

## **Premium Point Investments LP**

**Contact Information:**

712 Fifth Avenue, 24<sup>th</sup> Floor  
New York, NY 10019  
(p) 212-991-2000  
(f) 212-974-0060

Email: [info@premiumpt.com](mailto:info@premiumpt.com)  
Website: [www.premiumpt.com](http://www.premiumpt.com)  
CRD Number: 149921

**This brochure provides information about the qualifications and business practices of Premium Point Investments LP. If you have any questions about the contents of this brochure, please contact us at: 212-991-2000 or email us at [info@premiumpt.com](mailto:info@premiumpt.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.**

**Additional information about the Firm is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Item 2  
Material Changes

The following material changes to Premium Point Investment LP's business have occurred since the last annual update of this brochure, dated as of March 31, 2014:

- There has been a change in Premium Point Investments' Control Persons. Please see Schedule A for additional information.

Item 3  
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Item 4  
Advisory Business

Founded in 2008, Premium Point Investments LP (“PPI”) is an alternative asset manager that engages in relative value trading and fundamental credit investing in the residential mortgage markets. PPI manages a hedge fund and separately managed accounts, operates a mortgage conduit business and owns a residential property manager, establishing an integrated residential asset platform across real estate acquisition, property management, loan underwriting, bond securitization and securities trading. PPI is led by Anilesh (“Neil”) Ahuja and the executive team who have combined mortgage experience of over 100 years. The PPI team comprises over 40 professionals, many of whom possess significant multi-sector residential real estate and mortgage expertise. PPI maintains its principal place of business in New York City.

Anilesh Ahuja is the sole member of the general partner of PPI, Premium Point Investments GP LLC. PPI’s limited partner interests are owned by PPIH LP, and Mr. Ahuja is the principal indirect owner of PPIH LP. Mr. Ahuja, along with Hyung Peak, Amin Majidi, Kevin Treacy, Daniel Osman, James Nimberg and John Montgomery, Jr. are the executive officers responsible for the management of PPI.

PPI manages the funds and separately managed account in accordance with the investment objectives outlined in each fund’s applicable governing documents. Fund investors may not impose restrictions on investing in certain securities or types of securities. Separately managed account clients may, however, negotiate certain restrictions regarding the types of investment instruments and the level of leverage permitted.

PPI provides advisory services to hedge funds, private equity funds, ERISA-compliant vehicles, high net worth persons (including their family offices), charitable organizations and is a sub-advisor to a mutual fund client. As of December 31, 2014, PPI managed \$1,502,032,805 (NAV) on a discretionary basis.

In September of 2014, PPI acquired a controlling interest in Residential Capital Management Group, LP (“RCM”), a vertically integrated, single source solution for single family real estate services based in Atlanta, Georgia. RCM has acquired, renovated, leased and managed over 7,700 homes in the Southeastern US.

Item 5  
Fees and Compensation

For the advisory services PPI provides to its private fund clients, PPI is compensated as a percentage of assets under management at a rate of approximately 1 to 1.5% (management fee). In addition, PPI receives performance based compensation generally between 10-20% of the net appreciation of assets. Compensation is described further in the governing documents.

For separately managed accounts, fee arrangements vary depending on the size of the account and the nature of services to be provided. In connection with investments by certain investors, PPI and its clients have entered into and may enter into side letters which may vary terms, including, without limitation, management fees and/or carried interest and/or transparency as they relate to that investor.

For the sub-advisory services PPI provides to its mutual fund client, PPI receives a management fee of 1% on the daily current net assets of the allocated portion.

In general, the management fees are deducted from the clients' assets quarterly in advance. If an advisory contract is terminated before the end of the billing period PPI will refund the proportionate amount of the pre-paid fee. All fees and expenses are described in the governing documents.

PPI will charge clients for all fees and expenses such clients incur in the ordinary course of their respective business, which may include, pursuant to the provisions of the relevant fund or separate account documentation, without limitation, continuing offering fees and expenses, exchange listing fees and expenses, legal fees and expenses (including, without limitation, fees and expenses incurred in connection with any action, arbitration, claim, demand, dispute, investigation, lawsuit or other proceeding and indemnification payments), accounting and auditing fees and expenses, tax audit costs, tax filing preparation costs, taxes and assessments, costs related to the preparation, reproduction and mailing of reports to investors, meetings with investors, sales commissions, director fees, loan level transactional fees, servicing expenses, costs related to the reproduction of investor reports and marketing materials, deal related expenses, including, without limitation, relating to the WinWater Home Mortgage, LLC conduit and securitization expenses, financing charges and related transactional expenses, consultants' fees, expenses associated with compliance with applicable laws and regulations, technology expenses (including, without limitation, front and back office systems utilized by a fund or in conducting fund business), specific expenses incurred in obtaining systems, research and other information utilized with respect to the client's investment program, administrator fees, custodial fees and insurance expenses (including director and officer insurance). Clients also will be obligated to pay their respective extraordinary fees and expenses, if any. In addition, the fund clients that PPI sponsors will also be required to pay organizational expenses. For a discussion of the brokerage arrangements PPI enters into on behalf of its clients, see Item 12 Brokerage Practices below.

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

As described in Item 5, PPI accepts performance-based fees and asset-based fees from its clients, with the exception of the mutual fund account. The fee arrangements, however, may vary from client to client due to differing methods of calculating the performance-based fee or carry, including, for certain accounts, hurdles or preferred returns. While these differences in the method of calculation of performance and management fees may incentivize PPI to advantage certain accounts, PPI believes that it addresses these conflicts through its Trade Allocation Policy which allocates trades among various commingled funds and separate accounts largely on a pro rata basis, subject to the guidelines and restrictions of the individual account and has implemented procedures and controls to review investments for compliance with account guidelines and restrictions and in addition, to review the performance of accounts with similarly situated investment objectives. These allocation procedures ensure that all clients are treated fairly and equitably. In addition, the Investment Committee meets monthly (per Section 13) to review these matters.

## Item 7 Types of Clients

Currently, PPI provides investment advice to hedge fund, private equity-style funds and separately managed account clients. PPI also offers its services to pensions and profit sharing plans, charitable organizations, high net worth individuals (including, without limitation, family offices), trusts and IRA accounts. In addition, PPI serves as a sub-adviser to a registered investment company client.

Generally, the minimum investment for a Fund is \$5 million, subject to the sole discretion of the Investment Manager to accept lesser amounts. PPI generally requires a minimum investment of \$100 million for clients to open a managed account. However, exceptions may be made to this minimum account size in the discretion of PPI. Either PPI or its third-party administrative service provider will verify the identity of prospective and current clients and investors as part of its anti-money laundering (AML)/OFAC screening program.

Generally, investors participating in PPI private funds are required to meet certain suitability and net worth qualifications such as “accredited investor” within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended, or “qualified purchaser” (or “knowledgeable employees”) as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended pursuant to the subscription documentation for each fund.

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

PPI’s investment strategy is to opportunistically identify intrinsic value or trading opportunities in any “residential asset” both publicly and privately issued. PPI seeks to maximize long-term capital appreciation of the investments, earn interest income, and maximize the cash flows of voluntary as well as involuntary repayment of principal. PPI may invest in any residential asset exposure, both long and short, depending upon market opportunities.

Collectively, a “Residential Asset” may include, but is not limited to:

- **“Private label” or “non-agency”** residential mortgage-backed securities (RMBS) – securities secured by or representing indirect beneficial interests in pools of residential mortgage loans that are not guaranteed by the U.S. government in any manner whatsoever.
- **“Agency RMBS”** - residential mortgage-backed securities that are backed by Government-Sponsored Entities, such as Fannie Mae and Freddie Mac, or by Ginnie Mae, a wholly-owned government corporation of the Department of Housing and Urban Development.
- **“Collateralized debt obligations”** and **“Collateralized loan obligations”** (CDO’s/CLO’s) - asset-backed securities backed by receivables on loans, bonds or other debt secured by residential property.
- **“Whole Loans”**- A single residential mortgage that a lender has issued to a borrower and that has not been securitized.
- **“Credit Default Swaps”** (CDS) - A counterparty agreement which allows the transfer of third party credit risk from one party to the other, where the underlying credits are secured directly or indirectly by residential properties.

- **“Other Synthetic Securities”** - securities (other than CDS) that are created artificially by simulating another instrument with the combined features of a collection of other assets representing beneficial interests in residential properties or credits secured by residential properties.

PPI selects investments through both a top-down strategic approach and a bottom-up tactical approach. PPI generally analyzes a potential investment in a real estate asset through a combination of extensive modeling and robust risk management analysis with generally fundamentally driven investment process to security selection which begins with property level analysis in order to opportunistically assess probabilities of defaults and recovery rates. In addition, PPI may use data and information including, but not limited to, housing auctions, the Case-Shiller Home Price Index or information available from federal agencies and other public sources.

PPI, in a dedicated fund, invests in new issue prime jumbo residential mortgages through use of an affiliated conduit facility. The conduit facility, WinWater Home Mortgage, LLC (“WinWater”) generally targets prime jumbo residential mortgages for aggregation through two channels: (1) on a loan-by-loan basis via the acquisition of closed mortgage loans from correspondent lenders and (2) via bulk purchases generally from aggregators or mortgage originators. PPI uses securitization as a principal long term financing technique for acquiring mortgage loans through the conduit facility. PPI also acquires prime jumbo mortgage-backed securities created by third party issuers.

Investing in loans and securities involves a risk of loss that investors should be prepared to bear. Note that past performance of PPI or its funds or separately managed accounts is not a guarantee of any future results.

Material risk factors specific to a particular client’s investment strategy are described in each client’s private placement memorandum and/or subscription agreement. The description contained herein is an overview of the risks to Clients pursuant to PPI’s investment strategy and is not intended to be complete. The following is a summary of the material strategy-related risks which could affect performance of PPI’s funds and separately managed accounts:

***Low or High Interest-Rate Environment.*** The market values of mortgage loans and other Residential Assets are likely to be sensitive to interest rate fluctuations. Thus, unexpected fluctuations in interest rates could cause the corresponding values of such mortgage loans and securities to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs of borrowed securities and leveraged mortgage loan and security investments. To the extent that interest rate assumptions underlie the hedge ratios implemented in hedging a particular position, fluctuations in interest rates could invalidate those underlying assumptions and expose investments to material losses

***Credit and Market Risks.*** Investments in fixed-rate and floating rate mortgage-backed securities will entail normal credit risks (such as the risk of non-payment of principal and interest on the security) and market risks (such as the risk that interest rates and other factors will cause the value of a security to decline). Additionally, major economic downturns and financial market changes have negatively affected, and could in the future negatively affect, the ability of some of the issuers of such instruments to repay principal and pay interest thereon and may increase the incidence of default for such instruments. Finally, a major economic downturn could weaken PPI’s and its clients’ counterparties and custodians exposing them to bankruptcy risk.

***Volatility Risk.*** Historically, the prices of Residential Assets have been subject to periods of excessive volatility in the past, and such periods can be expected to reoccur. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions. While volatility can create profit opportunities for clients, it can also create unusual risks.

***Liquidity and Market Value Risk.*** The market value of the Residential Assets can be volatile. These market values can change rapidly and significantly, and changes can result from a variety of factors. In addition, there currently exists an extremely limited market for certain of the Residential Assets. The foregoing may adversely impact the ability of the PPI to liquidate the investments when expected. Limited liquidity may cause losses and may adversely impact the return.

***Risks Related to the Conduit Facility.*** The conduit facility with respect to the Premium Point New Issue Opportunity Fund, WinWater Home Mortgage, LLC is a newly organized entity and, as such, it has no operating history. The success of the Conduit will depend on, among other things, the ability to successfully develop relationships with a broad group of correspondent sellers, which correspondent sellers, in turn, originate or otherwise acquire mortgage loans that are sold to WinWater, or one or more Loan Acquisition Trusts. Furthermore, there is no assurance with respect to the volume of mortgage loans that may be acquired. Finally, it is possible that a correspondent seller, for financial or other reasons may not be capable of repurchasing (or breaches its obligation to repurchase) any defective mortgage loan as required pursuant to their related mortgage loan purchase agreement in the event of early payment defaults, early pay offs or breaches of representations and warranties, including if the mortgage loan is not originated pursuant to the underwriting guidelines and such deficiency is not discovered during the due diligence process with respect to WinWater's purchase of the mortgage loan.

***Risks Related to the Securitization.*** This strategy likely will involve using residential loans to create newly-issued RMBS or using some RMBS investments to create newly-issued securities. Especially in light of the extremely limited market currently existing for these newly-issued RMBS investments, it is unclear to what extent a satisfactory market might exist for securitized or re-securitized assets. There can be no assurance that a market for any such securities will develop or develop to monetize whole loan or RMBS investments using securitization or re-securitization.

***Due Diligence Risks.*** Before making an investment, PPI generally assesses the strengths and weaknesses of the originators, borrowers, and the underlying property values, as well as other factors and characteristics that it deems material to the performance of the potential investment. In making the assessment and otherwise conducting customary due diligence, PPI will rely on resources available to it and, in some cases, an investigation by third parties. There can be no assurance that PPI's due diligence process will uncover all relevant facts or that any Investment will be successful.

***Short Sales.*** PPI's clients may sell securities short. Selling securities short inherently involves leverage because the short sale of a security may involve the sale of a security not owned. The client may borrow the security for delivery at the time of the short sale. In so doing, the client must then buy the security at a later date (whatever its price



may be), in order to replace the shares borrowed from the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out.

**Hedging.** PPI will not, in general, attempt to hedge all market or other risks inherent in its clients' positions, and will hedge certain risks, if at all, only partially. Specifically, PPI may choose not, or may determine that it is economically unattractive, to hedge certain risks - either in respect of particular positions or in respect of the client's overall portfolios. Moreover, it may not be possible for PPI to hedge against a fluctuation that is so generally anticipated that PPI is not able to enter into a hedging transaction at a price sufficient to protect from the decline in value of the portfolio position anticipated as a result of such a fluctuation. PPI's clients' portfolio composition will commonly result in various directional market risks remaining unhedged.

PPI may enter into hedging transactions with the intention of reducing or controlling risk and losses. Even if PPI is successful in doing so, the hedging may reduce the client's returns. Furthermore, it is possible that any of PPI's hedging strategies will not be effective in controlling risk, due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged, increasing rather than reducing both risk and losses. While PPI may enter into hedging transactions to seek to reduce risks, unanticipated market movements and fluctuations may result in a poorer overall performance for the client than if the client had not engaged in any such hedging transactions.

Material risks associated with Residential Assets generally include, without limitation, the following:

a. ***Residential Mortgage Lending.***

The performance on any investments in residential assets may be impacted by delinquencies, defaults and foreclosures on residential mortgage loans. In particular, performance may be affected by non-agency mortgages originated in geographic locations with a higher concentration of "Alt-A," "Alt-B" and subprime loans. These non-agency mortgage loans are generally made to borrowers with lower credit scores, incomplete application documentation, higher loan balances and higher loan-to-value ratios. Also, fraudulent mortgage loan applications, below normal equity contributions, equity contributions with "piggy-back" loans and mortgage loans supported by properties acquired for investment, may increase the likelihood of defaults, delinquencies and losses on mortgage loan portfolios. In addition, adjustable rate mortgage loans and hybrid mortgage loans that have or will enter their adjustable period where the borrower is likely to experience an increase in their monthly payments could increase the likelihood of default.

Moreover, higher loan-to-value ratios may result in lower recoveries upon foreclosure and an increase in net losses. A decline in property values is likely to impact recoveries on residential assets, particularly any second lien mortgage loans included in the mortgage pools underlying certain RMBS. Mortgage loans underlying investments acquired by PPI's clients may be sensitive to economic factors that could affect the ability of a borrower to pay its obligations under the mortgage loans terms. Economic

trends (such as increasing unemployment rates, a decline in consumer spending and reduced disposable income) may impair borrowers' ability to refinance or sell their properties, which may contribute to higher delinquency and default rates.

A decline in housing prices may leave borrowers with insufficient equity in their homes to permit them to refinance. Borrowers who intended to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their property for an amount equal to or greater than the unpaid principal balance of their loans. Mortgage loans may include prepayment premiums that would further inhibit refinancing.

A Credit Rating Agency is a company that assigns credit ratings on the ability of a debtor to pay back debt in a timely manner and on the likelihood of default. Credit rating agencies provide an independent assessment of the creditworthiness of specific debt securities or structured finance instruments. Credit Rating agencies may downgrade or put on negative watch – a warning that action could be taken – securities that PPI owns in the funds. The timing of these announcements can be difficult to predict and may have a material impact on the price and liquidity of securities affected by a Credit Rating Agency's announcement. Rating agency actions are not within PPI's control.

- b. ***Originators and Servicers of Mortgage Loans May Experience Financial Difficulties.*** Residential Assets acquired by the clients may be affected by originators and servicers of mortgage loans experiencing serious financial difficulties and, in some cases, entering bankruptcy proceedings, may result in the suspension of payments to PPI's clients.
- c. ***Risk of collateral underlying RMBS.*** The collateral underlying the RMBS assets purchased for the client's portfolio may be distressed and not performing as anticipated when the loans were originated. It may take a number of years for the market price of such securities to reflect their intrinsic value. It is anticipated that some of the portfolio securities held by a client may not be widely traded, and that the client's position in such securities may be substantial in relation to the market for the securities. These types of securities require active monitoring and may, at times, require participation in bankruptcy or reorganization proceedings by PPI on behalf of the client. To the extent that PPI becomes involved in such proceedings, the client may have a more active participation in the affairs of the issuer than that assumed generally by an investor.
- d. ***Prepayment Risks.*** Under normal conditions, a borrower is more likely to prepay a loan which bears a relatively high rate of interest. This means that in times of declining interest rates, some higher yielding securities might be converted to cash, and the PPI may be forced to purchase instruments with lower interest rates when the cash is used to purchase additional securities. The increased likelihood of prepayment when interest rates decline also limits market price appreciation of some Residential Assets at a time when the prices of most fixed-income securities rise. In the case of Interest Only (IO) securities prepayments in excess of levels anticipated by the market may lead to losses. Bonds with differing underlying average prepayment rates can and will have different sensitivities to interest rate changes on their prepayment response.
- e. ***Interest Rate Impact on Residential Assets.*** To the extent that the cash flow from a

fixed income security is known in advance, the present value (e.g. the discounted value) of that cash flow decreases as interest rates increase; to the extent that the cash flow is contingent, the dollar value of the payment may be linked to then-prevailing interest rates. Callable or prepayable investments, such as RMBS, may react very differently from other fixed income securities: their durations can vary dramatically as interest rates move, making them more difficult to hedge. Some securities can have unusually high durations (rising dramatically in price when rates fall, and falling dramatically in price when rates rise); others can have highly negative durations (falling dramatically in price when rates fall, and rising dramatically in price when rates rise). No representation or guarantee is made that the hedging strategies used by PPI will be successful.

- f. ***Residential Mortgage-Backed Securities.*** RMBS are subject to particular risks because they have yield and maturity characteristics corresponding to their underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity when the entire principal amount comes due, payments on certain RMBS include both interest and a partial payment of principal. This partial payment of principal may be comprised of a scheduled principal payment, as well as an unscheduled payment from the voluntary prepayment, refinancing, or foreclosure of the underlying loans. As a result of these unscheduled payments of principal, or prepayments on the underlying securities, the price and yield of RMBS can be adversely affected. For example, during periods of declining interest rates, prepayments can be expected to accelerate due to the increased attractiveness of refinancing, and the client may be required to reinvest the proceeds at the lower interest rates then available. Prepayments of mortgages that underlie securities purchased at a premium could result in capital losses because the premium may not have been fully amortized at the time the obligation is prepaid. In addition, like other interest-bearing securities, the values of RMBS generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation is limited due to the existence of the prepayment feature.

The extent of prepayments of principal of the mortgage loans underlying a RMBS may be affected by a number of factors, including, without limitation, the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the mortgage loans, possible changes in tax laws, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors. At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

In addition, the origination and servicing of the mortgage loans may be subject to various U.S. federal and state laws and regulations with respect to interest rates and other charges, or may require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and debt collection practices and may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it or subject the servicer to damages

and sanctions. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity.

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 very limited. Recently, delinquencies, defaults and foreclosures on residential mortgage loans have increased related in part to a decline or extended flattening of home values and increases in monthly payments or adjustable rate mortgages.

- g. ***CDOs/CLOs.*** The market value of CDOs/CLOs will generally fluctuate with, among other things, the financial condition of the obligors on the underlying debt obligations or, with respect to synthetic securities, of the obligors on or issuers of the reference obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates

CDOs/CLOs are subject to credit, liquidity and interest rate risks. In particular, investment-grade CDOs/CLOs will have greater liquidity risk than investment grade sovereign or corporate bonds. There is no established, liquid secondary market for many of the CDO's/CLO's securities PPI's clients may purchase. The lack of such an established, liquid secondary market may have an adverse effect on the market value of such CDO's/CLO's securities and the clients' ability to sell them. Further, CDOs/CLOs will be subject to certain transfer restrictions that may further restrict liquidity. Therefore, no assurance can be given that if the clients were to dispose of a particular CDOs/CLOs held by the clients, it could dispose of such investment at the previously prevailing market price.

- h. ***Whole Loans.*** PPI's clients may directly invest in whole loans or they may serve as the collateral for RMBS investments of the clients. Whole loans are generally subject to the same risks relating to the underlying collateral of RMBS and CDO's/CLO's. However, the holders of whole loans are exposed to such risks directly as whole loans do not benefit from certain advantages which may be present as a result of the securitization process, including risk allocation, credit support and hedging mechanisms. Further, as whole loans are not securities, they may be harder to dispose of than interests in structured finance vehicles.
- i. ***Derivatives in General.*** PPI's clients may use derivative fixed income instruments, including, without limitation, credit default swaps, total return swaps, warrants, options, swaps, notional principal contracts, forward contracts, futures contracts and options thereon, and may use derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance, as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (e.g., due to nonconformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult, as well as costly, for PPI's clients to close out positions in order either to realize gains or to limit losses.

Many of the derivatives that the clients may trade are “principal-to-principal” or “over-the-counter” (“**OTC**”) contracts between the clients and third party dealer firms (typically major securities firms) entered into privately, rather than on an organized exchange. As a result, the clients will not be afforded the regulatory and financial protections of an organized exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, will not be available in connection with OTC transactions. The clients will, therefore, be exposed to greater risk of loss through default than if trading on its behalf were confined to regulated exchanges. While some derivatives have, following the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act, begun to be cleared, many contracts are still traded OTC.

The OTC market consists of privately negotiated contracts, which for many derivatives contracts, are subject to a wide bid/ask spread. Those differences can result in an overstatement of a client’s net asset value and may materially adversely affect clients in situations in which the client is required to sell derivative instruments. Furthermore, there is no limitation on the daily price moves of these instruments and a dealer is not required to continue to make markets in such instruments. PPI’s clients may have difficulty disposing of certain fixed-income securities because there may be a thin trading market for such securities.

- j. ***Credit Default Swap Agreements.*** The “buyer” in a credit default contract is obligated to pay the “seller” a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay, obligation acceleration or modified restructuring. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the “par value” (full notional value) of the reference obligation. The contingent payment may be a cash settlement or by physical delivery of the reference obligation in return for payment of the face amount of the obligation. PPI’s clients may be either the buyer or seller in the transaction. If the client is a buyer and no credit event occurs, the client may lose its investment and recover nothing. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, the client receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value of the reference obligation.

Credit default swaps involve greater risks than if the client had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and credit risk. A buyer also may lose its investment and recover nothing should a credit event not occur. If a credit event did occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the client.

- k. ***Geographic Concentration of Mortgage Loans.*** The mortgage loans in which PPI’s clients invest 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. 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, as well as floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the residential real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in the loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the mortgage loans and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of the mortgage loans. Natural disasters, such as wildfires, severe storms and flooding affecting regions of the United States from time to time may result in prepayments of mortgage loans. Properties located in certain parts of the southern and eastern United States may have been damaged by the hurricanes and tropical storms that recently affected those areas. In addition, certain areas in the United States, including, without limitation, New York City, Washington D.C. and Los Angeles and their surroundings and near energy and military infrastructure, may be considered at risk with respect to terrorist attacks, which could affect property values and rates of loan default and delinquency.

1. ***Environmental Risks.*** Real property pledged as security for a mortgage loan may be subject to certain environmental risks. Under the laws of certain states, contamination of a property may give rise to a lien on the property to ensure payment of the costs of cleanup. In several states, such a lien has priority over the lien of an existing mortgage against the property. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, a lender may be liable, as an “owner” or “operator,” for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property, if agents or employees of the lender have become sufficiently involved in the operations of the borrower, regardless of whether or not the environmental damage or threat was caused by a prior owner.

A lender also risks such liability on foreclosure of the mortgage. Any such lien arising with respect to a mortgaged property would adversely affect the value of the mortgaged property and could make foreclosure on the mortgaged property impracticable in the event of a default by the related borrower. In addition, certain environmental laws impose liability for releases of asbestos into the air. Third parties may seek recovery from owners or operators of real property for personal injury associated with exposure to asbestos, lead paint, radon or other hazardous substances. Property owners in some areas have recently been subject to liability claims associated with mold.

- m. ***Lender Liability Considerations and Equitable Subordination.*** In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of the investments, PPI’s clients could be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (1) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (2) engages in other inequitable conduct to the detriment of such other creditors, (3) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (4) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” Because of the nature of certain of the investments, PPI’s clients could be subject to claims from creditors of an obligor that the investments issued by such obligor that are held by PPI’s clients should be equitably subordinated. It is, accordingly, possible that lender liability or equitable subordination claims affecting such investments could arise without the direct involvement of PPI’s clients.

In addition, information on the risks involved with investing in the private funds, separately managed account or mutual funds which PPI advises (or sub-advises) are set forth in each fund’s offering memorandum, investment advisory agreement or registration statements, as applicable.

#### Item 9 Disciplinary Information

Not applicable.

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

Some members of PPI’s management and certain employees are registered representatives of Brant Point Capital, LLC, an inactive affiliated broker dealer. PPI and Brant Point Capital, LLC, a broker dealer, are affiliated due to their common parent of PPIH, LP. To date, Brant Point Capital has had no transactions and no transactions are currently contemplated. Further, PPI does not participate in the sale of private fund interests to investors. Note that pursuant to an amended Expense Sharing Agreement between PPIH LLC and Brant Point Capital, LLC (“BPC”), there is a monthly amount of expenses charged to PPIH LLC allocated to BPC with respect to certain expenses incurred which includes, without limitation, salaries, rent, benefits and other related expenses. Such allocation will be reviewed as appropriate by the Chief Operating Officer, Controller and the Chief Compliance Officer, and will be adjusted for any material changes. WinWater is an affiliate of PPI.

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

PPI maintains a Code of Ethics designed to ensure compliance with Rule 204A-1 under the Investment Advisers Act of 1940 (the “Act”) which requires ethical conduct on the part of supervised persons, all employees to act with integrity, place the clients’ interests above their own and to avoid any conflicts of interest and requires compliance with securities

laws. The Code of Ethics applies to all partners, principals, officers and supervised persons of PPI (each a “Supervised Person”). The firm strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. All Supervised Persons are required to seek and to obtain, in writing, the approval of the Chief Compliance Officer (“CCO”) prior to his/her acquiring any direct or indirect beneficial ownership in any mortgage-backed security or in loans secured through mortgages, including any exchange traded fund or mutual fund that relates to a narrow-based group of such securities (a “*Covered Security*”), and prior to participating in any IPO or private placements. Pursuant to the Code of Ethics, approval generally will not be granted for securities or companies on PPI’s Restricted List. Each Supervised Person must submit to the CCO at the start of his/her employment (and periodically thereafter) certain information, including, without limitation, a list of securities accounts and a report of the holdings in an employee’s (and spouse, if applicable) personal brokerage accounts. In addition, supervised persons must report all annual holdings, subject to certain exceptions as well as pre-clear any private investments and political contributions. A copy of the firm’s Code of Ethics is available upon request.

As governed by the Code of Ethics or the employee trading policy, neither PPI nor a related person recommends to clients, or buys or sells for client accounts, securities in which PPI or a related person has a material financial interest.

PPI’s related persons may, from time to time, invest in the same securities in which PPI’s clients invest.

As governed in the Code of Ethics or employee trading policy, neither PPI nor a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that PPI or a related person buys or sells the same securities for PPI or a related person’s own account.

## Item 12 Brokerage Practices

PPI considers the following factors in selecting broker-dealers for client transactions and determining the reasonableness of their compensation: best execution, responsiveness of the broker, clearance and settlement capabilities of the broker, the nature of the security being purchased, the size of the transaction, the desired timing of the trade, the activity existing and expected in the market for the particular security, accuracy, confidentiality, the broker's financial condition, responsiveness, market information and the commission rates available at the time of the trade as well as the level of service which the broker-dealer provides. As noted above, PPI has not and will not select BPC to effect portfolio transactions on behalf of its funds or separately managed accounts.

Certain clients may provide a list of approved broker-dealers (with which a client has negotiated ISDA and similar agreement with) from which PPI may select a broker dealer to effect its portfolio trades, subject to PPI’s approval. In such instances, PPI will only trade with approved broker dealers on behalf of the client.

PPI, when possible for efficiency and to minimize costs, will aggregate the purchase or sale of securities for various client accounts.



PPI does not pay brokers separately for advice and research reports, but receives such advice and reports from brokers who may execute portfolio transactions. In other words, PPI does not have soft dollar arrangements. However, PPI may receive from broker/dealers unsolicited research or other products or services.

It is PPI's general policy not to engage in any cross transactions, but PPI and the relevant fund documentation and certain separate account agreements reserve the right to participate in such transactions in certain circumstances.

### Item 13 Review of Accounts

PPI's Investment Committee, which is composed of its CEO & CIO, Portfolio Managers and Chief Risk Officer, meets at least monthly in a formal meeting or as otherwise required by market conditions and reviews matters which include, without limitation, the investment strategy of a fund or separately managed account, hedging plans, liquidity profile, concentration limits and the general state of the market.

PPI's Valuation Committee is comprised of the Chief Financial Officer, Chief Risk Officer, Controller, Director of Operations, Chief Compliance Officer and Operations Associate. The Valuation Committee meets monthly to review the valuation of PPI's applicable investments to ensure they are in accordance with its Valuation and Monitoring Policy and Procedures. The Committee discusses any challenges reported throughout the month, administrator reports, any changes in broker dealers, and net asset value.

Monthly written account statements are sent to each investor in PPI's fund clients by the relevant Fund's administrator. PPI sends annual audited financial statements to investors in its fund clients in accordance with the terms of the applicable fund or separately managed account constituent documents. PPI also sends investors estimated and final performance monthly, and for certain funds, risk reports monthly and newsletters quarterly. PPI provides its mutual fund client applicable reports and other documents upon request.

Each of the client accounts is reviewed by the Portfolio Manager, Risk Officer and/or Chief Operating Officer and Chief Financial Officer and appropriate investment, operations, legal, compliance and accounting personnel on a regular basis to ensure we are in compliance with an account's objectives.

### Item 14 Client Referrals and other Compensation

PPI may engage and compensate third persons for referrals for certain of its funds or separately managed accounts, including, but not limited to BGD Holdings, LLC, John T. Cahill, and Silver Leaf Partners, LLC for certain of its funds. Such referral arrangements are generally governed, when applicable, by a written agreement between PPI and the particular third party that (i) complies with the SEC's "cash solicitation" rule (Rule 206 (4)-3); (ii) requires that clients be provided with copies of PPI's Form ADV Part 2A (also known as the brochure), separate disclosure of the nature of the referral arrangement (including compensation features) applicable to the client being referred, and any other document required to be provided under the applicable state law. In

exchange for each client, PPI generally pays the solicitor an agreed upon percentage of NAV and the client does not pay additional compensation.

#### Item 15 Custody

PPI is deemed to have custody of the funds and securities of its private clients because it maintains signing authority over some of the accounts for which it serves as investment manager and for which a related person serves as general partner. PPI, complies with the Advisers Act Custody Rule by undertaking to deliver audited financial statements to the investors in such private funds after the end of the fiscal year of the relevant private fund. These financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and audited by an independent public accountant. Each private fund has a prime broker (JP Morgan Chase Bank, N.A.) which is the qualified custodian of the clients’ assets. In addition, there is a third-party administrator for all funds and an audit is prepared on an annual basis for the funds. The administrator sends monthly statements, which include each investor’s capital balance and transaction activity (i.e. contributions and redemptions), to each investor.

PPI does not have custody with respect to its managed account clients.

#### Item 16 Investment Discretion

PPI serves as the investment adviser and accepts discretionary authority to implement investment decisions for and manage securities accounts on behalf of its clients. PPI requires from clients that this discretionary authority be documented in written form such as in a limited partnership agreement, investment management agreement, or disclosed in a private placement memorandum, side letter or other governing documents as applicable. PPI’s investment decisions and advice with respect to the fund clients are subject to each client’s governing documentation.

#### Item 17 Voting Client Securities

Due to PPI’s investment strategy and the type of securities in which it invests, PPI typically does not hold equity securities of the type that solicit proxies for meetings. However, to the extent that PPI may invest clients in a voting security, PPI may accept responsibility for voting proxies of the issuers of securities held by clients. PPI will vote proxies consistently with the proxy voting policies and procedures it has adopted in accordance with Rule 206(4)-6 under the Investment Advisers Act of 1940, which are designed to ensure that proxies are voted in the best interest of the clients. PPI may be requested from time to time to vote in connection with consent solicitations for amendments to the terms of certain notes that its clients hold. These consent solicitations are, typically effectuated through a “negative consent” solicitation in which a notice is provided of amendment and consent is deemed to be provided unless an objection is made. PPI typically does not object to ordinary course immaterial amendments on behalf of its clients. In the event that it determines that a proposed amendment may have a material impact on the security it holds, it will generally vote against or object to the amendment either formally or informally. In determining

whether a proposed amendment is material, PPI considers, among other things:

- the effect of the amendment on the potential return on the bond and over what period
- the period for which PPI's clients intend to hold the loan
- the effect on the immediate fair value of the bond
- the effect on the client's preference in a reorganization proceeding
- the anticipated economic and non-economic costs and benefits associated with a proposal
- customary industry and business practices and
- the effect of the amendment on the likelihood of repayment

To the extent that PPI has voting authority for any of its clients, clients cannot direct PPI's voting decisions. PPI believes that its interests are aligned with its clients with respect to the voting of client securities. If PPI believes that it is subject to a conflict of interest that would materially interfere with its voting judgment, it may request that its client vote the securities.

Clients may obtain a copy of PPI's voting policies and its voting history upon request.

#### Item 18 Financial Information

PPI has never filed for bankruptcy and is not aware of any financial conditions that are expected to affect its ability to manage client accounts.