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This brochure provides certain information about the qualifications and business practices of Resource Financial Fund Management, Inc. If you have any questions about the contents of this brochure, please contact us at (215) 546-5005. This brochure has not been approved by the Securities and Exchange Commission or any state securities authority. Registration with the Securities and Exchange Commission as an Investment Adviser does not imply a certain level of skill or training.

**Resource Financial Fund Management, Inc.**

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**Item 4:**        Advisory Business

- (A) Resource Financial Fund Management, Inc. (“RFFM”), a Delaware corporation, is a wholly owned subsidiary of Resource America, Inc. (NASDAQ: REXI) and was formed on May 30, 2002.
- (B) RFFM is primarily engaged in the business of providing portfolio management services to issuers of collateralized debt obligations (“CDOs”) through the Trapeza Program, as described below. These vehicles are each governed by an indenture that sets forth the manner in which each CDO is to be managed including: eligible collateral, investment objectives, and risk criteria. RFFM’s advisory services are provided through its participation in the Trapeza Program<sup>1</sup> and through its ownership of Pelium Capital Management, LLC a wholly owned subsidiary of RFFM that provides investment advisory services to private investment funds (“Investment Funds”). The CDOs and Investment Funds collectively referred to herein as “Clients”. CDOs managed by RFFM primarily hold investments in trust preferred securities issued by banks, thrifts and financial institutions and also trust preferred securities issued by real estate investment trusts, real estate operating companies and homebuilders. CDOs may also invest in surplus notes issued by insurance companies. Investment Funds managed by RFFM hold investments in a wide array of credit-related instruments and securities, including, without limitation: structured finance securities, such as residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized loan obligations (CLOs) and other collateralized debt obligations (CDOs); residential mortgages and related servicing assets; high-yield first lien and mezzanine commercial mortgages; loans to middle market companies, specialty finance companies and special purpose entities sponsored by specialty finance companies; convertible, preferred, trust preferred and other securities; and life settlements and other assets related to life insurance or longevity.
- (C) Investment advisory services provided by RFFM are conducted pursuant to the terms of (i) a collateral management agreement and indenture in the case of CDOs; and (ii) pursuant to a limited partnership agreement in the case of Investment Funds. These documents are negotiated prior to the commencement of the advisory relationship and set forth the specific services that will be provided by RFFM on behalf of the Client. Each of the CDOs and Investment Funds for which RFFM provides investment advisory services may impose limitations on the types of securities in which RFFM may invest. In particular, each CDO for which RFFM provides investment advisory services is governed

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<sup>1</sup> The Trapeza Program, comprised of 13 CDOs to date, is managed by Trapeza Capital Management, LLC (“TCM”) and Trapeza Management Group, LLC (“TMG”), joint ventures between RFFM and unaffiliated third parties. FSI Group, LLC is RFFM’s joint venture partner in Trapeza Capital Management, LLC. FSI and Suntrust Equity Funding, LLC are RFFM’s joint venture partners in Trapeza Management Group, LLC. TCM is the collateral manager for Trapeza CDO I, LLC; Trapeza CDO II, LLC; Trapeza CDO III, LLC; Trapeza CDO IV, LLC; Trapeza CDO V, LLC; Trapeza CDO IX, Ltd.; Trapeza CDO X, Ltd.; Trapeza CDO XI, Ltd.; Trapeza CDO XII, Ltd.; and Trapeza CDO XIII, Ltd. TMG is the collateral manager for Trapeza CDO VI, Ltd. and Trapeza CDO VII, Ltd. TCM and Principal Global Investors, LLC serve as collateral manager for Trapeza Edge CDO, Ltd. (TCM and TMG collectively referred to herein as “Trapeza Management”)

by an indenture which places significant restrictions on the types of securities that may be purchased on behalf of the CDO.

(D) RFFM does not participate in wrap fee programs.

(E) As of December 31, 2014 RFFM had \$3,243,187,557 of assets under management. All assets under management are managed on a discretionary basis.

**Item 5:        Fees and Compensation**

(A) For clients that are issuers of CDOs, Trapeza Management is entitled to receive base management fees between .10% to .25% of assets under management, however some portions of Trapeza Management's fees may be payable only after certain levels of payments have been made to the holders of securities issued by a the CDO. In addition, Trapeza Management may receive a subordinated management fee of between .10% and .20% and may also charge a performance fee, in accordance with Rule 205-3 of the Investment Advisors Act of 1940, of between .15% and .25% per annum, payable when the equity class of securities for each CDO has achieved a specified return on investment. Trapeza Management negotiates fees with its Clients at the outset of the commencement of the advisory agreement. However, such fees are not negotiable at any time thereafter.

For clients that are Investment Funds, RFFM receives base management fees of 1.5% of assets under management. RFFM also charges performance fees to Investment Funds of 15%, payable when such funds have achieved a specified return on investment. All fees are negotiated with the Investment Funds prior to the commencement of the advisory relationship.

(B) All fees attributable to CDOs managed by RFFM are paid quarterly to RFFM by an independent trustee for the CDO in accordance with the terms of the applicable indenture. Management fees attributable to CDOs are calculated by the trustee and confirmed by RFFM. Base management fees and incentive fees attributable to Investment Funds are paid quarterly and annually respectively to RFFM by the client or an independent third party custodian following the submission of an invoice to the client or custodian for such fees.

(C) Clients of RFFM may be responsible for fees payable to independent third parties including, but not limited to, organizational fees, legal fees, accounting and auditing fees, research fees, trustee fees, custodial fees, bank service fees, director's fees and brokerage and commission fees. See Item 12 below for additional details on RFFM's brokerage practices please.

(D) RFFM's private investment fund clients are required to pay base management fees quarterly in advance of the calendar quarter. If an investor in a private investment fund redeems that interest during the quarter (as opposed to the end of one), the investor shall not be entitled to his pro-rata share of unearned management fees.

- (E) Neither RFFM nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or other fees from the sale of mutual funds.

**Item 6:**        Performance Based Fees and Side by Side Management.

RFFM charges both asset based fees and performance based fees (fees based on a share of capital gains on or capital appreciation of assets) to certain advisory clients as indicated in the above fee schedule. Further, RFFM's supervised persons may manage other accounts to which performance fees are charged.

While potential conflicts of interest may exist in instances in which RFFM or its affiliates determine that a specific security transaction is appropriate for a specific account, including proprietary accounts, based upon numerous factors including, among other things, investment objectives, investment strategies or restrictions, while other accounts including proprietary accounts and accounts for which RFFM charges a performance based fee may hold or take the opposite position in the security in accordance with those accounts' investment objectives, strategies and restrictions. However, all securities transactions in the Trapeza Program are executed by FSI pursuant to a memorandum of understanding. Further, the Trapeza CDOs are primarily static, with procedures for the sale of credit risk and defaulted securities and strict reinvestment guidelines, in each case closely governed by an indenture. In the event that a security is held by more than one CDO, FSI will execute the sale in a manner that does not favor one CDO over another.

**Item 7:**        Types of Clients.

RFFM provides investment advice to collateralized debt obligations and other collective investment vehicles for investors that are "accredited investors" and "qualified purchasers" as those terms are defined under the Securities Act and the Investment Company Act.

**Item 8:**        Methods of Analysis, Investment Strategies and Risk of Loss.

(A) In analyzing investments, RFFM employs a fundamental analysis of each investment in which RFFM invests on behalf of its Clients. RFFM analysts review a variety of sources for information on portfolio companies including, but not limited to, financial newspapers and magazines; inspections of and meetings with portfolio companies; third party research materials; corporate rating services; company press releases; and corporate regulatory filings. RFFM also conducts a review of core customer deposit franchises, loan portfolios, and local market stability for each portfolio company that is a bank, thrift or other financial services company. Offering memoranda for each CDO and limited partnership managed by RFFM contain specific disclosures on the risk of loss which clients should be prepared to bear. RFFM investment programs are illiquid and are only suitable for investors prepared to hold such investment for an indefinite period of time. Further, there is no guarantee that any investment program managed by RFFM will be successful, that its investment objectives will be achieved, that investors will receive their initial investments under the investment program or that they will receive any return (or avoid any loss, including total loss) on their investment.

(B) RFFM generally seeks, on behalf of its Clients, to generate total investment return through a combination of both current income and capital appreciation and employs a long bias. For risk factors associated with RFFM's strategy, please see Item 8A above and Item 8C below.

(C) CDO Clients for whom RFFM provides investment advisory services invest primarily in trust preferred securities issued by banks, thrifts and financial institutions and also trust preferred securities ("TPS") issued by real estate investment trusts ("REITS"), real estate operating companies ("REOCS") and homebuilders. CDOs may also invest in surplus notes issued by insurance companies. Investment Funds managed by RFFM hold investments in structured finance securities, such as residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized loan obligations (CLOs) and other collateralized debt obligations (CDOs); residential mortgages and related servicing assets; high-yield first lien and mezzanine commercial mortgages; loans to middle market companies, specialty finance companies and special purpose entities sponsored by specialty finance companies; convertible, preferred, trust preferred and other securities; and life settlements and other assets related to life insurance or longevity. Material risks associated with these investment programs are more fully explained in the offering documents of each investment program and may include the following:

#### Below Investment-Grade Assets

Assets managed on behalf of CDO clients will generally consist of non-investment grade securities, which generally have greater credit, insolvency and liquidity risk than investment-grade assets. The lower rating of such securities reflects a greater possibility that adverse changes in the financial condition of the obligor (or the issuer of the subordinated debentures held by a trust preferred securities issuer) or general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings or disruptions in the financial markets) or both may impair the ability of the obligor to make payments of principal and interest. Below investment-grade securities have historically experienced greater default rates than has been the case for investment grade securities.

#### Trust Preferred Securities

Trust preferred securities may be subject to interest rate risk, prepayment risk, credit risk, liquidity risk, market risk, legal risk and reinvestment risk. Each TPS will be issued by a trust that is sponsored by a holding company of a bank, thrift, insurance company, REIT/REOC and homebuilder, and the sole asset of each such trust will generally be junior subordinated debentures issued by the sponsoring holding company. Thus, payments on each TPS will be dependent upon the receipt of dividends, fees and other payments from subsidiaries of the related sponsoring holding company. Generally, the sponsoring holding company will have the ability to defer interest payments on its junior subordinated debentures for up to five years, whereupon the related TPS issuer will defer payments on its TPS. Deferring or defaulted TPS may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate or a substantial write-down of principal. The price of a

TPS, if required to be sold, may be subject to substantial market and liquidity risks at the time of sale.

### Bank and Thrift Debt

Bank and thrift debt may be subject to interest rate risk, prepayment risk, credit risk, liquidity risk, market risk, legal risk and reinvestment risk. Banks and thrifts are subject to various limitations on their ability to make payments on their indebtedness and distributions to their parent companies. These limitations may affect the ability of subordinated debenture issuers to make certain payments on their subordinated debentures and on the ability of subsidiaries of bank or thrift holding companies to make distributions to their parent companies (and, correspondingly, may affect the ability of the holding companies to make payments on the junior subordinated debentures held by the sponsored TPS issuers). The price of bank or thrift debt, if required to be sold, may be subject to substantial market and liquidity risks at the time of sale.

### Insurance Surplus Notes

Insurance surplus notes may be subject to interest rate risk, prepayment risk, credit risk, liquidity risk, market risk, legal risk and reinvestment risk. Payments on surplus notes may be subject to various legal and regulatory limitations and restrictions. Regulation and authority for the issuance of surplus notes are governed by the laws of the states having jurisdiction over the respective surplus notes issuer. In most states, regulators have broad discretion in determining the amount of, and the manner in which, payments will be made on surplus notes. Accordingly, there can be no assurance that a surplus notes issuer will be able to make payments on its surplus notes. The price of surplus notes, if required to be sold, may be subject to substantial market and liquidity risks at the time of sale.

### REIT TPS

REIT TPS may be subject to interest rate risk, prepayment risk, credit risk, liquidity risk, market risk, legal risk and reinvestment risk. In addition, investments in TPS sponsored by REITs may present risks related to the assets of the REIT issuer. At least 75% of the value of the assets of a qualifying REIT must be in “real estate assets” (including interests in real property, mortgages on real property and shares in other REITs), cash, cash items and government securities, in addition to other restrictions on activities of a REIT. REITs are subject to inherent risks associated with such investments, including, among other things: declines in value of real estate, adverse changes in national economic conditions, changes in interest rates, adverse changes in local market conditions due to changes in general or local economic conditions and neighborhood characteristics, increased competition from other properties, obsolescence of property, overbuilding, extended vacancies of properties, changes in the availability, cost and terms of mortgage funds, defaults by borrowers, risks associated with leverage or debt, the impact of present or future environmental legislation and compliance with environmental laws, environmental remediation or liability costs, the ongoing need for capital improvements, particularly in older properties, changes in real estate tax rates and other operating expenses, regulatory and economic impediments to raising rents, adverse changes in governmental rules and fiscal policies, dependency on management skills, the relative illiquidity of real estate

investments, civil unrest, acts of God, including earthquakes and other natural disasters (which may result in uninsured losses), acts of war or terrorism, casualty or condemnation losses and adverse changes in zoning laws. The price of REIT TPS, if required to be sold, may be subject to substantial market and liquidity risks at the time of sale. Further, REITs are not subject to regulatory oversight. Unlike banks, thrifts and insurance companies, REITs are not subject to regulatory oversight and therefore are not periodically examined by governmental regulators. Weaknesses in the management or financial condition of a REIT are not subject to discovery or remedial action by outside governmental authorities.

### Structured Finance Securities

RFFM may invest in special purpose vehicles organized and operated for the purpose of restructuring the investment characteristics of other debt securities. These investment vehicles will typically issue equity or subordinated debt securities that are collateralized by the vehicles' investments in particular asset classes, which may include residential mortgages, commercial mortgages, corporate loans or bonds, and other assets. The cash flow on the underlying instruments may be apportioned to create securities with different investment characteristics, such as varying maturities, payment priorities and interest rate provisions, and the extent of the payments made with respect to such securities is dependent on the extent of the cash flow on the underlying instruments. Because RFFM Clients will not own these assets directly, they will not benefit from rights that holders of the assets have, including indemnification and voting rights.

Exposure to structured finance securities entails various risks: credit risks, liquidity risks, prepayment risks, interest rate risks, market risks, operations risks, structural risks, geographical concentration risks, basis risks and legal risks. Structured finance securities may also be subject to the risk that a servicer fails to perform. Structured finance securities are subject to risks associated with their structure and execution, including the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such structured finance securities, whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the structured finance instrument) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such structured finance securities.

The investment characteristics of structured finance securities differ from traditional debt securities. For example, mortgage-backed securities (MBS) typically have interest and principal prepayments that are made monthly during the term of the mortgage loan, and principal prepayments may be made at any time. Faster or slower prepayments of the underlying mortgages can vary the yield of MBS and early repayment may lead to a reduced return rate on the reinvestment of principal. Prepayment rates of the underlying mortgages may affect the price and volatility of MBS, and may vary the anticipated maturity of the security. Prepayments also decrease the period of time during which income is received at a higher rate.

The value of structured finance securities generally fluctuates with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related instrument, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.



Structured finance securities may be subject to redemption, which may adversely affect payments and returns to holders of such securities. Such investments may be speculative.

The lower ratings of high-yield securities and below investment grade loans held by collateralized loan obligations (CLOs) reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Other asset-backed securities may have underlying assets that include automobile loans, credit card receivables and student loans. The risk of investing in such securities is ultimately dependent upon payment of consumer loans by the debtors.

Legislative or regulatory action taken by governmental or regulatory bodies in the United States and elsewhere may negatively impact the liquidity and value of structured finance securities. For example, the "Volcker Rule" contained in the Dodd-Frank Act, which imposes limitations on the ability of banking entities and their affiliates to invest in Investment Funds such as CDO issuers, may have a substantial negative impact on the liquidity and value of CDOs.

#### Residential Mortgage Assets

Holders of residential mortgage assets bear various risks, including credit, market, interest rate, structural and legal risks. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and with the resulting securities issued being guaranteed. 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 mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be limited. Investments in residential mortgage assets may experience losses or reduced yield if, for example, (i) the borrower of an underlying residential mortgage loan defaults or is unable to make payments, (ii) the underlying residential mortgage loans are prepaid, (iii) there is a general decline in the housing market, or (iv) violations of particular provisions of certain federal laws by an issuer of RMBS limit the ability of the issuer to collect all or part of the principal of or interest on the related underlying loans.

#### Commercial Mortgage Assets

Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related CMBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of CMBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a

foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to a commercial mortgage and any related CMBS.

Revenues from the assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

### Loans

RFFM, on behalf of its Clients, may invest in loans (in cash and synthetic form). The value of such loans may be detrimentally affected to the extent a borrower defaults on its obligations. While the Investment Manager may, in certain instances, attempt to minimize this risk by obtaining collateral, there can be no assurance that the value assigned by the Investment Manager to collateralize an underlying loan can be realized upon liquidation, nor can there be any assurance that any such collateral will retain its value. Furthermore, circumstances could arise (such as in the bankruptcy of a borrower) that could cause a Client's security interest in the loan's collateral to be invalidated. The amount realizable with respect to a loan may be detrimentally affected if a guarantor, if any, fails to meet its obligations under a guarantee. Finally, there may be a monetary as well as a time cost involved in collecting on defaulted loans and, if applicable, taking possession of various types of collateral.

RFFM Client portfolios may include second and third lien loans and any other loans. Second and third lien loans are subject to the same investment risks generally applicable to senior loans described above but are also subordinate in right of payment to one or more senior loans of the related obligor and therefore are subject to additional risk that the cash flow of the related obligor and the property securing the second or third lien loan may be insufficient to repay the scheduled payments to the lender after giving effect to any senior secured obligations of the related obligor. Second and third lien loans are also expected to be more illiquid than senior loans.

RFFM Client portfolios may include a limited amount of unsecured loans. Unsecured loans will be subject to certain additional risks to the extent that such loans may not be secured by collateral and protected by financial covenants or limitations upon additional indebtedness. Unsecured loans are also expected to be a more illiquid investment than senior loans for this reason.

RFFM, on behalf of its Clients, may invest in loans acquired through assignment or participations. In purchasing participations, a Client will usually have a contractual relationship only with the selling institution, and not the borrower. Consequently, the Client may be subject to the credit risk of the selling institution as well as of the borrower and the Client generally will have no right directly to enforce compliance by the borrower with the terms of a loan agreement, nor any rights of set-off against the borrower, nor will it have the right to object to certain changes to, or waivers under, the loan agreement agreed to by the selling institution. The Client

may not directly benefit from the collateral supporting the related senior loan and may not be subject to any rights of set-off the borrower has against the selling institution.

### High Yield Securities

RFFM, on behalf of its Clients, may invest in bonds or other fixed income securities, including without limitation, commercial paper and “higher yielding” (and, therefore, higher risk) debt securities, when the Investment Manager believes that such securities offer opportunities for profit. Such securities may be below investment grade and face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. It is likely that a major economic recession or an environment characterized by a shortage of liquidity could disrupt severely the market for such securities and may have an adverse impact on their value or liquidity. Moreover, it is likely that any such economic downturn or liquidity squeeze could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities. The market for lower-rated securities can be less liquid than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold.

### Distressed Assets

RFFM, on behalf of its Clients, may invest in “distressed assets” — securities, private claims and obligations of entities that are experiencing significant financial or business difficulties or have filed for Chapter 11 protection under the U.S. Bankruptcy Code. Investments may include loans, commercial paper, loan participations, trade claims held by trade or other creditors, stocks, partnership interests and similar financial instruments, executory contracts and options or participations therein.

Distressed assets may result in significant returns to a Client, but also involve a substantial degree of risk. A Client may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or assets with a value less than the Client's investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than normally expected. In trading distressed assets, litigation is sometimes required. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses.

Moreover, to the extent that a Client invests in distressed sovereign debt obligations, they will be subject to additional risks and considerations not present in private distressed assets, including

the uncertainties involved in enforcing and collecting debt obligations against sovereign nations, which might be affected by world events, changes in U.S. foreign policy, and other factors outside the control of the Investment Manager. The market for distressed securities and instruments is generally thinner and less active than other markets, which can adversely affect the prices at which distressed securities can be sold.

### Life Insurance Assets

In connection with its investment diligence process related to life insurance-linked investments, RFFM may rely on models and analysis performed by third parties (including, without limitation, the sponsors of such insurance-linked investments). Actual loss experience can materially differ from that generated by such models. These models rely on various assumptions, some of which are subjective and some of which vary between the different modeling firms. The loss probabilities generated by such models are not predictive of future events, or of the magnitude of losses that may occur. Actual events and their attendant losses could materially differ from those estimated by models.

The life settlement market is still under development and several areas of the life settlement arena are not regulated. Various regulatory and other initiatives are ongoing in this regard. There is significant uncertainty as to the form, content and scope of any legal and regulatory changes which may affect the life settlements market in the future. Changes in legal and/or regulatory requirements with respect to life settlement products, and or the regulatory or judicial interpretation of existing legal and regulatory provisions, may occur which could materially adversely affect a Client's investments. For example, obtaining up to date medical records on an insured person can be a problem as federal and state confidentiality laws in the United States restrict access to such records. This may affect RFFM's ability to value life settlement policies.

There is the possibility that a former family member or beneficiary may challenge a life settlement transaction, claiming it is void because of undue influence, duress, or unsoundness of mind. Where these claims are made, there is a risk that the proceeds from a matured policy will not be realized or proceeds will be shared with the family member or beneficiary.

Insurance company impairments may result in the diminution of death benefits. Unpaid death benefits are sought from the estate of the insolvent insurance company if the company goes into liquidation. Clients may also be subject to the risk of insurance company impairment through official state action. Such state actions include involuntary liquidation, supervision, rehabilitation, receivership, conservatorship, a cease and desist order, suspension, license revocation, administrative order and any other action that restricts a company's freedom to conduct its insurance business as normal.

Advances in medical science and the treatment of disease (as well as other physiological and psychiatric disorders) may increase the life expectancy of the general population and, in particular, extend the lives of the insureds under the life insurance policies in the Client's portfolio (the "Insureds"). Although the modeling applied to a Client's portfolio attempts to account for medical advancement, unexpected breakthroughs, such as cures for previously incurable diseases, could further extend the lives of the Insureds. The spontaneous or scientifically unexplained disappearance of symptoms or the remission of a terminal disease or illness could also extend the lives of Insureds beyond what has been taken into account in the Client's portfolio modeling. Longer life expectancy will, in turn, lead to the Client having to pay more premiums than expected and a delay in the realization of death benefits.

### Credit Ratings are Not a Guarantee of Quality

Credit ratings of assets represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. A credit rating is not a recommendation to buy, sell or hold assets and may be subject to revision or withdrawal at any time by the assigning rating agency. In the event that a rating assigned to any corporate debt obligation is lowered for any reason, no party is obligated to provide any additional support or credit enhancement with respect to such corporate debt obligation. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value; therefore, ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an obligor's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of any corporate debt obligation should be used only as a preliminary indicator of investment quality and should not be considered a completely reliable indicator of investment quality. Rating reductions or withdrawals may occur for any number of reasons and may affect numerous assets at a single time or within a short period of time, with material adverse effects upon the corporate debt obligation. It is possible that many credit ratings of assets included in or similar to the corporate debt obligation will be subject to significant or severe adjustments downward.

### Interest Rate Risk

RFFM, on behalf of its Clients, generally invests in a combination of floating rate and fixed income securities. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. The value of equity securities is also affected by changes in interest rates. RFFM may or may not attempt to minimize the exposure of the portfolio to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. Even if RFFM does attempt to do so, there can be no guarantee that it will be successful in mitigating the impact of interest rate changes.

### Leverage

RFFM may, on behalf of its Clients, utilize leverage through margin borrowing and through certain financial transactions. Leverage increases returns to Clients if the Client earns a greater return on leveraged investments than the Client's cost of such leverage. However, the use of leverage exposes the Client to additional levels of risk including (i) greater losses from investments than would otherwise have been the case had the Client not borrowed to make the investments, (ii) margin calls or changes in margin requirements may force premature liquidations of investment positions, (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Client's cost of leverage related to such investments and (iv) fluctuations in interest rates on the Client's borrowings, which may have a negative effect on the Client's profitability. In case of a sudden, precipitous drop in value of a Client's assets, the Client might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying the losses incurred by the Client.

### Investing in Non-U.S. Assets

RFFM may, on behalf of its Clients, invest in Non-U.S. Assets. Investing in securities issued outside of the United States involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of foreign tax laws (e.g., the imposition of withholding taxes on dividend, interest or other payments) or confiscatory taxation may also affect investment in non-U.S. securities. Higher expenses may result from investment in non-U.S. securities than would from investment in U.S. securities because of the costs that must be incurred in connection with conversions between various currencies and foreign brokerage commissions that may be higher than the United States. Non-U.S. securities markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States. Investments in non-U.S. countries could be affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

### Currency Risks

Investments in securities or other instruments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

### Lack of Liquidity of Assets, Valuation

A Client's assets may, at any given time, include securities and other financial instruments or obligations that are thinly traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value accurately any such investments. Securities to be held by Clients may routinely trade with bid-ask spreads that may be significant. At times, third-party pricing information may not be available for certain positions held by the Client. RFFM is entitled to rely, without independent investigation, upon pricing information and valuations furnished to RFFM by third parties, including any independent third party pricing services selected by RFFM.

### **Item 9:**      Disciplinary Information.

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of RFFM's advisory business or the integrity of its management.

**Item 10:**      Other Financial Industry Activities and Affiliations.

(A) Darshan Patel, the Chief Legal Officer, Chief Compliance Officer and Secretary of RFFM and David Jansky, a Managing Director of RFFM are registered representatives of Resource Securities, Inc., a FINRA registered broker-dealer affiliate of RFFM.

(B) Neither RFFM nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. Notwithstanding the foregoing, RFFM is subject to and has filed for an exemption from registration as commodity pool operator.

(C) RFFM is a wholly owned subsidiary of Resource America, Inc., a specialized asset management company that focuses, through its wholly owned subsidiaries and joint ventures, on the commercial finance, real estate and financial fund management sectors. Each of these subsidiaries focuses on unique asset classes and investment strategies.

1. Resource Securities, Inc., a wholly owned subsidiary of Resource America, Inc., is a FINRA licensed broker-dealer engaged in (i) the underwriting of direct participation programs and real estate investment trusts (“REITs”) on an “all or none,” “part or none,” and/or “best efforts” basis; (ii) the wholesaling with other broker/dealers of direct participation programs and REITs; (iii) the retail sale of direct participation programs and REITS to public customers; (iv) the wholesaling with other broker/dealers of closed-end real estate interval funds (“Interval Funds”); (v) the sale in private placements of limited partnership interests of corporate credit investment funds to qualified purchasers as defined in the SEC Act of 1940 (“Corporate Credit Funds”); and (vi) the sale in private placements of certain tranches of CDO and CLO debt securities including CRE CDO securities, ABS CDO securities as well as CMBS and CMBS CDO securities, trust preferred securities of REITs, insurance companies and other financial service companies, subordinated debt, and common equity shares (the “Financial Securities”). The Financial Securities will be offered to qualified institutional buyers (“QIBs”) or otherwise sophisticated investors, including the Firm’s affiliates.

From time to time, RFFM may utilize the services of RSI to purchase or sell securities for its clients. In order to avoid any conflict of interest in utilizing the services of an affiliated broker-dealer, in no event will RSI charge any brokerage fee or mark-up/mark-down to an RFFM Client. Additionally, in certain instances, RFFM may utilize the services of RSI to obtain valuations on Client securities. The conflict of interest in having an affiliated broker-dealer provide valuations for investments held by RFFM Clients is mitigated by the fact that the RSI personnel responsible for providing these valuations are not compensated by RFFM Clients.

2. Affiliates of RFFM may manage pooled investment vehicles including, but not limited to, collateralized debt obligations, private equity funds and hedge funds. However, each affiliate of RFFM generally focuses on distinct asset classes and/or maintains distinct investment advisory teams. These relationships do not cause any material conflict of interest.
3. CVC Credit Partners, LLC, a joint venture between Resource America, Inc. and CVC Capital Partners SICAV-FIS, S.A., is a registered investment advisor that is primarily engaged in the business of providing portfolio management services to private investment vehicles and issuers of CDOs that primarily hold investments in senior secured leveraged loans, second lien loans, and corporate and high yield bonds. CVC and RFFM have separate management and investment teams and generally do not seek to invest in similar opportunities. This relationship does not cause any material conflict of interest.

Ischus Capital Management, LLC, a wholly owned subsidiary, is a registered investment adviser that specializes in managing CDOs that primarily hold investments in structured finance products with a focus on ABS, RMBS and CMBS securities. CDOs managed by Ischus are largely static and generally do not invest in the same asset classes as the investment vehicles managed by RFFM. This relationship does not cause any material conflicts of interest.

Resource Real Estate, Inc., an affiliate of RFFM is a registered investment adviser RRE provides investment advisory services to a closed-end real estate interval fund (the "Interval Fund") registered as an investment company under the Investment Company Act of 1940. The Interval Fund invests primarily in the equity and debt securities of public, private and non-traded real estate investment trusts, real estate operating companies, private real estate investment funds, and other investment vehicles that invest principally in real estate related industry securities. RFFM and RRE have separate investment teams and generally do not seek to invest in similar opportunities. This relationship does not cause a material conflict of interest.

4. RFFM does not have any relationship or arrangement with any related persons that are futures commission merchants, commodity pool operators or commodity trading advisors. Notwithstanding the foregoing, CVC is subject to and has filed for an exemption from registration as commodity pool operator.
5. RFFM does not have any relationship or arrangement with any related entity that is a banking or thrift institution.
6. Related persons of RFFM are employed in the ordinary course of business by Resource America, Inc. and its subsidiaries as accountants. The relationship between RFFM and such related persons does not cause any material conflict of interest.



7. Related persons of RFFM are employed in the ordinary course of business by Resource America, Inc. and its subsidiaries as lawyers. The relationship between RFFM and such related persons does not cause any material conflict of interest.
8. RFFM does not have any relationship or arrangement with any related entity that is an insurance company or agency.
9. RFFM does not have any relationship or arrangement with any related person that is a pension consultant.
10. RFFM does not have any relationship or arrangement with any related person that is a real estate broker or dealer.
11. Related persons of RFFM may serve as sponsors or syndicators of limited partnerships. Clients of RFFM are not solicited to invest in these limited partnerships and such limited partnerships do not transact with RFFM. The relationship between RFFM and such related persons does not cause any material conflict of interest.

(D) RFFM does not recommend or select other investment advisors for its Clients.

**Item 11:**     Code of Ethics.

(A) In recognition of RFFM's fiduciary duty to its clients and its desire to maintain its high ethical standards, RFFM has adopted a Code of Ethics containing provisions designed to prevent improper personal trading, identify conflicts of interest and provide a means to resolve any actual or potential conflicts in favor of the RFFM client. Adherence to the Code of Ethics and the related restrictions is considered a basic condition of employment by RFFM.

It is the responsibility of each employee of RFFM to ensure that a particular securities transaction being considered for his or her own personal account is not subject to a restriction contained in the Code of Ethics or otherwise prohibited by any applicable laws.

RFFM employees are prohibited from executing any personal securities transactions of any kind in any securities on the company's restricted list. This list will contain the names of companies for which RFFM has material non-public information. However, RFFM does not anticipate receiving material non-public information on issuers of publicly traded securities in the ordinary course of business. RFFM employees are required to provide the Compliance Officer with copies of all brokerage statements and trade confirmations for all accounts in which securities are held. All such statements will be reviewed on a regular basis and compared against the restricted list by the Compliance Officer.

RFFM employees may not acquire beneficial ownership in any securities in any private placement of securities or investment opportunity of limited availability unless the Compliance Officer has given express prior written approval.

RFFM employees may not serve as a director (or similar position) on the board or a member of a credit committee of any company unless the employee has received written approval from the Compliance Officer. Authorization will be based on a determination that the board service would not be inconsistent with the interest of any client account.

RFFM employees are prohibited from using their position with RFFM to obtain an item of value from any person or company that does business with RFFM. Employees are prohibited from accepting any gift greater than \$300 in value from any person or company that does business with RFFM or a private investment vehicle managed by RFFM. Unsolicited business entertainment is permitted if: a) it is not so frequent or of such high value as to raise a question of impropriety and b) the person providing the entertainment is present at the event.

RFFM's management, with the advice of legal counsel, at their discretion, will consider reports made to them and upon determining that a violation of the Code of Ethics has occurred, may impose such sanctions or remedial action as they deem appropriate or to the extent required by law.

A copy of Resource Financial Fund Management, Inc.'s Code of Ethics is available to any investor or potential investor on request.

**(B)** RFFM and its affiliates do not recommend to clients, or buy and sell for client accounts, securities in which RFFM or its affiliates have a material financial interest.

**(C)** While RFFM and its related persons are permitted to invest in the same securities that it recommends to Clients, the securities purchased for Client accounts generally contain purchase restrictions that would prevent their purchase by RFFM personnel. Further, the indentures place significant restrictions on RFFM's ability to purchase and sell securities through the Trapeza Program on behalf of the CDO clients, and thus the CDOs managed by RFFM are largely static and, barring credit impairment or default, do not trade subsequent to an initial acquisition of securities. In managing related proprietary accounts or Investment Funds, RFFM or its affiliates may purchase or sell securities for their related accounts, which they may also recommend to their clients. RFFM and its affiliates have adopted internal allocation procedures governing such transactions that require, among other things, that: (i) all trades for the related proprietary accounts be reviewed by portfolio management and compliance personnel, and (ii) that RFFM maintain records as to the activity and position in the related proprietary accounts and/or Investment Funds and any transaction allocations involving related proprietary accounts and client accounts. Neither RFFM nor its affiliates will have any obligation to purchase or sell for any Client, or to recommend for purchase or sale by any Client, any security that RFFM, its affiliates, its principals or employees may purchase or sell for themselves, for their proprietary account or for any other Client. Potential conflicts of interest may also exist in instances in which RFFM or its affiliates determine that a specific transaction in a security is appropriate for a specific account, including proprietary accounts and accounts for which RFFM charges a performance based fee, based upon numerous factors including, among other things, investment objectives, investment strategies or restrictions, while other accounts including proprietary accounts and accounts for which RFFM charges a performance based fee may hold or take the

opposite position in the security in accordance with those accounts' investment objectives, strategies and restrictions.

RFFM has a fiduciary duty to clients to act solely for the benefit of its Clients. All employees of RFFM, including directors and officers, must put the interests of RFFM's Clients before their own personal interests and must act honestly and fairly in all respects in dealings with Clients.

(D) Please see the response to Item 11(C) above.

**Item 12:**     Brokerage Practices.

(A) All trades on behalf of the Trapeza CDOs are executed by FSI pursuant to the memorandum of understanding adopted by RFFM and FSI. Trades executed by FSI on behalf of the CDOs are generally done due to credit deterioration or the need to reinvest proceeds from a sale or issuer call. FSI retains discretionary authority to select broker-dealers in connection with all portfolio transactions; however, with respect to CDO clients, discretionary authority to purchase or sell securities or loan investments in Client accounts may be limited by the terms of the applicable indentures and other governing agreements, which may impose quality, liquidity, concentration, diversification and other requirements. All trades executed by FSI are reviewed by the CCO to ensure that best execution was obtained by FSI. When making this determination, the CCO shall consider a number of factors including quality of execution, ability of the broker-dealer to commit capital to provide liquidity, financial responsibility and market-making capabilities. When an error is made on behalf of a client account, Trapeza Management will use its best efforts to break or otherwise correct the trade. RFFM retains discretionary authority in its investment advisory contracts with for private investment fund Clients to select broker-dealers in connection with all portfolio transactions. In selecting broker-dealers, CVC considers a number of factors including quality of execution, ability of the broker-dealer to commit capital to provide liquidity, financial responsibility and market-making capabilities

1. RFFM may, from time to time, receive unsolicited market and industry research from broker-dealers. In no instance does RFFM seek to obtain research or other soft dollar benefits in exchange for directing client brokerage to the broker or bank producing such materials. All decisions related to selection of RFFM's trading counterparties and broker-dealers servicing client accounts are made based on best execution.
2. RFFM and its related persons do not receive client referrals from broker-dealers or third parties that provide order execution on behalf of client accounts
3. RFFM does not routinely recommend, request or require Clients to direct RFFM to execute transactions through specified broker-dealers.

(B) From time to time, it may be appropriate for RFFM to aggregate Client orders for the purchase or sale of securities. RFFM will generally follow the guidelines set forth below in aggregating Client orders for securities, including any orders placed for private investment vehicles: (1) no Client will be favored over any other Client; (2) each Client that participates in an aggregated order will participate at the average share price for all of RFFM's transactions in that security on a given business day and transaction costs will be shared pro rata based on each

Client's participation in the transaction; (3) if the aggregated order is filled in its entirety, it will be allocated among Clients in accordance with the RFFM's general policy; and (4) if the aggregated order is partially filled, it will be allocated among Clients pro rata. Notwithstanding the foregoing, an aggregated order may be allocated on a basis different from that specified above, if the reason for the different allocation is explained in writing and approved by the Compliance Officer no later than the close of trading on the day on which the order was executed. Reasons for allocation on a basis different from that specified in the allocation statement may include, but are not necessarily limited to: a Client's investment guidelines and restrictions; available cash; liquidity requirements; legal and regulatory reasons; or to avoid odd lots.

**Item 13:**        Review of Accounts.

(A) Investments held by Trapeza CDOs are reviewed daily by the Vice President of Trapeza Management. This review primarily focuses on an analysis of each investment's financial performance, a review of each investment's capital structure and a review of each investment's industry prospects. Individual CDO deal metrics are also reviewed on a daily basis. RFFM Investment Funds are reviewed consistently throughout the day, week and month. This review entails security position exposure, pricing and risk analysis. This review is conducted by the Portfolio Manager.

(B) The Vice President of Trapeza Management and the Credit Committee for Trapeza Management review CDO investments as necessary in the event of investment defaults, investment interest payment deferrals and other corporate actions.

(C) CDO clients receive access to monthly trustee reports which contain information on portfolio performance and composition. RFFM also provides K-1s and audited financial statements to investors in the Investment Funds.

**Item 14:**        Client Referrals and Other Compensation.

(A) RFFM does not receive any economic benefit from any party that is not a Client in connection with the provision of investment advice or other advisory services to RFFM clients.

(B) Neither RFFM nor its related persons directly or indirectly compensates any person who is not one of its supervised person for client referrals,

**Item 15:**        Custody.

RFFM does maintain custody of funds for the Investment Funds managed by Pelium. All funds for these partnerships are held with a qualified custodian. RFFM does not maintain custody of any CDO funds or securities. Investment Funds for which RFFM provides investment advisory services each receive statements from the qualified custodian at which their accounts are maintained. Clients should always compare statements received by RFFM to those received by the qualified custodian in order to ensure their accuracy.

**Item 16:**      Investment Discretion.

The applicable indentures for each of the CDOs managed by RFFM place significant restrictions on RFFM's ability to buy and sell collateral debt securities on behalf of its CDO clients.

Pursuant to the terms of these indentures, RFFM has limited discretionary authority over client accounts. CDO indentures generally restrict RFFM from selling collateral debt securities unless such securities have experienced specified credit deterioration, ratings downgrades, or events of default. Also, RFFM may generally only purchase collateral debt securities to replace those that have been sold. In some instances, RFFM is permitted by the terms of a CDO indenture to trade a small portion of the CDO account on a discretionary basis. Limited partnership agreements for Investment Funds set forth the general criteria for the types of investments to be purchased on behalf of the entity. Notwithstanding the foregoing, RFFM is generally granted discretionary investment authority on behalf of Investment Funds. RFFM's discretionary investment authority on behalf of Investment Funds is evidenced by the execution of the limited partnership agreement by each of the fund's investors.

**Item 17:**      Voting Client Securities.

(A) The Trapeza Program's CDO portfolios are comprised of various trust preferred and other debt securities. Generally, the holders of these securities are not entitled to vote on corporate matters. If a corporate action notification is received and neither joint venture party reasonably determines that its interests conflict with the best interests of the client when determining how to vote, the decision on how to vote or respond for the security will be made by the Trapeza Program's credit committee, which consists of representatives of RFFM and FSI. If one of the joint venture partners reasonably determines that it has such a conflict, the decision on how to vote or respond for the security will be made by the credit committee members appointed by the other joint venture partner. In the event that both joint venture partners reasonably determine that they have a conflict, RFFM may retain the services of an independent 3<sup>rd</sup> party.

In all cases, FSI's collateral administration personnel will be tasked with implementing the committee's decision. Additionally, FSI's collateral administration personnel will maintain a written record of the Trapeza Program's actions on all corporate action notifications, including with respect to each voted proxy, (a) the name of the issuer, (b) the proposal voted upon and (c) how the Trapeza Program voted on the security.

Investment Funds managed by RFFM may, from time to time, hold equity positions for which proxy votes are solicited. If RFFM receives a corporate action notification or proxy, with respect to such a Client investment, an RFFM portfolio manager will, absent material conflicts of interest, determine how RFFM should vote the proxy or corporate action notification and send a recommendation on how to vote to the Chief Compliance Officer for approval. Generally, RFFM will vote in favor of routine corporate housekeeping proposals, including election of officers and directors (where no corporate governance issues are implicated), selection of auditors, and increases or reclassification of common stock. RFFM will generally vote against proposals that make it more difficult to replace members of the issuer's board of directors, including proposals to stagger the board, cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and create supermajority voting.

For other proposals, RFFM shall determine whether a proposal is in the best interests of its clients and may take into account the following factors among others: (i) whether the proposal was recommended by management and RFFM's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance. RFFM does not permit clients to vote proxies or corporate action notifications.

Conflicts of interest may exist between RFFM and its Clients with respect to voting their securities in instances in which the issuer of loans or other securities for which votes are solicited is a client or affiliate of RFFM or has some other relationship with RFFM. In the event that there is a material conflict of interest with regard to a corporate action notification or proxy, RFFM may retain the services of an independent third party.

Clients may obtain information from RFFM on how proxies are voted by contacting the Chief Compliance Officer of RFFM. RFFM clients may obtain a copy of RFFM's proxy voting policies and procedures upon request.

**Item 18:**      Financial Information.

(A) RFFM does not require or solicit prepayment of more than \$1200 in fees per client, six months or more in advance.

(B) There are no financial conditions that are reasonably likely to impair RFFM's ability to meet its contractual commitments to its clients.

(C) RFFM has not been the subject of a bankruptcy petition at any time during the past ten years.