec.gov).

ZAIS serves as collateral manager for collateralized loan obligation vehicles and numerous collateralized debt obligation vehicles (collectively, the "Vehicles"). In that capacity, ZAIS provides ongoing collateral and asset management services to the Vehicles.

As of December 31, 2014, ZAIS had \$4,497,638,555 in regulatory assets under management of which \$4,116,011,905 is on a discretionary basis and \$381,626,650 is non-discretionary.

## **Item 5 – Fees and Compensation**

Management fees earned by ZAIS for funds and accounts with hedge fund-style fee arrangements generally range from 0.50% to 1.25%, annually, based on the net asset value of these funds and accounts prior to the accrual of incentive fees / allocation. Management fees earned by ZAIS for funds and accounts with private equity-style fee arrangements generally range from 0.25% to 0.50%, annually, based on either the net asset value of these funds and accounts prior to the accrual of incentive fees / allocations or on the amount of capital committed to these funds and accounts by its investors. Management fees earned by ZAIS for the CDOs managed by ZAIS generally range from 0.15% to 0.50%, annually, and are generally based on the par value of the collateral and cash held in the CDOs. Management fees earned by ZAIS for ZFC is 1.50% annually, based on ZFC's stockholders' equity, as defined in the amended and restated investment advisory agreement between ZAIS and ZFC.

In addition to the management fee income mentioned above, ZAIS may earn a subordinated management fee from CDOs for which ZAIS acts as collateral manager. The subordinated management fee is an additional payment for the same service, but has a lower priority in the CDO cash flows. The subordinated management fee is contingent upon the economic performance of the respective CDO assets. If the CDO experiences a certain level of asset defaults, these fees may not be paid. There is no recovery by the CDOs of previously paid subordinated fees. ZAIS recognizes the subordinated management fee when collection is

reasonably assured. When collection is not reasonably assured, ZAIS recognizes the subordinated management fee as payments are received.

## **Item 6 – Performance-Based Fees, Side-By-Side Management Fees and Compensation**

Incentive income is recognized when it is (i) contractually receivable, (ii) fixed or determinable, also referred to as crystallized and (iii) all related contingencies have been removed and collection is reasonably assured, which generally occurs in the quarter of, or the quarter immediately prior to, the distribution of the income by the ZAIS managed entities to ZAIS. The criteria for revenue recognition are typically met only after all contributed capital and the preferred return, if any, on that capital have been distributed to the ZAIS managed entities' investors vehicles with private equity-style fee arrangements, and is typically met only after any profits exceed a high-water mark for vehicles with hedge fund style fee arrangements.

For funds and accounts with hedge fund-style fee arrangements, incentive income earned by ZAIS generally ranges from 10% to 20% of the net realized and unrealized profits attributable to each investor, subject to a hurdle (if any) set forth in each respective entity's operative agreement. Additionally, all of ZAIS's funds and accounts with hedge fund-style fee arrangements are subject to a perpetual loss carry forward, or perpetual "high-water mark," meaning that the funds and accounts will not pay incentive fees / allocations to ZAIS with respect to positive investment performance generated for an investor in any year following negative investment performance until that loss is recouped, at which point an investor's capital balance surpasses the high-water mark. The funds and accounts pay incentive fees / allocations to ZAIS on any net profits in excess of the high-water mark.

For funds and accounts with private equity-style fee arrangements, incentive income earned by ZAIS is generally 20% of all profits, subject to the return of contributed capital (and subordinate management fees, if any), and a preferred return as specified in each fund's advisory agreement.

For CDOs, incentive income earned by ZAIS generally ranges from 10% to 20% of all profits, subject to the return of contributed capital (and subordinate management fees, if any), and a preferred return as specified in the respective CDOs' collateral management agreements.

In light of varying incentive fees, ZAIS could have an incentive to favor any accounts that pay higher performance fees. To mitigate this potential conflict of interest, ZAIS manages all accounts in a similar manner. Allocations are made on a fair and equitable basis over time,

across accounts eligible to hold each investment, with adjustments based on factors such as termination of a fund's investment period, concentration limits, available funds and allocation of odd lots.

## **Item 7 – Types of Clients**

ZAIS Group provides investment advisory services to pooled investment vehicles and private accounts. Minimum investment amounts for private accounts are negotiated at the time an account is established, and the initial commitments will depend on the complexity of the separate account. Pooled investment vehicles have minimum investment amounts that are set out in their offering documents. These amounts are dictated in some cases by the regulatory authority with jurisdiction over the investment vehicle. Minimum investments in feeder funds for the pooled vehicles ZAIS currently offers range from \$1 million for ZAIS Atlas Master Fund, LP to \$5 million for ZAIS Opportunity Master Fund, Ltd. ZAIS reserves the right to waive or modify these minimums, in its sole discretion. Additionally, eligible ZAIS personnel may invest in either fund in amounts below the stated minimums.

The minimum investments in the SICAV are €125,000 for Euro-denominated sub-funds and \$200,000 for USD-denominated sub-funds.

Minimum investment amounts for sub-advisory clients are negotiated with the advisor when the sub-advisory agreements are executed.

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

As mentioned above in Item 4, *Advisory Business*, ZAIS Group is an asset manager specializing in mortgage and corporate credit. ZAIS's asset management expertise flows from its analytics and technology infrastructure, credit modeling capabilities, loan and securities valuation, loan data management, servicing oversight, structuring and securitization.

Mortgage investment analysis, covering residential whole loans, RMBS, asset backed securities and CMBS, relies on ZAIS's analytics and trading platforms to help determine relative value among securities that look similar today but are likely to perform differently over time. The ability to evaluate the collateral backing an RMBS at the loan level and the unique structure of each securitization comes from an integrated analytics platform for residential mortgages supported by credit modeling and the analytics team.

Corporate Investment Analysis: Portfolio analysis of corporate investments employs a top-down and bottom-up investment process that integrates a broad set of credit information:



- Company-specific financial information
- Relative Value analysis
- Fundamental economic data
- Supply and demand technical data
- Sell side credit research
- Discussions with rating agency analysts
- Discussions with sell side traders and analysts
- Discussions with other buy side contacts

This information is used in portfolio construction to develop single name credit positions as well as hedging and diversification strategies focusing on position concentrations, manager concentrations, collateral distribution and portfolio overlap and duration.

Investments involve risk of loss that clients should be prepared to bear. The following are summaries of ZAIS's assets, strategies and their principal risks. More detailed disclosure is generally included in the offering document relating to a fund or will be provided on request to a managed account client.

### **CDO Securities**

CDO securities are subject to credit, liquidity and interest rate risks. In addition, holders of CDO securities are subject to many of the same risks applicable to holders of RMBS. CDO securities generally are limited recourse obligations payable solely from the related CDO collateral or its proceeds. If distributions on the underlying CDO collateral are insufficient to make payments on the CDO securities, no other assets will be available to pay the deficiency, and after the underlying assets have been sold, the CDO's obligation to pay any deficiency will be extinguished.

CDO collateral generally consists of loans, structured finance securities, high yield debt securities and other instruments that often are rated below investment grade. High yield debt securities and certain loans may be unsecured and may be subordinated to certain other obligations of the issuer.

### **Structured Finance Securities**

Investments in structured finance securities differ from those of traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying debt instruments generally may be prepaid at any time. Credit card receivables, automobile, boat and recreational vehicle installment sales contracts, commercial and

industrial bank loans, home equity loans and lines of credit, manufactured housing loans, corporate debt securities and various types of accounts receivable commonly support structured finance securities. Holders of structured finance securities bear various risks, including credit, liquidity, interest rate, market, operations, structural and legal risks. The risk of investing in structured finance securities ultimately depends on the debtors paying their consumer loans.

### **Residential Mortgage-Backed Securities (“RMBS”)**

Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans, which may be prepaid at any time. Residential mortgage loans are obligations of the borrowers only and are not typically insured or guaranteed by any other person or entity, although some loans may be securitized by government agencies. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the loan and the borrower’s financial circumstances and equity in the mortgaged property. If a residential mortgage loan is in default, foreclosure may be a lengthy and difficult process, and may involve significant expenses. Further, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

### **Residential and Commercial Mortgage Loans**

These mortgage loans may consist of single family loans, multifamily loans, commercial real estate loans and mixed-use loans.

Single family loans will be evidenced by mortgage notes and secured by mortgages that, in each case, create a first or junior lien on the related mortgagor’s ownership interest in the mortgaged property. Multifamily loans will be evidenced by mortgage notes and secured by mortgages that create a first or junior lien on residential properties consisting of five or more dwelling units in high-rise, mid-rise or garden apartment structures or projects. Commercial real estate loans will be evidenced by mortgage notes and secured mortgages that create a first or junior lien on commercial properties including office building, retail building and a variety of other commercial properties. The mixed-use loans will be evidenced by mortgage loans and secured by mortgages that create a first or junior lien on properties consisting of mixed residential and commercial structures.

These loans bear risks similar to those of residential mortgage loans, described in the RMBS section above. The repayment of commercial mortgage loans typically depends on the mortgaged property's ability to generate cash flow. Similarly, the liquidation value of a commercial property largely is determined by the property's cash flow (or its potential to generate cash flow). Net operating income and cash flow can be volatile and may be insufficient to cover debt service on the loan at any given time.

### **High Yield Securities**

High yield debt securities are generally unsecured, may be subordinated to the borrower's other obligations and generally involve greater credit and liquidity risks than those of investment grade corporate debt. They are often issued in connection with leveraged acquisitions or recapitalizations in which the borrowers incur a substantially higher amount of debt than the level under which they previously operated.

The lower rating of high yield bonds reflects a greater possibility that adverse changes in the issuer's financial condition, or in general economic conditions (including a sustained period of rising interest rates or an economic downturn), or both, may affect the issuer's ability to pay principal and interest on its debt. Many high yield debt issuers are highly leveraged and specific developments affecting them, including reduced cash flow from operations or inability to refinance debt at maturity, may also adversely affect their ability to meet their debt service obligations. High yield debt securities historically have experienced higher default rates than investment grade debt securities.

### **Synthetic Securities**

ZAIS invests some client assets in synthetic securities, the reference obligations of which may be substantially the same as CDO securities or structured finance securities. Investments in synthetic securities present risks in addition to those of directly purchasing CDO securities or structured finance securities. For each synthetic security, a fund will usually have a contractual relationship only with the counterparty of the synthetic security and not the obligor on the reference obligation. A fund generally will have no right directly to enforce the reference obligor's compliance with the terms of the reference obligation, nor any rights of set-off against the reference obligor, nor directly benefit from any collateral supporting the reference obligation and will not have the benefit of the remedies that would normally be available to a holder of the reference obligation. In addition to general market risks, synthetic securities are subject to liquidity risk and the counterparty's credit risk.

**Commercial Mortgage-Backed Securities (“CMBS”)**

Collateral underlying CMBS generally consists of mortgage loans secured by income producing property, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, rental apartments, nursing homes, senior living centers and self-storage properties. Performance of a commercial mortgage loan depends primarily on the net income generated by the underlying mortgaged property. The market value of a commercial property similarly depends on its income-generating ability. As a result, income generation will affect both the likelihood of default and the severity of losses with respect to a commercial mortgage loan. Any decrease in income or value of the commercial real estate underlying an issue of CMBS could result in cash flow delays and losses on the related issue of CMBS. Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower.

**Repackaged Securities**

Investments may consist of trust certificates or similar securities of the type generally considered to be repackaged securities. Repackaged securities may present risks similar to those of the other types of investments that may have greater significance for repackaged securities. Repackaged securities may be subject to prepayment risk, credit, liquidity, market, structural, legal and interest rate risks (which may depend on any associated hedge agreement providing for the exchange of interest accruing on the security being repackaged into interest stated to be payable on the trust certificates or similar securities). The performance of a repackaged security will be affected by a variety of factors, including the level and timing of payments and recoveries on and the characteristics of the underlying collateral, the remoteness of those assets from the originator or transferor and the adequacy of and ability to realize upon the collateral.

**Bank Debt and Leveraged Loans**

Bank debt includes interests in loans to companies or their affiliates to finance a capital restructuring or in connection with recapitalizations, acquisitions, leveraged buyouts, refinancing or other leveraged transactions and may include loans designed to provide temporary or bridge financing to a borrower pending the sale of identified assets, the arrangement of longer-term loans or the issuance and sale of debt obligations. These loans, which may bear fixed or floating rates, have generally been arranged through private negotiations between a corporate borrower and one or more financial institutions (“Lenders”), including banks. Investment may be in the form of participations in loans (“Participations”) or of assignments of all or a portion of loans from third parties (“Assignments”).

In certain cases, the rights and obligations acquired through the purchase of an Assignment may differ from, and be more limited than, those held by the assigning seller. Assignments are sold strictly without recourse to the selling institutions, and the selling institutions will generally make no representations or warranties about the underlying loan, the borrowers, the loans' documentation or any collateral securing the loans.

Investments in bank debt involve a right to receive payments of principal, interest and any fees only from the Lender selling the Participation and only upon receipt by the Lender of payments from the borrower. Investors purchasing Participations generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, no rights of set-off against the borrower, and the investor may not benefit directly from any collateral supporting the loan in which it has purchased the Participation. The investor may have no role in negotiating or effecting amendments, waivers and consents as to the loans underlying the Participations. If a loan is foreclosed, the investor could become part owner of any collateral and would bear the costs and liabilities of owning and disposing of the collateral. A loan is often administered by a bank or other financial institution that acts as agent for all holders. The investor may have to rely on the agent to apply appropriate credit remedies against a borrower.

Interests in loans are also subject to additional liquidity risks. Loans are generally subject to legal or contractual restrictions on resale. Loans are not currently listed on any securities exchange or automatic quotation system; rather, they are traded by banks and other institutional investors engaged in loan syndication. As a result, no active market may exist for some loans. It may be more difficult for ZAIS to assign a value to Assignments or Participations when valuing such securities and calculating assets under management. Consequently, ZAIS relies on third party pricing sources to value these loans. The accuracy and/or reliability of the pricing depends on the loan's liquidity.

### **Arbitrage Transactions**

Arbitrage strategies seek to profit from perceived price discrepancies of identical or similar financial instruments on different markets or in different forms. Examples of arbitrage strategies include capital structure arbitrage, convertible arbitrage, fixed income or interest rate arbitrage and debt spread arbitrage. ZAIS occasionally employs one or more of these strategies. If the requisite elements of an arbitrage strategy are not properly analyzed, or unexpected events or price movements intervene, losses can occur. Arbitrage strategies often depend on identifying favorable spreads, which can also be identified, reduced or eliminated by other market participants.

**Convergence**

ZAIS may pursue relative value strategies by taking long positions in securities it believes are undervalued and short positions in securities it believes are overvalued. If the perceived mispricings underlying ZAIS's trading positions fail to converge toward, or diverge further from ZAIS's expectations, a loss may be incurred.

**Trends**

ZAIS may take long (or short) positions in securities whose prices it believes are likely to trend higher (or lower). If the actual trajectory differs from the expected one, losses may be incurred.

**Short Sales**

Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on a portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

There is also the risk that the securities borrowed for a short sale must be returned to the securities lender on short notice. If ZAIS is asked to return borrowed securities when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and ZAIS may have to replace the borrowed securities with purchases on the open market at the most disadvantageous time, possibly at prices significantly higher than the proceeds received in the original short sale. ZAIS's inability to continue to borrow securities previously sold short may also force ZAIS to unwind other elements of an investment position, possibly at a loss. From time to time, regulatory or legislative action taken by regulators around the world may restrict the ability of ZAIS to enter into short sales.

**Options**

Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Because option premiums paid or received by an investor are small in relation to the market value of the investments underlying

the options, buying and selling put and call options can result in large amounts of leverage. As a result, the leverage offered by trading in options could cause the value of a fund to be subject to more frequent and wider fluctuations than would be the case if it did not invest in options.

## **Item 9 – Disciplinary Information**

ZAIS Group is required to disclose all material facts about any legal or disciplinary events that would be material to your evaluation of ZAIS or the integrity of its management. ZAIS has no items to disclose.

## **Item 10 – Other Financial Industry Activities and Affiliations**

ZAIS Group is registered with the CFTC as a commodity trading advisor and commodity pool operator. Certain of its personnel are registered as associated persons. ZAIS operates its funds under the requirements of Commodity Exchange Act Section 4.13(a)(3) or Section 4.7. The CFTC does not address the merits of a particular pool or the adequacy or accuracy of any offering memorandum or other disclosure statement.

ZAIS's subsidiary and Relying Adviser, ZAIS REIT Management, LLC, provides investment strategies and manages the day-to-day operations of ZAIS Financial Corp., a publicly listed real estate investment trust.

ZAIS's wholly owned subsidiaries and Relying Advisers, ZAIS Leveraged Loan Manager, LLC, ZAIS Leveraged Loan Manager 2, LLC, ZAIS Leveraged Loan Manager 3, LLC and ZAIS Leveraged Loan Manager 4, LLC provide ongoing collateral and asset management services to support ZAIS's CLO management business.

ZAIS UK Limited, a wholly owned ZAIS subsidiary incorporated under the laws of England and Wales, is the controlling member of ZAIS Group UK. ZAIS Group UK, a company formed under the laws of England and Wales, holds Part IV permission under the Financial Services and Markets Act 2000.



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

ZAIS Group has adopted a Code of Ethics stating its commitment to maintain the highest ethical standards. In keeping with these standards, ZAIS personnel must always place clients' interests ahead of their own interests.

In managing ZAIS's private accounts and pooled investment vehicles, there may be occasions when it becomes appropriate to transfer an investment from one client to another. ZAIS's policy states that the price for these transfers will be determined on a basis that is fair, reasonable and equitable to all clients and in a manner that avoids any actual or appearance of favoritism or discrimination among clients.

ZAIS policy permits cross trades so long as no client is disfavored. Generally, cross trades between clients will be permitted if: (1) third party bids are obtained to assess appropriate market values, (2) ZAIS receives any necessary client permissions; and (3) complete records are maintained. Any cross trades involving assets for which third party bids are not available will only be executed after obtaining a reasonable, independent indicator of value and approval from the ZAIS Conflicts/Cross Trades Committee. If there is an overall investment strategy that impacts the re-allocation of multiple securities from one set of clients to another through a series of cross trades over time, the Conflicts/Cross Trades Committee will consider the impact of those trades on the underlying client accounts. No cross trades may be executed until and unless the committee has approved the strategy. ZAIS does not receive any special compensation for cross trades.

While cross trades may create the appearance of a conflict of interest, ZAIS believes its cross trade procedures mitigate the potential conflict and provide all parties to the transaction with a fair and equitable price.

ZAIS generally does not buy or sell securities for itself or sell securities it owns to any client, or buy or sell for itself securities that it recommends to clients. If ZAIS were to buy securities for itself from, or sell securities it owns to, any client, it would comply with Section 206(3) of the Advisers Act, after review by and approval from ZAIS's Conflicts/Cross Trades Committee.

ZAIS and its principals and/or related persons invest in certain entities that ZAIS or its affiliates manage and in managers of funds and entities in which clients of ZAIS may invest. Any of the latter type of investments would require approval from ZAIS's Chief Compliance Officer, who may in her discretion refer a matter to the ZAIS Conflicts/Cross Trades Committee.



Under ZAIS's Code of Ethics and policy on personal investments, all personnel must pre-clear investments in private placement and initial public offering securities, and in the securities of ZFC and ZGH. To monitor compliance with the Code of Ethics, ZAIS requires that personnel provide statements of securities holdings not less than quarterly and an annual Code of Ethics Certification that provides a list of (i) all investment accounts over which they have investment control (including certain related persons' accounts), (ii) their outside business activities, (iii) any significant role they or their related persons have in certain external businesses and (iii) any securities in which such personnel or any related person has any beneficial ownership, to ZAIS's Compliance Department.

ZAIS will provide a copy of its Code of Ethics to any client or prospective client upon request. Clients may request a copy of the Code of Ethics by email at [compliance@zaigroup.com](mailto:compliance@zaigroup.com).

## **Item 12 – Brokerage Practices**

ZAIS Group generally has the authority to select the broker or dealer to be used and negotiate the commission rates or, as in most instances, markups or markdowns, to be paid without obtaining specific client consent. In selecting brokers or dealers, ZAIS is not required to solicit competitive bids and is not obligated to seek the lowest possible execution cost.

ZAIS, as a matter of policy, does not use brokerage commissions (or markups or markdowns) to obtain research or other products or services (so-called "Soft Dollars"). As such, ZAIS has no incentive to select or recommend a broker or dealer based on its interest in receiving the research or related services, rather than on clients' interest in receiving best execution.

Several advisory clients have investment strategies and investment policies that are the same as or substantially similar to other clients. Accordingly, clients may co-invest in many of the same securities and issues. ZAIS allocates investment opportunities to clients in a fair and equitable manner over time, consistent with each client's stated investment objectives. ZAIS allocates aggregated trades in a manner that is fair to all clients and will never allocate trades based on an account's performance or fee structure.

In determining the allocation of trades, ZAIS considers each participating account's size, diversification, cash availability, investment objectives, life cycle and any other relevant factors. Any partial fills are allocated pro-rata among the participating clients per the specified allocation unless otherwise designated in writing. Minimal deviations from the intended allocation are permitted in the interest of maintaining round lots. Clients participating in any aggregated transactions receive an average price; transaction costs are shared on a pro-rata basis.

ZAIS strives to execute trades in a timely and accurate manner. Occasionally, though, personnel make trade errors, such as:

- a) Trades that should not have occurred (e.g., trades that are not legally permitted, not within a client's mandate or not authorized by a fund's governing document), or
- b) Trades that were erroneously executed (e.g., incorrect security, quantity, price, terms or allocation).

ZAIS takes appropriate action to correct or limit the consequences of any trade errors, always allocating any resulting profit for the benefit of the affected client and reimbursing the client for any resulting losses.

### **Item 13 – Review of Accounts**

ZAIS Group's Financial Reporting Department reviews all periodic net asset value ("NAV") reports prepared by the vehicles' administrator or custodian. In most cases, the NAV report is prepared monthly, although some clients receive quarterly reports.

ZAIS reviews all periodic trustee reports for structured vehicles, such as CDOs, where a trustee has been appointed. Trustee reports are typically distributed to investors monthly and on distribution dates.

In addition, an experienced Portfolio Manager is assigned to each fund and account, and is responsible for monitoring and maintaining compliance with applicable guidelines. The Portfolio Manager is responsible for reviewing the above reports before they are distributed.

### **Item 14 – Client Referrals and Other Compensation**

ZAIS Group has agreements with third party marketing representatives to solicit prospective investors for ZAIS-managed funds or a separately managed account. ZAIS pays a negotiated fee based on assets under management or net profits referred by the representatives.

### **Item 15 – Custody**

ZAIS Group does not have physical custody of any client funds. Pursuant to Rule 206(4) of the Advisor's Act, ZAIS is deemed to have custody of certain fund assets by virtue of its role as a general partner of private investment partnerships and/or sponsor of collective investment vehicles.

ZAIS does not have actual physical custody of any client assets or securities invested in such funds; rather, all such assets are held in the name of each of the applicable funds by an independent qualified custodian. Such funds are either subject to a surprise custody audit or produce audited financial statements and deliver them to investors within 120 days following such fund's fiscal year end, as required by applicable law.

Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains clients' investment assets. You should carefully review your statements and compare the official custodial records to any account statements ZAIS provides to you. ZAIS's statements may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies for certain securities.

## **Item 16 – Investment Discretion**

ZAIS Group usually receives discretionary authority from its clients at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. If a client does not grant discretion, all transactions are submitted to the client for approval before execution.

When selecting securities and determining amounts, ZAIS observes its clients' stated investment policies, limitations and restrictions. If ZAIS begins to advise or sub-advise registered investment companies, its authority to trade securities will be limited by certain federal securities and tax laws that require diversification of investments and favor holding investments.

Investment guidelines and restrictions must be provided to ZAIS in writing.

## **Item 17 – Voting Client Securities**

ZAIS Group considers corporate action notices to be a form of proxy voting. Exercising proxy discretion can (but does not always) have economic value for ZAIS's clients. When ZAIS determines that exercising proxy discretion does have value for one or more clients, it votes in a prudent and diligent manner based on its reasonable judgment of what will serve its clients' financial interest. If a client has authorized ZAIS to vote proxies on its behalf, ZAIS generally will not accept instructions from the client or an investor about how to vote.

ZAIS has not adopted standing instructions about exercising proxy discretion. ZAIS makes each decision based on its analysis of and judgment about each situation's particular facts and circumstances. In exercising proxy discretion, ZAIS does not subordinate its clients' economic

interests to any other entity or interested party, including those of ZAIS, its personnel, affiliates, business associates or other clients. There may be instances when certain consideration, such as waiver or amendment fees, is paid for exercising proxy discretion. Any such consideration belongs to the affected ZAIS client and not to ZAIS or its affiliates or personnel. ZAIS seeks to identify and address material conflicts that may arise between and/or among ZAIS interests and those of its clients and investors before voting proxies. Any such conflicts would be addressed by ZAIS's Conflicts/Cross Trade Committee. Clients and investors can request information on how ZAIS voted on their securities by directing questions to [compliance@zaisgroup.com](mailto:compliance@zaisgroup.com).

## **Item 18 – Financial Information**

ZAIS Group is required to provide you with certain financial information or disclosures about its financial condition. As a publicly held company through its parent company ZGH, ZAIS's financial information is available on the SEC's website. ZAIS does not solicit the prepayment of fees more than one quarter in advance. ZAIS has no financial condition that would impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of any bankruptcy proceeding.