



Braddock Financial Corporation

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This brochure provides information about the qualifications and business practices of Braddock Financial Corporation (“**Braddock**”). If you have any questions about the contents of this brochure, please contact us at 303-308-6400 or [info@braddockfinancial.com](mailto:info@braddockfinancial.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.

Additional information about Braddock is also available on Braddock’s website at [www.braddockfinancial.com](http://www.braddockfinancial.com), or the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Braddock is an SEC registered investment adviser. Registration with the SEC does not imply a certain level of skill or training.

December 31, 2014  
**Material Changes**

There have been no material changes since the last annual update.

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## **Exhibits**

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**Braddock Financial Corporation Privacy Notice  
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## **Article I. ADVISORY BUSINESS**

### **Executive Summary**

Braddock Financial Corporation (“**Braddock**”, “**we**” or “**us**”) is an investment adviser registered with the SEC. Braddock was founded in 1994, is wholly owned by Harvey B. Allon, and currently employs a team of 13 professionals.

We provide investment advisory services as the investment manager and in our capacity as sole member of the general partner to several private funds (the “**Funds**”), as well as to individuals in separately-managed accounts (“**SMA**s”).

We focus primarily on non-agency residential mortgage-backed securities (“**RMBS**”), collateralized loan obligations (“**CLO**s”), and other structured finance securities such as asset backed securities (“**ABS**”). Since inception, we have constructed and actively managed funds composed of all classes of structured finance transactions, from unrated bonds to AAA-rated securities.

Our principals average over 15 years of investment experience in the MBS, ABS and mortgage markets.

### **Advisory Services Offered**

We provide investment advisory services to, are the sole member of the general partner of, and are engaged as the investment manager of, the Funds. We are charged with managing each Fund’s portfolio. Subject to the investment objectives, restrictions, and policies stated in each Fund’s respective private placement memorandum, we are contracted as the investment manager responsible for determining which general investment strategies are to be employed in managing the Funds’ portfolios to achieve each Fund’s respective investment objective. We are responsible for the actual management of the Funds’ portfolios, including the selection of portfolio securities, assets, and specific purchase and sale decisions. We attempt to, but are not required to, assure equality of treatment among the Funds when allocating investment opportunities.

We may also provide investment advice to individuals in SMA’s, for which advice may be tailored to the specific client needs, and for which clients can impose restrictions on the types of investments in the SMA.

## **Assets Under Management**

As of December 31, 2014, we managed \$119,113,499 of client assets on a discretionary basis, and none on a nondiscretionary basis.

## **Article II. FEES AND COMPENSATION**

### **Management Fees**

In addition to the performance fees discussed below, for providing investment advice to the Funds and SMA’s, we are paid a management fee based on the capital account of each Fund investor or SMA that normally ranges from 0.5% - 1.5% annually. In some cases, there is a minimum fee amount imposed through the Fund. Braddock’s management fees are calculated and paid monthly in arrears. We in our sole discretion may waive or reduce such fee payable from accounts of our affiliates or of any other account.

### **Other Advisory Fees**

Funds bear their organization expenses, costs and expenses directly related to their investment program, including brokerage commissions, custody fees, any withholding or transfer taxes, and all expenses incurred in connection with locating, evaluating, and implementing potential investments including travel and other research related expenses. Each Fund also bears all of its own out-of-pocket costs of its administration, including accounting, third party valuation fees, decision support systems, audit expenses, administration, corporate secretarial and legal expenses, costs of any litigation or investigation involving Fund activities, and costs associated with reporting and providing information to existing and prospective investors.

SMA’s incur brokerage, other transactional, and custodial expenses.

## **Article III. PERFORMANCE BASED FEES AND SIDE BY SIDE MANAGEMENT**

For providing investment advice to the Funds, we, in our capacity as sole member of the general partner of each Fund, receive performance allocations or carried interests generally of 20% of a Fund’s annual profits above a high water mark. The general partner may waive or reduce such fee payable from accounts of our affiliates or of any other account.

We do not manage any Funds or SMA’s from which we do not receive a performance allocation.

In most cases these performance fees are paid annually. In some cases the performance fees are based on the inception-to-date performance and are paid after all capital has been returned to investors. The values of all securities are determined in accordance with the valuation policies of each Fund or SMA.

These performance fees may create an incentive for us to make riskier or more speculative investments than would be made under a different fee arrangement. In addition, we may receive compensation with regards to unrealized appreciation as well as realized gains.

**Article IV. TYPES OF CLIENTS**

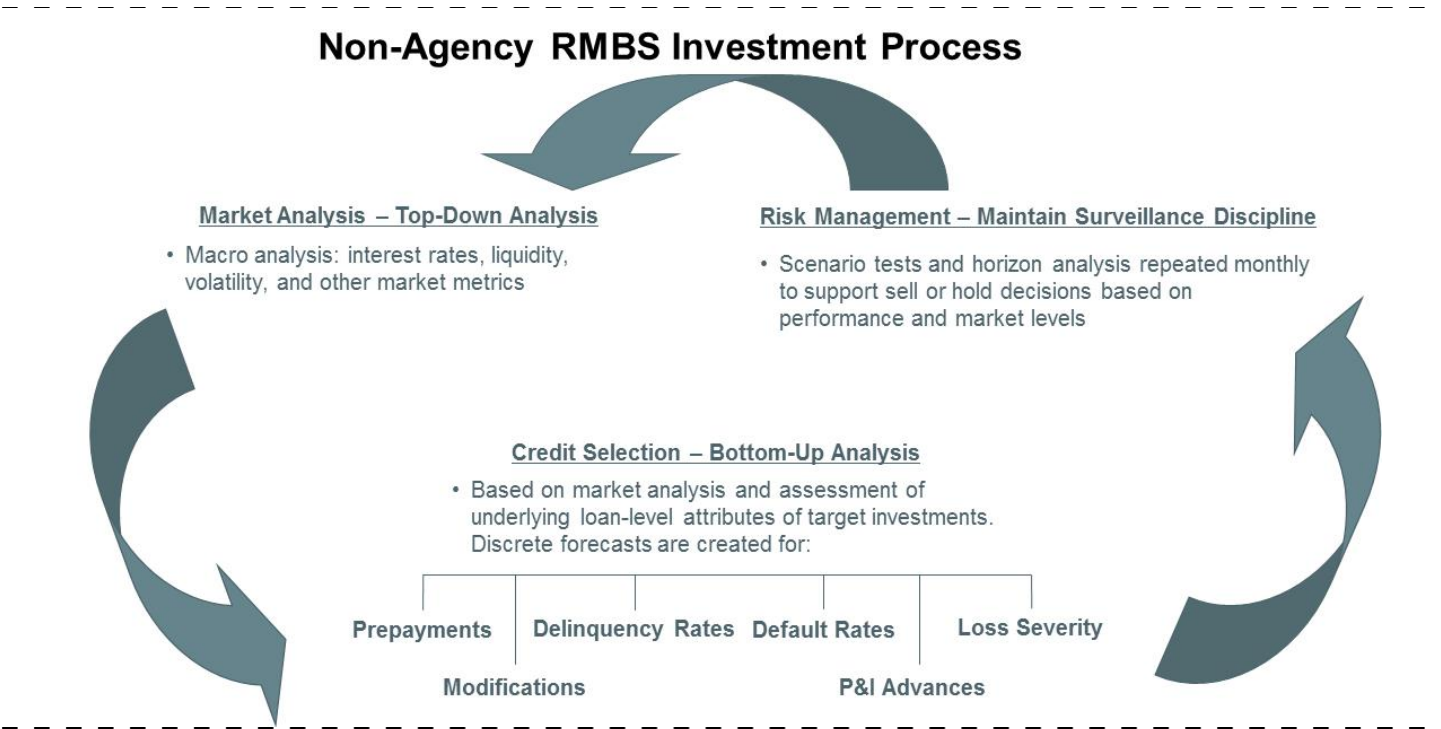
We generally provide investment advice to pooled investment vehicles or SMAs. The minimum investment for each Fund is typically \$500,000, which may be reduced by a Fund’s general partner.

**Article V. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

**Section 5.01    Methods of Analysis**

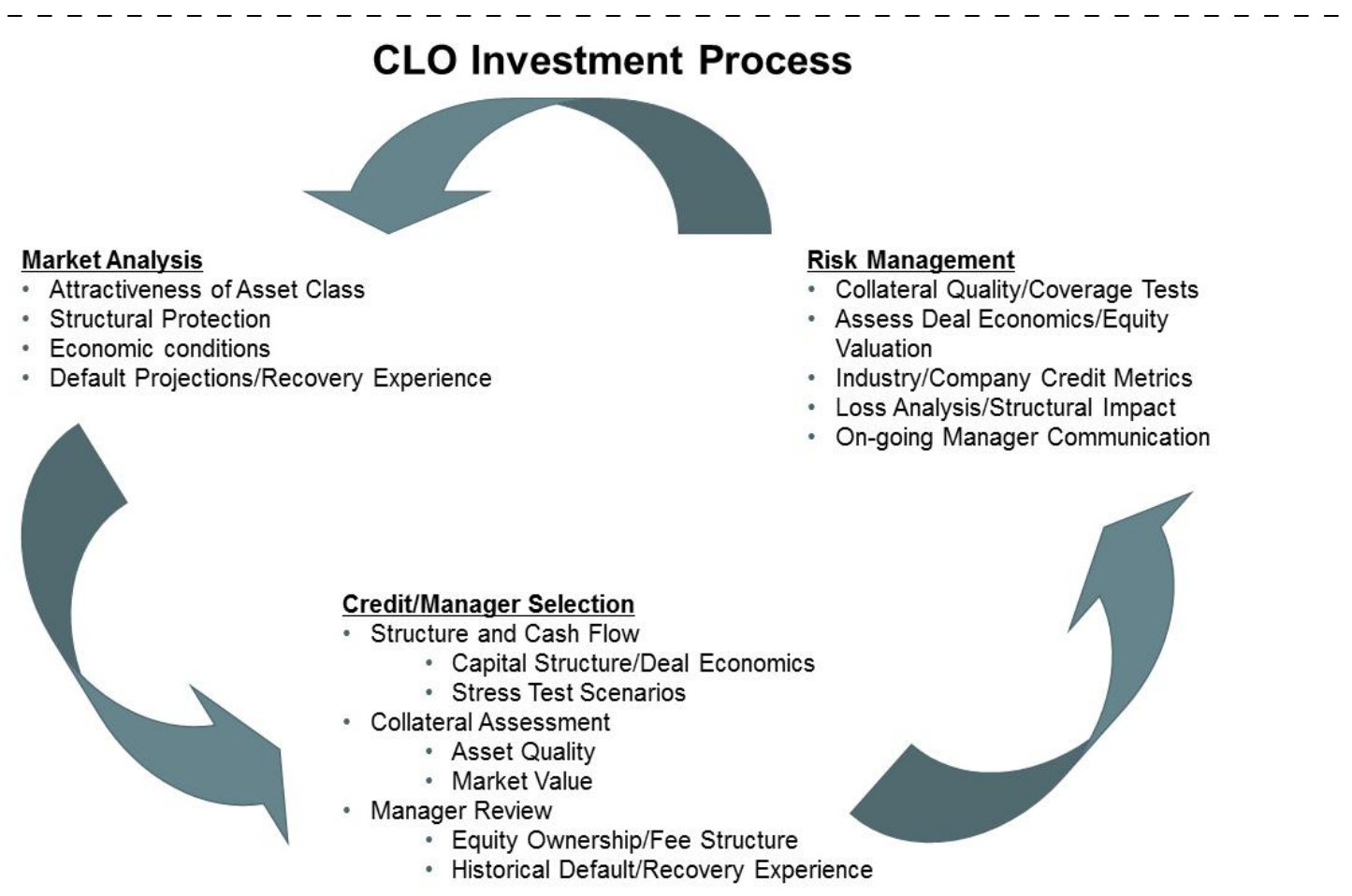
***Residential Mortgage Backed Securities***

We obtain information on current market offerings by primary brokerage firms, regional broker dealers, and other sellers of non-agency RMBS bonds. Throughout the process of creating and managing a non-agency RMBS securities portfolio, we apply a disciplined set of analytical techniques and criteria, including evaluating each security on an individual basis and as a component of the overall portfolio. Our process for integrating top-down market analysis, bottom-up credit analysis and on-going risk management surveillance is illustrated below.



## Collateralized Loan Obligations

We apply a similar set of analytic techniques and criteria in evaluating CLOs, as illustrated below.



### Section 5.02 Risk of Loss

Investing in securities involves risk of loss that investors should be prepared to bear. SMA clients or prospective Fund investors should give careful consideration to the following summary risks. The following does not purport to be a comprehensive summary of all of the risks associated with an investment in a Fund or an SMA.

*Investment & Trading Risks in General.* All investments risk the loss of capital. No guarantee or representation is made that a client's investment program will be successful, and investment results may vary substantially over time.

*Master-Feeder Structure.* Certain Funds invest through a "master-feeder" structure. A smaller feeder

fund investing in a master fund may be materially affected by the actions of a larger feeder fund investing in a master fund. If a larger feeder fund withdraws from a master fund, the remaining feeder fund may experience higher *pro rata* operating expenses, thereby producing lower returns. A master fund may become less diverse due to redemption by a larger feeder fund, resulting in increased portfolio risk. As a matter of Cayman Islands law, a master fund is not a legal entity. Legal proceedings by or against a master fund may be instituted by or against any one or more of the general partners only. Expenses or liabilities of a master fund (or its general partners) arising from any such suit would be borne by a master fund, and creditors of a master fund may enforce claims against all assets of a master fund. In addition, to the extent a Fund's assets are invested in a master fund, certain conflicts of interest may exist due to different

tax considerations applicable to a Fund and other feeder funds.

***Illiquidity.*** Many investments made by a client will be illiquid, and consequently a client may not be able to sell such investments at prices that reflect the General Partner's assessment of their value or the amount paid for such investments by a client. In the event a client makes distributions of securities in kind, such securities could be illiquid or subject to legal, contractual and other restrictions on transfer.

***Leverage.*** Subject to applicable margin and other limitations, a client may borrow funds in order to make additional investments and thereby increase both the possibility of gain and risk of loss. Consequently, the effect of fluctuations in the market value of a client's portfolio would be amplified. Interest on borrowings will be a portfolio expense of a client and will affect its results. Also, a client could potentially create leverage via the use of instruments such as options and other derivative instruments.

***Performance Allocation.*** The performance allocations to be made to a client's general partner may create an incentive for us to make investments that are riskier or more speculative than would be the case in the absence of such performance allocation. The value of a client's investments is generally determined by the general partner in its reasonable discretion in accordance with generally accepted accounting principles or valuation measures and reviewed by each Fund's independent auditors, but such determination is imprecise. There can be no guarantee that securities will realize the estimated values.

***Repurchase Agreements.*** Under repurchase agreements, a client may sell securities and agree to repurchase them at a specified date and price. Repurchase agreements may involve the risk that the market value of the securities purchased with the proceeds of the repurchase agreement by a client may decline below the price of the securities a client has sold but is obligated to repurchase. In the event the buyer of securities under a repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the obligation of a client to repurchase the securities and a client's use of the proceeds of the repurchase agreement may effectively be restricted pending such decision.

***Hedging Transactions.*** We may utilize financial instruments including U.S. treasuries, swaps, caps

and floors on interest rates, currencies, residential or credit default rates or the credit of one or more issuers of MBS, ABS, CLO or other risks associated with MBS, ABS, CLO futures and forward contracts (including Eurodollar futures), security warehouse and repurchase agreements, other secured debt facilities, securitizations and resecuritizations, MBS pass-throughs and MBS derivatives, and options on any of the foregoing, for risk management purposes.

While a client may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for a client than if it had not engaged in any such hedging transactions. For a variety of reasons, we may not seek to hedge certain (or any) portfolio holdings, or may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a client from achieving the intended hedge or expose a client to risk of loss.

***Effect of Execution of Multiple Trade Orders.*** We may be required to revise trading orders as a result of the aggregation for speculative position limit purposes of all accounts traded, owned or controlled by us or our affiliates. The more accounts we have under management, the more likely we are to be constrained by position limits.

***Short Sales.*** Clients may effect short sales. Under certain circumstances, a client may be prematurely forced out of a short position. The lender of a security used to cover a short position generally has the right to demand the return of the stock that has been loaned at any time. In such event, a client would be required to replace the borrowed securities by borrowing the securities from another lender. If a client were unable to replace the borrowed securities it would be required to close out the short position by buying the security in the market to make delivery. In such event, a client could incur a significant loss if the security sold short had increased in value. Provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") and new rules promulgated by the SEC may increase the costs of short selling, make interactions with the issuers of securities being sold short more difficult and alter the prices or timing of short sales. Finally, a recently adopted SEC rule, the "Circuit Breaker Uptick Rule," will limit a client's ability to sell securities short during the day a stock has declined 10% on its listing market and the following day, except for transactions that are at a price that are above the last national best bid. Due to the SEC

rule, a client may not be able to sell securities short at planned times or prices.

*Derivatives.* Derivative instruments include futures, options, swaps, structured investments and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying investments, financial benchmarks, currencies or indices. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are “leveraged,” and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose a client to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts, and to counterparty risk. The counterparty risk lies with each party with whom a client contracts for the purpose of making derivative investments (the “**Counterparty**”). In the event of the Counterparty’s default, a client will only rank as an unsecured creditor and risks the loss of all or a portion of the amounts it is contractually entitled to receive.

*Put & Call Options on Specific Investments.* A client may purchase exchange-listed and over-the-counter (“**OTC**”) put and call options on specific investments. In addition, a client may write and sell covered or uncovered call and put option contracts. The use of put and call options may result in losses to a client, force the sale or purchase of portfolio investments at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation a client can realize on its investments or cause a client to hold an investment it might otherwise sell. For example, a decline in the market price of a particular investment could result in a complete loss of the amount expended by a client to purchase a call option (equal to the premium paid for the option and any associated transaction charges). An adverse price movement may result in unanticipated losses with respect to covered options sold by a client. The use of uncovered option writing techniques may entail greater risks of potential loss to a client

than other forms of options transactions. For example, a rise in the market price of the underlying investment will result in a client realizing a loss on the calls written, which would not be offset by the increase in the value of the underlying investments to the extent the call option position was uncovered.

*Options.* The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market’s perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor’s entire investment (i.e., the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (i.e., sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value.

*Competitive Markets.* In pursuing its trading methods and strategies, a client will compete with investment firms, including many of the larger investment advisory and private investment firms, as well as institutional investors and, in certain circumstances, market-makers, banks and broker-dealers. In any given transaction, investment and trading activity by other firms will tend to narrow the spread between the price at which a commodity interest or investment may be purchased by a client and the price it expects to receive upon consummation of the transaction.

*Counterparty & Settlement Risk.* To the extent a client invests in securities, swaps, derivative or synthetic instruments, or other OTC transactions, in certain circumstances, a client may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It may not always be possible for the securities and other assets deposited with custodians or brokers to be clearly identified as being assets of a client, and a client may be exposed



to a credit risk in those situations. In addition, there may be practical or time problems associated with enforcing a client's rights to its assets in the case of an insolvency of any such party. In valuing derivative instruments, it is anticipated that a client will typically rely on quotes or other information provided by counterparties.

*Prime Brokers & Custody.* There is the possibility that brokerage firms and/or banking institutions at which a client maintains custody of its assets may encounter financial difficulties including bankruptcy and/or insolvency. There can be no assurances as to what effect such a brokerage firm's or banking institution's failure would have on a client's assets. A client will rank as an unsecured creditor to its Prime Brokers in relation to assets that such Prime Brokers borrow, lend or otherwise use and, in the event of the insolvency of a prime broker, a client might not be able to recover equivalent assets in full or in part. In addition, if applicable law permits, cash that the Prime Brokers hold or receive on a client's behalf may not be treated by the prime brokers as client money, may not be segregated from the prime brokers' own cash and may be used by the Prime Brokers in the course of their investment business. In such event, a client will rank as one of the prime brokers' general creditors.

*Arbitrage Positions.* A client may purchase (or sell) investments (i.e., on a current basis) and take offsetting positions in options in the same or related investments. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. These offsetting positions entail substantial risk that the price differential could change unfavorably causing a loss to the position.

*Trade Errors by Third Parties.* On occasion, errors may occur with respect to trades executed on behalf of a client. Trade errors frequently result in losses but may, occasionally, result in gains. In the event a third party was responsible for the error, we will seek to have that party make the client whole. We generally will reimburse losses suffered by a client as a result of a trade error we cause. In addition, we will not correct a trade error made for one client by causing another client to buy or sell the securities.

*Uncertainty & Complexity of Tax Treatment.* The tax aspects of an investment in a partnership are complicated and complex and, in many cases, uncertain. Statutory provisions and administrative regulations have been interpreted inconsistently by

the courts. Additionally, some statutory provisions remain to be interpreted by administrative regulations. Investors will thus be subject to the risk caused by the uncertainty of the tax consequences with respect to an investment in a Fund.

### **Section 5.03 Risks Relating to Mortgage-Backed Securities and Asset-Backed Securities**

*General.* The investment characteristics of MBS differ from 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 mortgage loans or other assets generally may be prepaid at any time.

*Prepayment Risk.* The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying MBS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans.

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

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

*Index Risk.* Variable rate MBS, including adjustable-rate mortgage securities ("ARMs"), are backed by

mortgages with variable rates, the rate of interest payable under which varies with a designated rate or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. This introduces additional risk factors related to the movements in specific indices or interest rates which may be difficult or impossible to hedge, and which also interact in a complex fashion with prepayment risks.

*Interest Rate Risk.* Under a normal yield curve, fixed rate MBS will decline in value if long-term interest rates increase. Declines in market value may ultimately reduce earnings or result in losses. If long-term rates were to increase significantly, the market value of the fixed rate MBS would decline and the weighted average life of the assets would increase. A loss could be realized if the securities are sold. At the same time, an increase in short-term interest rates would increase the amount of interest owed on the repurchase agreements used to finance the purchase of fixed rate MBS.

*Basis Risk.* In a rising interest rate environment, to the extent that interest rates on mortgage loans underlying the related MBS adjust more slowly than the interest rates on such MBS, there will be less cash flow to make payments on such MBS, which could reduce earning or result in losses on such MBS.

*Subordinated Securities.* Investments in subordinated MBS involve greater credit risk of default than the senior classes of the issue or series. Many of the default-related risks of whole loan mortgages will be magnified in subordinated securities. Default risks may be further pronounced in the case of MBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. In addition, principal payments on subordinated securities may be subject to a "lock-out" period in which some or all of the principal payments are directed to the related senior securities. This lockout period may be for a set period of time and/or may be determined based on pool performance criteria such as losses and delinquencies. Such securities therefore possess some of the attributes typically associated with equity investments.

The weighted average lives of, and the yields to maturity on, the subordinated MBS will be more

sensitive than senior securities, to the rate and timing of mortgagor defaults and the severity of ensuing losses on the mortgage loans. The timing of losses on the mortgage loans underlying the securities will affect the actual yield to maturity, even if the rate of defaults and severity of losses over the life of the mortgage loans are consistent with expectations. In general, the earlier a loss occurs, the greater the effect on an investor's yield to maturity.

In addition, the multiple class structure of the subordinated MBS causes the yield of such classes of securities to be particularly sensitive to changes in the rates of prepayment of the underlying mortgage loans. The yield to maturity on such classes of securities will also be extremely sensitive to losses due to defaults on the underlying mortgage loans (and the timing of those losses). Furthermore, the timing of receipt of principal and interest by the securities may be adversely affected by losses even if such classes of certificates do not ultimately bear such loss.

*Credit Support Limitations.* The amount, type and nature of insurance policies, subordination, letters of credit and other credit support, if any, with respect to certain MBS are based upon actuarial analysis. There can be no assurance that the historical data supporting such actuarial analysis will accurately reflect future experience nor any assurance that the data derived from a large pool of mortgage loans accurately predicts the delinquency, foreclosure or loss experience of any particular pool of loans.

*Lower Credit Quality Securities.* A client may invest in securities that may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Lower rated and unrated securities have large uncertainties or major risk exposures to adverse conditions, and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher rated securities, but involve greater volatility of price and greater risk of loss of income and principal.

The market values of certain of these securities (such as subordinated securities) also tend to be more sensitive to changes in economic conditions than higher rated securities. Declining real estate values, in particular, will increase the risk of loss upon default, and may lead to a downgrading of the securities by rating agencies. The value of such MBS may also be affected by changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies.

*Liquidity of Markets.* At times, certain sectors of the fixed income markets (such as the MBS markets) have in the past experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, an investor may not be able to finance their assets except at unfavorable prices. Such “liquidity risk” could adversely impact the value of a portfolio, and may be difficult or impossible to hedge against.

*“Widening” Risk.* For reasons not necessarily attributable to any of the risks enumerated above (for example, supply/demand imbalances or other market forces), prices of securities may decline substantially. In particular, purchasing assets at what may appear to be “undervalued” levels is no guarantee that these assets will not be trading at even more “undervalued” levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such “spread widening” risk.

*Geographic Concentration of Mortgage Loans.* Mortgage loans may be concentrated in a specific state or states. Weak economic conditions in these locations or any other location (which may or may not affect real property values), may affect the ability of borrowers to repay their mortgage loans on time. These economic conditions may also affect real property values, which would increase the loan-to-value ratio and could increase the risk of loss of principal. Properties in certain jurisdictions may be more susceptible than homes located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, floods, hurricanes, wildfires, mudslides and other natural disasters, which may result in losses on mortgage loans.

*Lack of Information Regarding Underwriting Standards.* In selecting mortgage loans for investment, we may not be able to obtain information as to the underwriting standards that were applied in originating the mortgage loans. As a result, certain investments may experience rates of delinquency and default that are higher than those experienced by mortgage loans that were underwritten in accordance with higher standards.

*Asset-Backed Securities.* ABS generally refers to securities backed by assets other than mortgages, mortgage-backed securities or other mortgage-related assets. ABS are subject to many of the same risks as mortgage-backed securities. Each type of ABS also entails unique risks depending on the type of assets involved and the legal structure used. For

example, credit card receivables are generally unsecured, and the debtors are entitled to the protection of a number of state and federal consumer credit laws, many of which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. ABS typically experience credit risk. For example, there is an increasing supply of subordinated securities rated lower than AA (down to B or first loss) and senior securities that may be rated lower than AAA, as well. There is also the possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities because of the inability to perfect a security interest in such collateral.

*Unregistered Transactions in ABS.* ABS that are traded in private, unregistered transactions are subject to restrictions on resale or otherwise have no established trading market. As a result, the ability to value a portfolio in response to changes in economic and other conditions may be relatively limited. Such securities may also be subject to other legal restrictions on resale, transfer, pledge or other disposition which will make them infrequently traded and less liquid than publicly traded securities. This may make it difficult to liquidate such investments if the need arises. In addition, if a holder must liquidate all or a portion of its investments quickly, it may realize significantly less than the value at which it has previously recorded the investments. A holder may face other restrictions on its ability to liquidate an investment in a business entity if it has material non-public information regarding the issuer.

*Insolvency Considerations Respecting Issuers of Collateral Debt Obligations.* The CDOs consisting of obligations of non-U.S. issuers may be subject to various laws enacted in the countries of their issuance for the protection of creditors. These insolvency considerations will differ depending on the country in which each issuer is located or domiciled and may differ depending on whether the issuer is a non-sovereign or a sovereign entity. Various laws enacted for the protection of creditors may apply to the CDOs.

## Section 5.04 Underlying Loan Risks

*Violation of Various Federal, State and Local Laws May Result in Losses on the Underlying Mortgage Loans.* There has been an increased focus by state and federal agencies, state attorneys general offices, and state and local governmental authorities on certain lending practices by some companies in the subprime industry, sometimes referred to as “predatory lending” practices. Sanctions have been

imposed by state, local and federal governmental agencies for various practices. Violations of federal and similar state and local laws may limit the ability of a servicer to collect all or part of the principal or interest on mortgage loans.

Applicable state laws generally regulate interest rates and other charges, require certain disclosure, and require licensing of originators. In addition, other state laws and city regulations, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of mortgage loans. An originator's failure to comply with these laws could subject an investor to monetary penalties and could result in the borrowers rescinding such mortgage loans. Lawsuits have been brought in various states making claims against assignees of "mortgage loans" for violations of state law including high cost laws, usury laws and state licensing requirements.

*Fraud.* Of paramount concern in the origination of loans is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the real estate underlying the loans or may adversely affect the ability to perfect or effectuate a lien on the real estate or other collateral securing the loan.

*Risk of Decline in Value of Real Estate Collateral.* The value of the real estate which underlies mortgage loans is subject to market conditions. Changes in the real estate market may adversely affect the value of the collateral and thereby lower the value to be derived from a liquidation. In addition, adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain the property declines. Furthermore, many of the properties and/or the borrowers which will secure loans underlying the MBS may be suffering varying degrees of financial distress or may be located in economically distressed areas. Loans underlying the MBS may become non-performing for a wide variety of reasons, including, without limitation, because the mortgaged property is too highly leveraged (and, therefore, the borrower is unable to meet its debt service payments), has not been fully completed or is in need of rehabilitation. Such non-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments, or a substantial write-down of the principal of the loan.

It is likely that some, if not many, of the loans underlying the MBS will be foreclosed. The foreclosure process may be lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses.

*Environmental & Special Hazards.* Under environmental laws enacted by the United States and the various states, owners of property may be liable for the cleanup and removal of hazardous substances even where the owner was not responsible for placing the hazardous substances on the property or where the property was contaminated prior to the time the owner took title. The kinds of hazardous substances for which liability may be incurred include chemicals and other materials commonly used by small businesses and manufacturing operations. The costs of removal and clean-up of hazardous substances and wastes can be extremely expensive and, in some cases, can exceed the value of a property. If any property subsequently were found to have an environmental problem, the owner of such property (even through foreclosure) could incur substantial costs and suffer a complete loss of its investment in such property as well as of other assets. It may be impractical or impossible to fully insure against such events and, should such an event occur, the mortgage property underlying the MBS, could suffer a complete loss.

## Section 5.05 **Potential Conflicts of Interest**

We may manage other accounts, some of which may have objectives similar to those of a client, including other collective investment vehicles which may be managed by us or any of our affiliates and in which we or any of our affiliates may have an equity interest. There may exist financial incentives to favor other client accounts over a client due to the different advisory fees charged to those accounts as opposed to those charged to a client. Other individual or pooled client accounts may compete with respect to entering into and liquidating contracts for a client.

Typically each Client has a different investment strategy for purchases of securities in the bond market. However, should multiple accounts wish to purchase the same security, we will aggregate the orders in order to increase efficiency and reduce costs when we can do so in a manner that is fair to all Clients.

In conjunction with aggregation of Client trades, there may be times when we are unable to effect trades

sufficient to allocate among all Firm Clients. In that case, each client will be allocated securities on a pro rata basis, as determined by each Clients' net assets. If it is not practical or desirable to allocate a security trade because the bond has a small value / size, then the Firm will assign non-monetary credits to Client accounts that do not receive an allocation, and Client accounts with larger credit balances will be given priority when allocating future purchases of these types of securities.

Situations may occur where a client could be disadvantaged because of the investment activities conducted by Braddock for other accounts. The performance of a client's investments could be adversely affected by the manner in which particular orders are entered by Braddock and its principal for all such accounts.

Our principal, as well as employees, partners, directors and managers thereof and of organizations affiliated with Braddock (the "**Affiliates**"), may buy and sell securities for their own account or the account of others, but may not buy securities directly from or sell securities directly to a client.

The Affiliates may engage for their own accounts, or for the accounts of others, in other business ventures of any nature, and a client has no right to participate in or benefit from our other management activities described above and the Affiliates shall not be obligated to account to a client for any profits or benefits made or derived therefrom, nor shall they have any obligation to disclose or refer to a client any of the investment or service opportunities obtained through such activities.

#### **Article VI. DISCIPLINARY INFORMATION**

None.

#### **Article VII. OTHER FINANCIAL INDUSTRY ACTIVITIES, AND AFFILIATIONS**

None.

#### **Article VIII. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Braddock has adopted a written Code of Ethics ("**Code**") designed to address and avoid potential conflicts of interest. The Code contains policies and procedures that ensure that all personal securities trading by our employees are conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility. For example: we prohibit personal trading on certain securities or instruments; we require pre-clearance before purchasing an IPO or a new private placement; we require periodic reporting of employees' personal securities transactions and holdings; and we require prompt internal report of Code violations. Upon request by an investor or perspective investor, we will provide to the investor or perspective investor, at no cost, a copy of our Code of Ethics.

#### **Participation or Interest in Client Transactions**

Our policy is generally to prohibit transactions between our clients, and our principals, except in extraordinary circumstances. Consequently, neither we nor any employee may engage in a principal transaction with one of our clients without the prior written consent of the Chief Compliance Officer.

#### **Article IX. BROKERAGE PRACTICES**

Broker-dealers are selected based on their experience and abilities. Transaction fees are paid based on industry standards and execution of the transaction. No benefit is derived by us respecting receipt of research, soft-dollars, or other services.

Braddock is responsible for the placement of securities transactions for clients and the negotiation of any commissions paid on such transactions. Securities normally will be purchased directly from the issuer or from an underwriter or market maker for the securities, or through brokers on securities exchanges. Purchases of securities through brokers involve a commission to the broker. Purchases of securities from dealers serving as market makers include the spread between the bid and the asked price.

We currently use primary securities dealers as intermediaries for the purchase and sale of certain securities. After a purchase made by a dealer on behalf of a client, the securities are held in the custody of the dealer until such time as the client makes full payment for the securities. While the securities are in the custody of the dealer, the client is eligible to the same extent as the dealer's other

customers for insurance coverage against loss in the event of the bankruptcy or liquidation of the dealer. Upon full payment by the client to the dealer, securities held by the dealer are transferred to the custody of a custodian engaged by the client.

#### **Article X. REVIEW OF ACCOUNTS**

We review client accounts and investment strategies periodically, at a meeting of our Investment Committee. This committee meets on a monthly basis, and consists of the chief executive officer, chief financial officer, chief compliance officer and individual portfolio managers. Fund administrators provide investors a monthly report of each such investor's capital additions to a Fund, withdrawals, transfers, gains/losses, ending equity, and such Fund's net performance (the net performance reflects the simple return of the investor).

#### **Article XI. CLIENT REFERRALS AND OTHER COMPENSATION**

None.

#### **Article XII. CUSTODY**

Portfolio securities purchased directly from the issuer, a market maker, or other intermediary by Braddock on behalf of clients are held in the custody of a custodian engaged by the clients. Investor funds are maintained by an administrator or qualified custodian. The qualified custodian and/or administrator send monthly account statements to

investors in the Funds. Investors should carefully review the statements they receive from the qualified custodian and/or administrator.

Braddock is the custodian for the securities held by one Fund. As such, we have instituted a set of controls to safeguard those client assets which includes an annual financial statement audit by an independent public accountant that is registered with, and subject to regular inspection by, the PCAOB. Annual financial statements are prepared in accordance with generally accepted accounting principles and are distributed to investors within 120 days of the end of the fiscal year.

#### **Article XIII. INVESTMENT DISCRETION**

We accept full discretionary authority to manage the Funds and SMAs. We are granted full discretionary authority in an Investment Management Agreement that is executed between us and each of the Funds. Investors in the Funds are given the opportunity to elect not to participate in new issues. We manage securities accounts in line with the investment strategy of each Fund.

#### **Article XIV. VOTING CLIENT SECURITIES**

We do not trade voting securities, nor does it have or accept authority to vote client securities.

#### **Article XV. FINANCIAL INFORMATION**

Not applicable.



**B R A D D O C K**  
F I N A N C I A L

**Privacy Notice**



Rev. 12/2014

## FACTS

### WHAT DOES BRADDOCK FINANCIAL CORPORATION DO WITH YOUR PERSONAL INFORMATION?

#### WHY?

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

#### What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number and
- account balances; ■ assets; ■ investment experience; ■ risk tolerance; ■ wire transfer instructions.

When you are *no longer* our customer, we continue to share your information as described in this notice.

#### How?

All financial companies need to share clients' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their clients' personal information; the reasons Braddock Financial Corporation ("Braddock") chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does Braddock Financial Corporation share?	Can you limit this sharing?
<b>For our everyday business purposes—</b> such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	<b>Yes</b>	No.
<b>For our marketing purposes—</b> to offer our products and services to you	<b>No</b>	<b>We don't share.</b>
<b>For joint marketing with other financial companies</b>	<b>No</b>	<b>We don't share.</b>
<b>For our affiliates' everyday business purposes—</b> information about your transactions and experiences	<b>No</b>	<b>We don't share.</b>
<b>For our affiliates' everyday business purposes—</b> information about your creditworthiness	<b>No</b>	<b>We don't share.</b>
<b>For nonaffiliates to market to you</b>	<b>No</b>	<b>We don't share.</b>

#### QUESTIONS?

Call 303-308-6400 or go to [www.braddockfinancial.com](http://www.braddockfinancial.com)



<b>Who is providing this notice?</b>	Braddock Financial Corporation
<b>How does Braddock Financial Corporation protect my personal information?</b>	<p>To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.</p> <p>Braddock limits access to personal information to individuals who need to know that information in order to process transactions and service accounts and are subject to an obligation of confidentiality.</p>
<b>How does Braddock Financial Corporation collect my personal information?</b>	<p>We collect your personal information, for example, when you:</p> <ul style="list-style-type: none"> <li>■ Open an account; ■ enter into an investment advisory contract; ■ give us your contact information; ■ pay us by check; ■ make a wire transfer</li> </ul>
<b>Why can't I limit all sharing?</b>	<p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none"> <li>■ sharing for affiliates' everyday business purposes—information about your creditworthiness</li> <li>■ affiliates from using your information to market to you</li> <li>■ sharing for nonaffiliates to market to you</li> </ul>

<b>Affiliates</b>	Companies related by common ownership or control. They can be financial and nonfinancial companies.
<b>Nonaffiliates</b>	<p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>■ Braddock Financial Corporation does not share with non-affiliates so they can market to you.</li> </ul>
<b>Joint marketing</b>	<p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>■ Braddock Financial Corporation does not jointly market.</li> </ul>



**Disclosure Brochure Supplement  
December 31, 2014**

1200 17<sup>th</sup> Street, Suite 880 • Denver, CO 80202 • T 303.308.6400 F 303.291.1312  
www.braddockfinancial.com

This brochure supplement provides information about Harvey B. Allon that supplements the Braddock Financial Corporation (“**Braddock**”) brochure. You should have received a copy of that brochure. Please contact us at (303) 308-6400 if you did not receive Braddock’s brochure or if you have any questions about the contents of this supplement.

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**Name of Supervised Person:** Harvey B. Allon, age 65, 1949

**Educational Background & Business Experience:** University of Michigan, B.S. Cellular Biology 1971

Managing Founding Member and CEO of Braddock Financial 1994 – Present

1993 to 1997 consultant to Asset Investors (AIC, NYSE)

1987 to 1993 recruited by Nomura Securities Intl., Inc. to establish and manage the Mortgage Trading Department for Nomura’s New York investment bank

**Disciplinary Information:** Not applicable.

**Other Business Activities:** Not applicable

**Additional Compensation:** Not applicable

**Supervision:** Mr. Allon is subject to Braddock’s compliance program and Code of Ethics, which are administered by Ken Glickstein. As CEO, Mr. Allon is ultimately responsible for the company’s investment strategies. Mr. Allon discusses investment decisions with Garrett Tripp, Braddock’s Senior Vice President and Senior Portfolio Manager, and with Tom Plisko, Braddock’s CFO. Mr. Allon can be reached directly at 303-308-6404.



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December 31, 2014**

1200 17<sup>th</sup> Street, Suite 880 • Denver, CO 80202 • T 303.308.6400 F 303.291.1312  
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This brochure supplement provides information about Garrett Tripp that supplements the Braddock Financial Corporation ("**Braddock**") brochure. You should have received a copy of that brochure. Please contact us at (303) 308-6400 if you did not receive Braddock's brochure or if you have any questions about the contents of this supplement.

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***Name of Supervised Person:*** Garrett Tripp, 44, 1970

***Educational Background & Business Experience:*** Mr. Tripp joined Braddock in 2003 and has over fifteen years of investment and trading experience. Since 2008, he has served as the Senior Portfolio Manager on Braddock's Funds and separately managed accounts. Mr. Tripp received his MBA from McCombs School of Business at the University of Texas at Austin and a B.A. in business economics from the University of San Diego. He is a Chartered Financial Analyst (CFA designation).

***Disciplinary Information:*** Not applicable.

***Other Business Activities:*** Not applicable

***Additional Compensation:*** Not applicable

***Supervision:*** Mr. Garrett Tripp is subject to Braddock's compliance program and its Code of Ethics, and his advisory activities for Braddock are supervised by Harvey Allon, Braddock's CEO, at 303-308-6400.



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December 31, 2014**

1200 17<sup>th</sup> Street, Suite 880 • Denver, CO 80202 • T 303.308.6400 F 303.291.1312  
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This brochure supplement provides information about Toby Giordano that supplements the Braddock Financial Corporation ("**Braddock**") brochure. You should have received a copy of that brochure. Please contact us at (303) 308-6400 if you did not receive Braddock's brochure or if you have any questions about the contents of this supplement.

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<b><i>Name of Supervised Person:</i></b>	Toby Giordano, 45, 1969
<b><i>Educational Background &amp; Business Experience:</i></b>	University of Colorado, BA Economics University of Colorado MBA Chartered Financial Analyst 2005 to Present: Vice President & Portfolio Manager, Braddock Financial Corporation
<b><i>Disciplinary Information:</i></b>	Not applicable.
<b><i>Other Business Activities:</i></b>	Not applicable
<b><i>Additional Compensation:</i></b>	Not applicable
<b><i>Supervision:</i></b>	Mr. Toby Giordano is subject to Braddock's compliance program and it's Code of Ethics, and his advisory activities for Braddock are supervised by Garrett Tripp, Braddock's Senior Vice President and Senior Portfolio Manager, at (303) 308-6412.



**Disclosure Brochure Supplement  
December 31, 2014**

1200 17<sup>th</sup> Street, Suite 880 • Denver, CO 80202 • T 303.308.6400 F 303.291.1312  
www.braddockfinancial.com

This brochure supplement provides information about Matthew Talkington that supplements the Braddock Financial Corporation (“**Braddock**”) brochure. You should have received a copy of that brochure. Please contact us at (303) 308-6400 if you did not receive Braddock’s brochure or if you have any questions about the contents of this supplement.

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<b><i>Name of Supervised Person:</i></b>	Matthew Talkington, 37, 1977
<b><i>Educational Background &amp; Business Experience:</i></b>	University of Colorado, Bachelor of Science, 2000 2005 to Present: Analyst/Vice President, Braddock Financial Corporation
<b><i>Disciplinary Information:</i></b>	Not applicable.
<b><i>Other Business Activities:</i></b>	Not applicable
<b><i>Additional Compensation:</i></b>	Not applicable
<b><i>Supervision:</i></b>	Mr. Matthew Talkington is subject to Braddock’s compliance program and its Code of Ethics, and his advisory activities for Braddock are supervised by Garrett Tripp, Braddock’s Senior Vice President & Senior Portfolio Manager, at (303) 308-6412.