

**ITEM 1  
COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**BAYVIEW ASSET MANAGEMENT, LLC**

MARCH 2015

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*This brochure (this “Brochure”) provides information about the qualifications and business practices of Bayview Asset Management, LLC (the “Registrant” or “BAM”). If you have any questions about the contents of this Brochure, please contact us at (305) 854-8880 or IR@bayview.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.*

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

## **ITEM 2**

### **MATERIAL CHANGES**

The Registrant is required to identify and discuss any material changes made to its Brochure since its last filing, which was filed on March 31, 2014. Since its last filing, the Registrant has not made any material updates to its Brochure. Please review this Brochure carefully and in its entirety.

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## ITEM 4 ADVISORY BUSINESS

### A. General Description of Advisory Firm

The Registrant is a Delaware limited liability company that commenced operations in 2008 and has offices in Coral Gables, Florida; Urbandale, Iowa; and New York, New York. The principal owners of the Registrant are Bayview Asset Management Holdings, LLC, a Delaware limited liability company ("BAM Holdings"), and Biscayne One, LLC, a Delaware limited liability company ("Biscayne One"). BAM Holdings is the managing member of, and owns a majority equity interest in, the Registrant. Biscayne One owns a minority equity interest in the Registrant. The principal owner of BAM Holdings is Bayview Financial Holdings, L.P., a Delaware limited partnership ("BFH") and the principal owner of BFH is BFTG Holdings Company, Inc., a Florida corporation, which is principally owned by David Ertel. David Ertel ultimately controls the Registrant through his ownership interest in Bayview Financial Management Corp., a Delaware corporation that serves as the general partner of BAM Holdings. David Ertel also controls the Registrant's affiliated general partner and investment manager entities that advise the Funds (as defined below). Biscayne One is principally owned by Blackstone RGIS Capital Partners V L.P., for which Blackstone Management Associates V USS L.L.C. serves as general partner. Blackstone Management Associates V USS L.L.C. is ultimately controlled by The Blackstone Group L.P. (NYSE: BX) (collectively with its affiliates, "Blackstone").

### B. Description of Advisory Services

The Registrant and its affiliated general partner and management company entities (together with their controlled affiliates, "Bayview") provide discretionary investment management services to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a "Fund" and collectively, the "Funds"). Bayview is also a sub-advisor to two investment companies subject to the Investment Company Act of 1940 and a public limited investment company under registration authorized by the Central Bank of Ireland (the "Blackstone Funds") that are sponsored by another SEC-registered investment adviser. The Registrant has discretionary investment authority with respect to the Blackstone Funds. Bayview Fund Management LLC (the "Management Company"), a Delaware limited liability company and wholly-owned subsidiary of the Registrant, serves as the management company to the Funds. The Funds include:

(i) Bayview Opportunity Domestic L.P. ("BOF-I Domestic"), Bayview Opportunity Offshore, L.P. ("BOF-I Offshore") and Bayview Opportunity Master Fund, L.P. ("BOF-I Master") and together with BOF-I Domestic and BOF-I Offshore, the "BOF-I Funds"). Bayview Capital GP LLC serves as the general partner of BOF-I Domestic and BOF-I Master. Bayview Capital GP, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as general partner of BOF-I Offshore and has delegated its authority to manage the affairs of BOF-I Offshore to the Management Company.

(ii) Bayview Opportunity Domestic IIa, L.P. ("BOF-IIa Domestic"), Bayview Opportunity Offshore IIa, L.P. ("BOF-IIa Offshore") and Bayview Opportunity Master Fund IIa, L.P. ("BOF-IIa Master") and together with BOF-IIa Domestic and BOF-IIa Offshore, the "BOF-IIa Funds"). Bayview Capital GP IIa, LLC serves as the general partner of BOF-IIa Domestic and BOF-IIa Master. Bayview Capital GP IIa, Ltd., a Cayman Islands exempted company

that is not affiliated with Bayview, serves as general partner of BOF-IIa Offshore and has delegated its authority to manage the affairs of BOF-IIa Offshore to the Management Company.

(iii) Bayview Opportunity Master Fund IIb, L.P. (“BOF-IIb” and together with the BOF-IIa Funds, the “BOF-II Funds”). Bayview Capital GP IIb, LLC serves as the general partner of BOF-IIb.

(iv) Bayview Opportunity Domestic IIIa, L.P. (“BOF-IIIa Domestic”), Bayview Opportunity Offshore IIIa, L.P. (“BOF-IIIa Offshore”) and Bayview Opportunity Master Fund IIIa, L.P. (“BOF-IIIa Master” and together with BOF-IIIa Domestic and BOF-IIIa Offshore, the “BOF-IIIa Funds”). Bayview Capital GP IIIa, LLC serves as the general partner of BOF-IIIa Domestic and BOF-IIIa Master. Bayview Capital GP IIIa, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as general partner of BOF-IIIa Offshore and has delegated its authority to manage the affairs of BOF-IIIa Offshore to the Management Company.

(v) Bayview MSR Opportunity Domestic, L.P. (“MSR Domestic”), Bayview MSR Opportunity Offshore, L.P. (“MSR Offshore”), Bayview MSR Opportunity Master Fund, L.P. (“MSR Master” and together with MSR Domestic and MSR Offshore, the “MSR Funds”) and Bayview MSR Opportunity Corp. (“Fund Corp”). Bayview Capital GP MSR, LLC serves as the general partner of MSR Domestic and MSR Master. Bayview Capital GP MSR, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as general partner of MSR Offshore and has delegated its authority to manage the affairs of MSR Offshore to the Management Company.

(vi) Bayview Opportunity Domestic IIIb, L.P. (“BOF-IIIb Domestic”), Bayview Opportunity Offshore IIIb, L.P. (“BOF-IIIb Offshore”) and Bayview Opportunity Master Fund IIIb, L.P. (“BOF-IIIb Master” and together with BOF-IIIb Domestic and BOF-IIIb Offshore, the “BOF-IIIb Funds,” and collectively with the BOF-IIIa Funds, the “BOF-III Funds”). Bayview Capital GP IIIb, LLC serves as the general partner of BOF-IIIb Domestic and BOF-IIIb Master. Bayview Capital GP IIIb, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as a general partner of BOF-IIIb Offshore and has delegated its authority to manage the affairs of BOF-IIIb Offshore to the Management Company.

(vii) Bayview Opportunity Domestic IVa, L.P. (“BOF-IVa Domestic”), Bayview Opportunity Offshore IVa, L.P. (“BOF-IVa Offshore”) and Bayview Opportunity Master Fund IVa, L.P. (“BOF-IVa Master” and together with BOF-IVa Domestic and BOF-IVa Offshore, the “BOF-IVa Funds” and collectively with the BOF-I Funds, the BOF-II Funds, the BOF-IIIa Funds and the BOF-IIIb Funds, the “BOF Funds”). Bayview Capital GP IVa, LLC serves as the general partner of BOF-IVa Domestic and BOF-IVa Master. Bayview Capital GP IVa, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as general partner of BOF-IVa Offshore and has delegated its authority to manage the affairs of BOF-IVa Offshore to the Management Company.

(viii) Bayview Opportunity Domestic IVb, L.P. (“BOF-IVb Domestic”), Bayview Opportunity Offshore IVb, L.P. (“BOF-IVb Offshore”) and Bayview Opportunity Master Fund IVb, L.P. (“BOF-IVb Master” and together with BOF-IVb Domestic and BOF-IVb Offshore, the “BOF-IVb Funds” and together with the BOF IVa Funds, the “BOF IV Funds,” and collectively with the BOF-I Funds, the BOF-II Funds, the BOF-III Funds, the “BOF

Funds”). Bayview Capital GP IVb, LLC serves as the general partner of BOF-IVb Domestic and BOF-IVb Master. Bayview Capital GP IVb, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as general partner of BOF-IVb Offshore and has delegated its authority to manage the affairs of BOF-IVb Offshore to the Management Company.

(ix) Bayview Mortgage Securities Domestic, L.P., (“BMS Domestic”), Bayview Mortgage Securities Offshore, Ltd. (“BMS Offshore”) and Bayview Mortgage Securities Master Fund, L.P. (“BMS Master” and together with BMS Domestic and BMS Offshore, the “BMS Funds”). Bayview Mortgage Securities GP, LLC serves as the general partner of BMS Domestic and BMS Master. The directors of BMS Offshore are not affiliated with Bayview and have delegated authority to manage the affairs of BMS Offshore to the Management Company.

(x) Mortgage Fund IVc, LP (“IVc”). Mortgage Fund GP IVc, LLC serves as the general partner of IVc.

(xi) Ivalo Fund, L.P. (“Ivalo Fund”). Ivalo GP, LLC serves as the general partner of Ivalo Fund.

(xii) Koitere Fund, LP (“Koitere Fund”). Koitere GP, LLC serves as the general partner of Koitere Fund.

(xiii) Bayview Companion IVa Domestic, L.P. (“Companion IVa Domestic”), Bayview Companion IVa Offshore, L.P. (“Companion IVa Offshore”) and Bayview Companion IVa Master Fund, L.P. (“Companion IVa Master” and together with Companion IVa Domestic and Companion IVa Offshore, the “Companion IVa Funds”). Bayview Capital GP Companion IVa, LLC serves as the general partner of Companion IVa Domestic and Companion IVa Master. Bayview Capital GP Companion IVa, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as general partner of Companion IVa Offshore and has delegated its authority to manage the affairs of Companion IVa Offshore to the Management Company.

(xiv) Bayview Liquid Credit Strategies Domestic, L.P. (“Liquid Credit Strategies Domestic”), Bayview Liquid Credit Strategies Offshore, L.P. (“Liquid Credit Strategies Offshore”) and Bayview Liquid Credit Strategies Master Fund, L.P. (“Liquid Credit Strategies Master” and together with Liquid Credit Strategies Domestic and Liquid Credit Strategies Offshore, the “Liquid Credit Strategies Funds”). Bayview Liquid Credit Strategies GP, LLC serves as the general partner of Liquid Credit Strategies Domestic and Liquid Credit Strategies Master. Bayview Liquid Credit Strategies Offshore GP, LLC, a Delaware limited liability company registered as a foreign company in the Cayman Islands, serves as general partner of Liquid Credit Strategies Offshore and has delegated its authority to manage the affairs of Liquid Credit Strategies Offshore to the Management Company.

In addition to the Funds, the Registrant provides discretionary investment management services as a sub-adviser to the Blackstone Alternative Multi-Manager Fund, an investment company registered under the Investment Company Act of 1940 that trades under the ticker BXMMX (“BXMMX”), the Blackstone Alternative Multi-Strategy Fund, an investment company registered under the Investment Company Act of 1940 that trades under the ticker BXMIX (“BXMIX”), and the Blackstone Diversified Multi-Strategy Fund, a fund authorized

by the Central Bank of Ireland pursuant to the Undertaking for Collective Investments in Transferable Securities Directive that trades under the ticker BXDMS (“BXDMS”).

As more fully set forth in Item 8 below, the BOF Funds, IVc, and the Koitere Fund invest primarily, although not exclusively, in residential and commercial whole loans, asset-backed securities and other credit-sensitive financial instruments. The BOF Funds, IVc and the Koitere Fund generally focus on the acquisition and, through the Registrant’s subsidiaries and affiliates, the management and servicing of credit-sensitive loans and real estate owned, asset-backed securities and related derivative instruments. As more fully set forth in Item 8 below, the MSR Funds invest primarily in mortgage servicing rights (“MSRs”) and mortgage-related securities. As more fully set forth in Item 8 below, the BMS Funds and Ivalo Fund invest primarily in asset-backed securities. As more fully set forth in Item 8 below, the Companion IVa Funds and the Liquid Credit Strategies Funds invest primarily, although not exclusively, in equity and debt securities of finance and mortgage related issuers, asset backed securities, and derivatives related thereto. As more fully set forth in Item 8 below, the Blackstone Funds’ adviser seeks capital appreciation by allocating the Fund’s assets among a variety of non-traditional or “alternative” investment strategies.

### **C. Availability of Customized Services for Individual Clients**

While the Funds may have similar and overlapping investment objectives and investment parameters, Bayview’s advice with respect to the Funds is made in accordance with the investment objectives and guidelines as set forth in each Fund’s constituent documents, which include any confidential private placement memorandum, organizational documents and/or investment management agreements. Bayview has the right to enter into agreements, such as side letters, with certain underlying investors of the Funds that may, in each case, provide for terms of investment that are more favorable than the terms provided to other underlying investors of the Funds.

*This Brochure generally includes information about Bayview and its relationships with its affiliates and the Funds. While much of this Brochure applies to all such affiliates and Funds, certain information included herein applies to specific affiliates or Funds only. References in this Brochure to “clients” are references to the Funds.*

### **D. Wrap Fee Programs**

Not applicable.

### **E. Assets Under Management**

Bayview manages approximately \$8,590,614,000 as of February 28, 2015 on a discretionary basis. This figure represents the unaudited net asset value of the Funds as of February 28, 2015, plus any uncalled capital commitments for commitment-based Funds that are either still in their investment periods or subject to call to fund transactions committed to prior to the end of their investment periods, and Bayview’s allocated portions of the Blackstone Funds. As of February 28, 2015, Bayview manages no assets on a non-discretionary basis.

## ITEM 5 FEES AND COMPENSATION

### A. Fees and Compensation

#### Management Fee

Generally, the Funds pay the Management Company a fee for investment management services (the “Management Fee”) for each fiscal quarter ranging from approximately 0.25% (1.00% per annum) to 0.5% (2.0% per annum) of the beginning net asset value of each investor’s capital account for such fiscal quarter. With respect to certain Funds that are private equity-style funds, the Management Fee is generally based on commitments during the investment period and net asset value thereafter. In consideration for the Management Fee, the Management Company will provide to the Funds certain office space and utilities, secretarial, clerical and other personnel services.

The Management Fee is calculated and paid in advance but is amortized monthly by each Fund over the quarter for which such Management Fee is paid. With respect to certain Funds, the Management Fee generally will be prorated for any capital contribution or withdrawal by an investor that is effective other than as of the first day of a quarter. With respect to certain Funds, in the event of a withdrawal by an investor other than as of the last day of quarter, the Management Company will repay to the Fund a *pro rata* portion of the Management Fee, based on the actual number of days remaining in such quarter.

In the sole discretion of the Management Company, the Management Fee may be waived, reduced or calculated differently with respect to certain investors. With respect to certain Funds that are set up for a single investor or a group of related investors, the Management Fee may be calculated differently.

#### Incentive Allocation and Carried Interest

The general partner of each hedge fund-style Fund generally will receive an annual performance-based allocation or fee (an “Incentive Allocation” or “Incentive Fee”, as applicable) of a portion of the net capital appreciation allocated to each investor’s capital account, as more fully described below.

Generally, at the end of each calendar year of certain of the hedge-fund style Funds, net capital appreciation, if any, allocated or apportioned to an investor’s capital account in such Fund will generally be reallocated or reapportioned by the Fund, as applicable, in the following order of priority (as more fully described in such Fund’s constituent documents): (i) first, to the investor until the investor has made up previous losses; (ii) second, to the investor until it has achieved a hurdle rate of return; (iii) third, to the general partner and the investor pursuant to a catch-up allocation until the general partner has received 20% of such net capital appreciation for such year; (iv) fourth, an 80/20 split between the investor and the general partner, respectively, until the return equals a threshold amount; and (v) fifth, a 70/30 split between the investor and the general partner, respectively.

The general partner of each private equity-style Fund generally will receive a carried interest distribution (a “Carried Interest Distribution”) representing a portion of each distribution of capital to each investor, as more fully described below.



Generally, in certain of the private equity-style Funds, distributions are apportioned between each investor and the general partner in the following order of priority (as more fully described in such Fund's constituent documents): (i) first, to the investor until it has received an amount equal to the aggregate capital contributions made by such investor; (ii) second, to the investor until it has achieved a preferred rate of return on its aggregate capital contributions; (iii) third, to the general partner and the investor pursuant to a catch-up provision until the general partner has received 20% of the amounts distributed to the investor; and (iv) fourth, an 80/20 split between the investor and the general partner, respectively.

In the sole discretion of the relevant Bayview entity, the Incentive Allocation, Incentive Fee, Carried Interest Distributions or Sub-Advisory Fee may be waived, reduced or calculated differently with respect to certain investors. With respect to certain Funds that are set up for a single investor or a group of related investors, the Incentive Allocation, Incentive Fee, or Carried Interest Distributions, as applicable, may be calculated differently.

#### Sub-Advisory Fee

As a sub-adviser of BXMMX and BXMIX, the Registrant generally will receive an annual sub-advisory fee (a "Sub-Advisory Fee") generally at a rate of 0.80% multiplied by the average daily net assets of the allocated portion of BXMMX and BXMIX's assets. As a sub-adviser of BXDMS, the Registrant generally will receive a Sub-Advisory Fee generally at a rate of 0.35% multiplied by the average daily net assets of the allocated portion of BXDMS and an annual performance-based fee based on the net aggregate realized and unrealized appreciation, if any, in the net asset value of the assets comprising the allocated portion of BXDMS.

### **B. Payment of Fees**

Fees and compensation paid or allocated to the Management Company and the general partners by the Funds are generally deducted from the assets of such Funds (or reallocated from the investors' capital accounts to the general partners' capital accounts) at the times and in the manner discussed above. The investment adviser to the Blackstone Funds pays Registrant's Sub-Advisory Fee.

### **C. Additional Fees and Expenses**

To the extent permitted under the relevant Funds' constituent documents, each Fund bears all of its (and, as applicable, a *pro rata* share of any such Fund's corresponding master fund's) legal and other organizational expenses incurred in the formation of such Fund (and the Fund's corresponding master fund), including all expenses relating to the offer and sale of interests in such Fund, including reasonable travel expenses; *provided* that legal and other organizational expenses (other than the fees payable to any placement agent for the interests in such Fund, which will be borne by the Management Company either directly or indirectly by offsetting management fees owed to the Management Company as provided below) borne by such Fund may be subject to a cap. Bayview (and not the relevant Fund) bears any such legal and other organizational expenses in excess of any such cap. The Management Company may advance to the Funds amounts to pay for the Funds' organizational expenses and expenses incurred in connection with the initial offering and sale of interests and other

similar expenses related to the Funds. The Management Company is entitled to reimbursement from the Funds of all such expenses.

The Funds bear their (and a *pro rata* share of their corresponding master fund's) operating and other expenses including, but not limited to, investment-related expenses (e.g., costs, fees and other out-of-pocket expenses directly related to (i) the investigation of investment opportunities (whether or not consummated) and research-related expenses, including, without limitation, news and quotation equipment and services, market data services, data source providers, software, subscription services, inventory management systems, fees to third-party providers of research and/or portfolio risk management services and brokerage costs and fees and (ii) the negotiation, acquisition, settlement, ownership, financing, hedging or sale of its investments and other transaction costs, including travel expenses, transaction fees, consulting, advisory, investment banking, legal and other professional fees relating to investments or contemplated investments, whether or not such investments are consummated, brokerage commissions, expenses relating to short sales, bank service fees, administrative expenses (including, without limitation, fees and expenses of the Fund administrator), information-related expenses, clearing and settlement charges, custodial fees, interest expenses, appraisal fees and expenses), legal, auditing and accounting expenses (including expenses associated with the preparation of Fund and corresponding master fund financial statements, tax returns and Schedules K-1), expenses incurred in collection of monies owed to the Fund and corresponding master fund, insurance expenses (including, without limitation, directors' and officers' insurance, errors and omissions insurance and other similar policies), expenses related to the offering of interests (e.g., legal expenses incurred in connection with the preparation and negotiation of offering documents, operating agreements and side letters, printing and mailing costs, travel related to the offer and sale of interests and placement fees payable by such Fund in connection with the offering of interests therein (which placement fees will offset management fees dollar for dollar)), expenses related to professional liability insurance, regulatory expenses (including, without limitation, filing fees), the costs and expenses of third-party risk management products and services (including, without limitation, the costs of risk management software or database packages), and to the extent applicable, any entity-level taxes, fees or other governmental charges levied against the Fund or corresponding master fund, wind-up and liquidation expenses, extraordinary expenses (such as litigation-related and indemnification expenses) and expenses comparable to the foregoing.

In addition, the MSR Funds also bear expenses associated with any hedging and swap transactions to give the MSR Funds economic exposure to the MSRs owned by Lakeview Loan Servicing, an indirect wholly-owned subsidiary of the MSR Funds ("Lakeview"), loan portfolios in the pipeline or in inventory, Lakeview's rent and overhead expenses and the salary and benefits of Lakeview's employees. Lakeview may lease office space from Bayview at terms no less favorable than those on which Lakeview could have leased comparable office space from an unrelated party in an arm's length transaction. While Bayview and BLS (as defined below) currently provide a substantial portion of the back-office support for Lakeview, Lakeview may assume more of its own operations over time, particularly to the extent advisable from a regulatory perspective. Due to an expected expansion of Lakeview, the expenses of Lakeview are expected to increase significantly. The MSR Funds also bear the expenses of entities controlled directly or indirectly by the MSR Funds or that are under common control with the MSR Funds, in each case that have been organized to carry out the business principally of and for the benefit of the MSR Funds (including, without limitation, Fund Corp and Lakeview) (each, a "Controlled Affiliate").

See Item 12 for further discussion with respect to fees associated with brokerage practices.

Certain Funds will also pay fees to Bayview for (i) sourcing investment opportunities, underwriting and managing the purchase process for certain of the Funds' investments (such fees, the "Acquisition Fees"); (ii) servicing certain of the loans in such Funds' portfolios (such fees, the "Servicing Fees"); (iii) with respect to the MSR Funds and other Funds, providing loss mitigation services, foreclosure services and bankruptcy services to subservicers with respect to mortgage loans underlying the MSR Funds' MSRs or loans owned by Funds (such fees, the "Component Fees"); and (iv) providing loan origination services, third-party origination services and information technologies services including, without limitation, services relating to various sales functions in connection with sourcing eligible third party originated loans, loan underwriting and loan processing, capital market activities, credit policy and lender management, new loan set-up and other support functions (such fees, the "Origination Fees").

Bayview Loan Servicing, LLC, a subsidiary of the Registrant ("BLS"), may originate a new loan to a borrower to refinance an existing loan owned by certain Funds or may accomplish modifications that result in a new loan. In connection with any such refinancing, BLS may charge certain Funds a fee based on the amount of such new or modified loan (the "Refinancing Fee"). If BLS facilitates the origination of a new loan by a third party in connection with a refinancing of an existing loan owned by certain Funds, BLS may charge such Funds an additional fee based on the amount of such new or modified loan (the "Facilitation Fee"). BLS may also originate loans and sell them to the Funds at an agreed upon price.

The Acquisition Fees, Servicing Fees, Component Fees, Origination Fees, Refinancing Fees and Facilitation Fees are described more fully in the confidential private placement memoranda of the Funds to which such fees apply.

#### **D. Prepayment of Fees**

Please see response to Items 5A and 5B above.

#### **E. Additional Compensation and Conflicts of Interest**

As discussed above, Bayview receives the fees discussed above in Item 5C in connection with sourcing investment opportunities, underwriting and managing the purchase process for certain Funds' investments. Bayview may also receive a due diligence fee from certain Funds for every loan reviewed for such Funds, which includes underwriting, appraisal review, title review and transaction management. In addition, Bayview may receive a closing fee from certain Funds for every loan closed on behalf of such Funds. Certain of these fees give rise to a conflict of interest and may create an incentive for Bayview to make investments on behalf of certain Funds based on the compensation received by Bayview, rather than the Funds' needs. In order to mitigate the conflicts involved with these transactions, Bayview has agreed to a fee schedule in the relevant Funds' confidential private placement memoranda.

**ITEM 6**  
**PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As noted in Item 5, Bayview receives performance-based compensation from the Funds. Clients should be aware that performance-based compensation may be deemed to create a conflict of interest for Bayview, as there can be an incentive for Bayview to make investments that are riskier or more speculative than would be the case in the absence of performance compensation. In addition, in situations where certain Funds will pay smaller performance compensation (due to the existence of a loss carryforward, a higher preferred return, different compensation rates and structures or otherwise), there can be an incentive for Bayview to favor those Funds that pay higher performance compensation, for example, by allocating more opportunities to such Funds. To seek to mitigate this inherent conflict of interest, Bayview has implemented allocation policies and procedures (discussed more fully in Item 11D) that seek to ensure that strategy appropriate investments are allocated among the Funds and the Blackstone Funds on what Bayview deems to be an equitable basis.

**ITEM 7**  
**TYPES OF CLIENTS**

Bayview provides investment advice to the Funds and the Blackstone Funds, as described above in Item 4. With regard to the Funds, the constituent documents for each Fund set minimum amounts for investment by prospective investors. Bayview may modify or waive such minimum investment requirements from time to time; however, investors in each Fund must: (i) be "accredited investors"; (ii) be "qualified purchasers" or eligible "knowledgeable employees" and (iii) meet other suitability requirements.

## **ITEM 8**

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### **A. Methods of Analysis and Investment Strategies**

The investment programs for each of the Funds and the Blackstone Funds involve a substantial degree of risk and such activities could result in a substantial loss of capital, which investors should be prepared to bear.

##### The Funds (Generally)

Subject to any limitations in a particular Funds' constituent documents, Bayview is authorized to invest in all types of securities, other financial instruments and assets of issuers and counterparties located in any region of the world. The securities, instruments and other assets in which one or more of the Funds may invest include, but are not limited to, (a) debt or equity securities of any issuer, including capital stock; shares of beneficial interest; partnership interests and similar financial instruments; loans (including, without limitation, residential, commercial and consumer performing, non-performing and re-performing whole loans, agency, non-agency and commercial mortgage-backed securities, interest-only securities and inverse interest-only securities and REO) and loan participations; structured products; bonds, notes and debentures (whether subordinated, convertible or otherwise); currencies; interest rate, currency, commodity, equity and other derivative products including, without limitation: (i) futures contracts (and options thereon) relating to stock indices, currencies, commodities, U.S. Government securities and securities of foreign governments and other financial instruments; (ii) swaps, options, puts, calls, warrants, debt securities, caps, collars, floors and forward rate agreements; (iii) spot and forward currency transactions; and (iv) agreements relating to or securing such transactions; real estate securities; mortgage-backed obligations, including, if issued or collateralized by Federal agencies (including, without limitation, fixed-rate pass-throughs, adjustable rate mortgages, collateralized mortgage obligations and stripped mortgage-backed securities); MSRs; equipment lease certificates; equipment trust certificates; credit paper; accounts and notes receivable and payable held by trade or other creditors; trade acceptances; choses in action; contract and any other claims; executory contracts; participations; mutual funds; money market funds; obligations of the United States or any state thereof, foreign governments and instrumentalities of any of them; commercial paper certificates of deposit; banker's acceptances; trust receipts; and other obligations and instruments or evidences of indebtedness of whatever kind or nature; in each case, of any person, corporation, government or other entity whatsoever, whether or not publicly traded or readily marketable and (b) real and personal property, including, without limitation, office, retail, industrial, hotel, residential, recreational, health care or mixed-use assets or land.

##### The BOF Funds, IVc and the Koitere Fund

Bayview's investment strategy with respect to the BOF Funds, IVc and the Koitere Fund involves investing primarily, although not exclusively, in residential and commercial whole loans, agency, non-agency and commercial mortgage-backed securities and other credit-sensitive financial instruments. While there are no material limitations on the assets in which the BOF Funds, IVc and the Koitere Fund may invest, except with respect to a 10% limitation with respect to the BOF-IVa Funds and the Koitere Fund on non-agency loans originated by

BLS, these Funds generally focus on the acquisition and, through the Registrant's subsidiaries and affiliates, the management and servicing of the assets that are eligible for investment, which include, without limitation, residential and commercial mortgages; consumer performing, non-performing and re-performing whole loans; interest-only securities and inverse interest-only securities; real estate owned ("REO"); agency, non-agency, commercial mortgage and other asset-backed securities; mortgage-related credit and real estate derivatives; equity, debt or options in mortgage-related companies; and other industry similar assets, including loans and other assets secured by U.S. and non-U.S. collateral. The BOF Funds, IVc and the Koitere Fund may also take long and short proprietary positions in corporate securities, credit derivatives and indices, either for investment or to hedge their loan strategies and cash and other synthetic positions.

While the specific investment opportunities available to the BOF Funds, IVc and the Koitere Fund may change over time as supply/demand dynamics in the market and the origination industry evolve, Bayview generally focuses on a wide range of opportunities and strategies within the mortgage credit sector and seeks to capitalize on its expertise in loan modifications and proprietary models to analyze underlying collateral in combination with active servicing through its affiliated servicer, BLS, to engage in loss mitigation.

In pursuing the investment strategies of the BOF Funds, IVc and the Koitere Fund, Bayview will seek to invest in assets that can be acquired at what it believes to be discounts to their principal economic value due to credit impairment, liquidity or other factors. Bayview's underwriting and diligence team conducts an extensive review of opportunities and follows a disciplined underwriting approach. Bayview's diligence practices include loan-level real estate reviews and borrower credit diligence, legal diligence, thorough fraud checks, lien searches, review of payment histories, expeditious recording of assignments and mortgages and other components of risk management. Additionally, Bayview's valuation team of licensed in-house appraisers seek to evaluate market value in combination with traders who seek to leverage internally developed research and analytics to make pricing and portfolio management decisions. Bayview's loss mitigation team is trained to assess each borrower's individual circumstance in an attempt to maximize the value of each loan, including rate/term modifications, forbearance plans, deeds-in-lieu of foreclosure, shortfall payoffs and, if necessary, foreclosure and REO liquidation.

IVc has certain limits on investments that are not applicable to the BOF Funds (as more fully described in its constituent documents).

### The MSR Funds

Bayview's investment strategy with respect to the MSR Funds is to seek to generate attractive risk-adjusted returns by generating current income and capital appreciation through investments in MSRs. While the MSR Funds focus primarily on investing in MSRs, the MSR Funds may also invest in other mortgage-related and financial services-related investments, including, without limitation, investments in agency residential mortgage-backed securities, asset backed securities, other mortgage-related agency bonds (including first-loss tranches), interest-only securities and inverse interest-only securities, agency and non-agency mortgage-backed securities and mortgage-related credit, interest-only, and real estate derivatives, and equity securities of mortgage-related companies. The MSR Funds may also make mortgage-related and financial services-related equity investments (e.g., equity investments in mortgage originators, servicers, lenders, banks and real estate

investment trusts). Except for MSR Funds and assets associated with the MSR Funds indirectly owned by the MSR Funds, each of the investments described in this paragraph is an “Other Eligible Investment”. The aggregate amount of Other Eligible Investments held by the MSR Funds generally will not comprise more than the 25% of MSR Master’s net asset value (measured at the time of investment).

In pursuing this investment strategy, Lakeview (and indirectly the MSR Funds) may seek to generate positive cash flow by engaging a subservicer to perform the primary servicing functions at a cost that is less than the servicing fees the MSR Funds are entitled to as owner of the MSR Funds. In evaluating whether a particular pool of MSR Funds is appropriate to purchase, Lakeview will consider numerous factors, including, without limitation: (i) potential for risk-adjusted returns based on the contemplated purchase price and asset structure; (ii) characteristics of the underlying mortgage loans; (iii) terms and conditions imposed by the relevant pooling and servicing agreements; and (iv) availability of a highly qualified subservicer on favorable economic terms. The ability of Lakeview to refinance the loans underlying the MSR Funds will also be considered in evaluating a particular MSR purchase.

In addition to the MSR Funds’ investment program, Lakeview may participate in the refinancing of mortgage loans underlying MSR Funds owned by Lakeview (e.g., through the origination of a new loan). Lakeview may also participate in other various forms of third party originations, with the goal of selling the acquired loans to the agencies and retaining the MSR Funds. Under certain circumstances, Lakeview may acquire such newly originated loans contemporaneously or shortly after with the closing of such loan (i.e., table funding). Additionally, Lakeview may originate loans sourced by approved mortgage brokers. In each case, resulting loans will be sold to the agencies typically at a discount to the cost of acquiring such loans, which discount will effectively be the cost of acquiring the MSR.

As sole shareholder of Fund Corp, MSR Master (and, thus, the MSR Funds) will indirectly recognize all profits and suffer all losses incurred by Lakeview. MSR Master will enter into certain prepaid swap contracts with Fund Corp pursuant to which MSR Master will make an up-front payment to Fund Corp in exchange for which Fund Corp will agree to make periodic payments to MSR Master based on a percentage of the Gross Mortgage Servicing Fee (as defined below) actually collected with respect to the mortgage loans subject to the MSR Funds owned by Lakeview. As used herein, the term “Gross Mortgage Servicing Fee” means, with respect to any MSR, the periodic fee paid in respect of the underlying loans, which is based on a specified annual percentage rate and the unpaid principal balance of the mortgage loans subject to the MSR as of the beginning of the period.

#### The BMS Funds and Ivalo Fund

Bayview’s investment strategy with respect to the BMS Funds and Ivalo Fund is to generate risk-adjusted returns by investing primarily in secondary market asset-backed securities and related financial instruments.

#### The Companion IVa Funds and Liquid Credit Strategies Funds

Bayview’s investment strategy with respect to the Companion IVa Funds and Liquid Credit Strategies Funds is to generate risk adjusted returns by employing a range of investment strategies globally, including investing in public and private securities and a broad array of other financial instruments and assets in both private and public markets. There are no



substantive limits on the investment strategies that may be pursued by these Funds. The Companion IVa Funds and Liquid Credit Strategies Funds may invest in assets relating to the mortgage industry, including, mortgage-backed securities, collateralized debt obligations, collateralized loan obligations, commercial mortgage-backed securities, asset-backed securities, interest-only securities and inverse interest-only securities, mortgage-related credit and real estate derivatives, interest rate derivatives and equity, debt or options in real estate related or mortgage-related companies, among other industry similar assets, including other assets secured by U.S. and non-U.S. collateral. These Funds may also engage in short selling for both investment and hedging purposes. The Companion IVa Funds and Liquid Credit Strategies Funds generally do not invest in whole loans.

### The Blackstone Funds

Bayview's investment strategies with respect to its allocated portions of the Blackstone Funds is to generate capital appreciation by investing in certain residential mortgage-backed securities, commercial mortgage-backed securities, and consumer asset-backed securities within a defined investment mandate.

*The descriptions set forth in this Brochure of specific advisory services that Bayview offers to clients, and investment strategies pursued and investments made by Bayview on behalf of its clients, should not be understood to limit in any way Bayview's investment activities. Bayview may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Bayview considers appropriate, subject to each client's investment objectives and guidelines. There can be no assurance that the investment objectives of any Fund will be achieved.*

### **B. Certain Risks Relating to Investment Strategies**

The following risk factors do not purport to be a complete list or explanation of the risks involved with the activities of Bayview, the Funds or the Blackstone Funds. These risk factors include only risks Bayview believes to be material, significant or unusual based on information currently available, and relate to particular investment strategies employed by Bayview and Fund investments made pursuant thereto (some of which also apply to Bayview's allocated portions of the Blackstone Funds, particularly those relating to certain ABS and MBS (defined below)), and do not address material, significant or unusual risks associated with other factors, including, without limitation certain instrument types, structural risks and certain market risks, or risks applicable to the Blackstone Funds beyond the portion of their funds allocated to Bayview.

### Overall Investment Strategy and Investment Risks

*Risks of Investments Generally.* All investments risk the loss of capital. No guarantee or representation is made that the Funds' investment programs will be successful. The Funds' investment programs involve, without limitation, risks associated with limited diversification and concentration, leverage, investments in speculative assets and the use of speculative investment strategies and techniques, interest rates, currencies, volatility, tracking risks in hedged positions, credit deterioration or default or prepayment risks, systems risks and other risks inherent in the Funds' and any controlled affiliates' activities. Certain investment techniques of the Funds (*e.g.*, use of direct leverage or indirectly through leveraged investments) can, in certain circumstances, magnify the impact of adverse market moves to

which the Funds may be subject. In addition, the Funds' investments may be materially affected by conditions in real estate markets, the financial markets and overall economic conditions occurring globally and in particular countries or markets where the Funds and any controlled affiliates may invest their assets.

The Funds' methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

*Limited Diversification.* In the normal course of making investments on behalf of the Funds, Bayview may be concentrated within the mortgage credit sector and in MSR. In addition, in some Funds, it is possible that Bayview may select investments that are concentrated in a limited number or type of financial instruments or assets. Such concentration of risk may increase the losses suffered by the Funds or reduce their ability to hedge their exposure and to dispose of depreciating assets. Limited diversity could expose the Funds to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those financial instruments or assets. In the Funds that are concentrated in a limited number or type of financial instruments (such as MSR), the overall adverse impact on the Funds of adverse movements in the value of their portfolios will be considerably greater than if the Funds were not permitted to concentrate their investments in such manner.

*Leverage.* The Funds generally intend to lever their assets through various types of financings, including seller financing, and through various securitization vehicles. Bayview may also cause the Funds to leverage their investment returns with options, short sales, swaps, forwards and other derivative instruments.

While leverage presents opportunities for increasing the Funds' total returns, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment by the Funds would be magnified to the extent the Funds are leveraged. The cumulative effect of the use of leverage by the Funds in a market that moves adversely to the Funds' investments could result in a substantial loss to the Funds, which would be greater than if the Funds were not leveraged. Leverage will increase the exposure of the Funds to adverse economic factors such as significantly rising interest rates, severe economic downturns or deterioration in the condition of the Funds' investments or their corresponding markets.

The Funds may engage in portfolio financings where several investments are cross-collateralized, pursuant to which multiple investments may be subject to the risk of loss. As a result, the Funds could lose their interests in performing investments in the event such investments are cross-collateralized with poorly performing or non-performing investments. In addition, recourse debt, which the Funds reserve the right to obtain, may subject other assets of the Funds' investments to risk of loss.

*Illiquidity.* A substantial portion of the Funds' portfolios may consist of loans, MSR or other financial instruments that are not actively or widely traded and the Funds may invest in illiquid securities, or securities that become illiquid after the Funds' investments in such securities.. Mortgage/real-estate-backed loans and asset-backed securities are generally less

liquid than are other securities (e.g., stocks or bonds). Certain securities and other investments held by the Funds may also be illiquid because, for example, they are subject to legal or other restrictions on transfer. Valuation of the Funds' investments may be difficult or uncertain, including with respect to securities, because there may be limited information available about the issuer. In addition, the sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Even those markets which are expected to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid. Consequently, it may be relatively difficult for the Funds to dispose of certain investments rapidly and at favorable prices in connection with withdrawal requests, adverse market developments or other factors.

*General Economic and Market Conditions.* The success of the Funds' activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Funds' investments), trade barriers, currency exchange controls, national regulation and changes in laws and rules, and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity of the Funds' investments. Volatility or illiquidity could impair the Funds' profitability or result in losses.

*Long/Short.* The success of certain Funds' long/short investment strategy depends upon Bayview's ability to identify and purchase investments that are undervalued and identify and sell short investments that are overvalued. The identification of investment opportunities in the implementation of the Funds' long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the Funds' positions were to fail to converge toward, or were to diverge further from values expected by Bayview, the Funds may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Funds to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with the Bayview's long/short strategies may become outdated and inaccurate as market conditions change.

*Long-Term.* The success of the Funds' long-term investment strategy depends upon Bayview's ability to identify and purchase investments that are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, certain Funds may forego value in the short-term or temporary investments in order to be able to avail themselves of additional and/or longer term opportunities in the future. Consequently, certain Funds may not capture maximum available value in the short-term, which may be disadvantageous, for example, for investors who withdraw all or a portion of their capital accounts before such long-term value may be realized by such Funds.

*Investments in Undervalued Instruments.* The Funds may invest in undervalued instruments. The identification of investment opportunities in undervalued instruments is a difficult task, and there are no assurances that such opportunities will be successfully recognized or

acquired. While investments in undervalued instruments offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Funds' investments may not adequately compensate for the business and financial risks assumed.

*Relative Value.* The success of certain Fund's relative value investment strategy depends upon Bayview's ability to identify and exploit perceived inefficiencies in the pricing of securities, financial products, or markets. Identification and exploitation of such inefficiencies involve uncertainty. There can be no assurance that the General Partner will be able to locate investment opportunities or to exploit pricing inefficiencies in the securities markets. Mispricings, even if correctly identified, may not be corrected by the market, at least within a timeframe over which it is feasible for Bayview to maintain a position. Even pure arbitrage positions can result in significant losses if Bayview is not able to maintain both sides of the position until expiration/maturity. A reduction in the pricing inefficiency of the markets in which Bayview seeks to invest will reduce the scope for the Funds' investment strategies. In the event that the perceived mispricings underlying the Funds' positions were to fail to converge toward, or were to diverge further from, relationships expected by Bayview, the Funds may incur losses.

*Short Selling.* Short selling involves selling securities which may or may not be owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Funds engage in short sales will depend upon the Funds' investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Funds of buying those securities to cover the short position. There can be no assurance that the Funds will be able to maintain the ability to borrow securities sold short. In such cases, the Funds can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

*Necessity for Counterparty Trading Relationships; Counterparty Risk in General.* The Funds expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Funds to trade in any variety of markets or asset classes over time. In addition, with regard to the MSR Funds, Lakeview's loan origination business is relationship driven. Lakeview may work with various approved mortgage lenders, but these lenders may not be contractually obligated to do business with Lakeview, and Lakeview's competitors may also have relationships with these lenders and actively compete with Lakeview in its efforts to expand its network of approved mortgage lenders. There can be no assurance that the Funds or Lakeview will be able to maintain such relationships or establish such relationships. An inability to establish or maintain such relationships would limit the Funds' trading activities and Lakeview's loan origination business and could create losses, preclude the Funds and/or Lakeview, as applicable, from engaging in certain transactions, financing, loan origination, derivative intermediation and prime brokerage services and prevent the Funds and/or Lakeview from trading at optimal rates and terms. Moreover, a disruption in the financing, loan origination, derivative intermediation and prime brokerage

services provided by any such relationships before the Funds or Lakeview establishes additional relationships could have a significant impact on the Funds' and/or Lakeview's business, as applicable, due to the Funds' and/or Lakeview's reliance on such counterparties.

Some of the markets in which the Funds may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Funds to suffer a loss. In addition, in the case of a default, the Funds could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Funds have concentrated their transactions with a single counterparty or small group of counterparties.

Furthermore, there is a risk that any of the Funds' counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Funds' counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of the Funds' securities and other assets from the Funds' prime brokers or broker-dealers will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, the Funds may use counterparties located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in foreign jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Funds' assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the Funds and their assets.

The Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the Funds' internal credit function which evaluates the creditworthiness of the Funds' counterparties may prove insufficient. The ability of the Funds to transact business with any one or more counterparties, the lack of complete and "foolproof" evaluation of the financial capabilities of the Funds' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds.

*Co-Investments with Third Parties.* The Funds may co-invest with other Funds or third parties through joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-venturer may have financial difficulties resulting in a negative impact on such investment; may have economic or business interests or goals that are inconsistent with those of the Funds; or may be in a position to take (or block) action in a manner contrary to the Funds' investment objectives. In those circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation

arrangements will reduce the returns to participants in the investments and create potential conflicts of interest between such parties and the Funds.

*Systemic Risk.* Credit risk may also arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Funds interact on a daily basis.

*Volatility Risk.* The Funds’ investment programs may involve the purchase and sale of relatively volatile instruments such as derivatives, which are frequently valued based on implied volatilities of such derivatives compared to the historical volatility of underlying financial instruments. Fluctuations or prolonged changes in the volatility of such instruments, therefore, can adversely affect the value of investments held by the Funds. In addition, many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and as a result, price volatility may be higher for the Funds’ investments.

*Interest-Rate and Foreign Exchange-Rate Risks.* The prices of assets held by the Funds may be sensitive to interest-rate and foreign exchange-rate fluctuations; such fluctuations could cause the U.S. dollar value of long and short positions to move in unanticipated directions. To the extent that interest-rate and foreign exchange-rate assumptions underpin the hedging of a particular position, fluctuations in rates could invalidate those underlying assumptions and expose the Funds to losses. The Fund are not obligated to hedge their exposure to interest-rate and foreign exchange-rate risks, or any other risks.

The value of the fixed rate securities in which the Funds may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise the value of such securities may decline. In addition, to the extent that the receivables or loans underlying specific securities are prepayable without penalty or premium, the value of such securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

In addition, if mortgage loan interest rates fall, an increasing number of homeowners will seek to refinance and prepay their mortgage loans. When a mortgage loan is prepaid, it will no longer produce any MSR-related revenue for the MSR Funds. Therefore, a sustained decline in mortgage loan interest rates will generally result in a reduction in servicing income to the MSR Funds. Because the value of MSRs is a function of the anticipated stream of revenues generated by servicing the mortgage loans, the value of MSRs will decline as mortgage loan interest rates fall and more prepayments are anticipated. Conversely, an increase in mortgage loan interest rates is likely to result in a decreased number of refinancings. The MSR Funds may attempt to hedge against the risks involved from interest rate changes by purchasing and/or selling certain financial instruments. While the MSR Funds may hedge against any losses of servicing income and loss of value of the MSRs that may be incurred from interest rate fluctuations, there can be no assurance that such actions will be effective.

*Competition; Availability of Investments.* The markets in which the Funds invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Funds will be able

to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, independent mortgage loan servicers, large financial institutions, the public equity markets and other investors may reduce the availability of investment opportunities. Competitive investment activity by other firms and institutions will reduce the Funds' opportunity for profit by generally increasing price pressure on desired assets, reducing mispricings in the market as well as the margins available on those mispricings that can still be identified.

*Equity Securities Generally.* The Funds may invest in equity and equity-related securities of U.S. and non-U.S. companies. Equity securities fluctuate in value in response to many factors, including the activities, results of operations and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments and movements in the equity markets in general. As a result, the Funds may suffer losses if they invest in equity instruments of issuers whose performance diverges from expectations or if equity markets generally move in a single direction and the Funds have not hedged against such a general move. In addition, the Funds may invest in equity securities of companies that they do not control. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which the Funds do not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Funds' interests, which could have a material adverse effect on the Funds. In addition, events such as domestic and international political instability, terrorism and natural disasters may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by the Funds.

*Debt Instruments Generally.* The Funds may invest in private and government debt securities and instruments. It is likely that many of the debt instruments in which the Funds invests may be unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these instruments and may have an adverse impact on the value of such instruments. It also is likely that any such economic downturn could adversely affect the ability of the issuers of such instruments to repay principal and pay interest thereon and increase the incidence of default for such instruments.

*Hedging Generally.* The Funds may invest in various securities, derivatives, indexes and cash equivalents and related instruments both to hedge its portfolio positions and to seek to meet the Funds' investment objectives opportunistically as more fully described above. The success of the Funds' hedging strategy is subject to the ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many instruments change as markets change or time passes, the success of the instances when the Funds hedge portfolio positions is also subject to the ability for hedges to be continually recalculated, readjusted and executed in an efficient and timely manner. While the Funds may enter into certain hedging transactions to seek to reduce risk, such transactions

may result in a poorer overall performance for the Funds than if it had not engaged in any such hedging transactions. For a variety of reasons, a perfect correlation may not be established between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Funds from achieving the intended hedge or expose the Funds to risk of loss. Moreover, the portfolio will always be exposed to certain risks that may not be hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Funds' portfolio holdings. The Funds will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally.

*Fraud.* Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Funds to perfect or effectuate a lien on the collateral securing the loan. The Funds will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

*Global Investments.* The Funds may invest a portion of their assets outside the United States. In addition to business uncertainties, such investments may be affected by political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly as to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such non-U.S. issuers.

The Funds may be subject to additional risks, which include possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the assets may be subject to taxes levied by governments, which have the effect of increasing the cost of such investments and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income realized, and gross sale or disposition proceeds received, by the Funds from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by the Funds will reduce their net income or returns (or increase their net loss) from such investments.

Laws that govern private and non-U.S. investment and transactions in financial instruments in non-U.S. countries may be relatively new and untested. As a result, the Funds may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and lack of enforcement of existing regulations. Furthermore, it may be difficult to obtain and enforce a judgment in certain non-U.S. countries in which assets of the Funds may be invested. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on the Funds and their



operations. Furthermore, it may be difficult to obtain and enforce a judgment in a court outside of the United States.

*Non-U.S. Taxation.* With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of funds or other assets of the Funds, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

*Non-performing Nature of Debt.* It is anticipated that certain debt instruments the Funds may purchase will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to these instruments.

*Small Companies.* The Funds may invest in small and/or unseasoned public companies. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, operating history, financial resources, product diversification and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of securities issued by larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations, reduced liquidity, losses and risks of insolvency or bankruptcy. Research resources, third-party analysis and information relating to smaller companies may be less available than that in respect of larger companies, making it more difficult to research an investment and make an informed investment decision.

*Preferred Stock.* Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

*Exposure to Material Non-Public Information.* From time to time, Bayview may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Funds may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

*Delayed Schedules K-1.* The Funds may be unable to provide final Schedules K-1 to investors for any given fiscal year until after April 15 of the following year. Bayview will endeavor to provide investors with estimates of the taxable income or loss allocated to their investment in

the Funds on or before such date, but final Schedules K-1 will not be available until completion of the respective Fund's annual audit. In such cases, investors would be required to obtain extensions of the filing date for their income tax returns at the federal, state and local level.

*Uncertain Exit Strategies.* Due to the illiquid nature of many of the positions which the Funds have or are expected to acquire, as well as the uncertainties of the reorganization and active management process, Bayview is unable to predict with confidence what the exit strategy will ultimately be for any given investment, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

*No Material Limitation on Strategies.* The Liquid Credit Strategies Funds will opportunistically implement whatever strategies or discretionary approaches they believe from time to time may be best suited to prevailing market conditions. There can be no assurance that Bayview will be successful in applying any strategy or discretionary approach to the Liquid Credit Strategies Funds' trading.

#### Risks Related to Investments in the U.S. Mortgage Market

*Conditions in the U.S. Residential Mortgage Market May Adversely Affect the Performance of the Funds.* The Funds intend to invest in assets involving the U.S. residential mortgage market, including in subprime mortgage loans, securities backed directly or indirectly by subprime mortgage loans and MSRs of subprime mortgage loans, securities backed directly or indirectly by subprime mortgage loans and equity, debt or options in real estate-related or mortgage-related companies. Over the past several years, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance of the Funds. The performance of residential mortgage loans and the performance of associated derivative securities (such as mortgage-backed securities ("MBS")) are influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner behavior.

*Regulation of the Mortgage Industry and the Dodd-Frank Act.* There have been various adverse developments in the financial markets, which have resulted in the merger and failure of several major investment banks and commercial banks. In response to such developments, the United States government implemented certain programs intended to stabilize its financial system, including sweeping financial and regulatory reform legislation. These developments have heightened an overall level of uncertainty in the securitization market and the financial markets, generally, particularly with respect to mortgage-related investments.

Securities, futures and credit markets, and originators and servicers of residential mortgage loans are subject to comprehensive statutes and extensive regulation by federal, state and local governmental authorities. Loans, and their related origination and servicing practices, are highly regulated consumer finance products and are subject to federal, state and local laws. Violations or alleged violations of federal, state or local laws could result in a reduction in the amount available from a mortgage loan, and as a result its related MSRs and could otherwise affect the performance of the Funds' other investments. In addition, violations, or even alleged violations, by loan servicers of laws or regulations applicable to

mortgage loan origination and servicing, could adversely affect any such entity's ability to continue its performance of its obligations with respect to the mortgage loans.

In addition, as previously mentioned, the Dodd-Frank Act includes extensive changes to the laws regulating financial services firms, which included the creation of (1) the Consumer Financial Protection Bureau (the "CFPB") within the Federal Reserve to regulate consumer financial services and products and (2) the Financial Stability Oversight Council to identify, monitor and address emerging systemic risks posed by the activities of financial services firms and make recommendations to the Federal Reserve to alleviate those risks. The CFPB has sole rulemaking and interpretive authority under existing and future consumer financial services laws and supervisory, examination and enforcement authority over institutions subject to its jurisdiction. The law also provides for enhanced regulation of derivatives and securitization transactions (including the addition of risk retention requirements, third-party due diligence disclosure requirements, expanded asset-level data requirements and new standards relating to eligibility of securities as "mortgage-related securities" under the Exchange Act), restrictions on executive compensation and enhanced oversight of credit rating agencies. In addition, the law provides for the elimination of prepayment penalties for mortgage loans and expanded consumer protection in respect of high-cost loans. In many cases the provisions of the statute will take effect only after regulations are adopted by the applicable Federal agencies.

The CFPB, U.S. Treasury Department, several regulatory bodies and state attorneys general have recently increased scrutiny of mortgage servicers and have imposed, or are seeking to impose, requirements on servicers to substantially revise their servicing practices, including the establishment of national servicing standards that would be applicable to all residential mortgage servicers. For example, such regulatory action may require servicers to make several enhancements to their servicing operations, including implementation of a single point of contact model for borrowers throughout the loss mitigation and foreclosure processes; adoption of measures designed to ensure that foreclosure activity is halted once a borrower has been approved for a modification unless the borrower fails to make payments under the modified loan; implementation of enhanced controls over third-party vendors that provide default servicing support services; and retention of an independent consultant to conduct a review of all foreclosure actions pending, or that have occurred within a specified period.

Actions that have been taken and may be taken in the future by the U.S. government or by state or municipal governments may have the effect of encouraging, or may require, that the terms of residential mortgage loans be modified in order to reduce the applicable interest rate, reduce the outstanding principal amount, extend the term to maturity or otherwise benefit the borrower to the detriment of the holder of the mortgage loan and the owner of the MSRs. These loan modifications may affect only residential mortgage loans that are in default or may also affect other loans as to which the borrower has negative equity in the mortgaged property or is otherwise considered to be disadvantaged or deserving of assistance. Investments held by the Funds could be adversely affected, resulting in decreased yield or losses to investors. With regard to the MSR Funds, while certain loan modifications may be beneficial to the owner of MSRs (*e.g.*, in the case of certain non-performing agency mortgage loans where owners of the MSRs may not be entitled to servicing fees or modifications in lieu of foreclosure), modifications that facilitate prepayment or reduce principal and interest can have an adverse effect on Lakeview's net cash flows from servicing fees and result in losses

to the MSR Funds. Similarly, programs designed to facilitate refinancings by current borrowers who would not otherwise qualify also could have such an adverse effect.

Lakeview and any of its subservicers may incur significant ongoing costs to comply with new and existing laws and governmental regulation of their residential mortgage servicing businesses. Further, if any new or more restrictive requirements increase the cost of servicing mortgage loans, then the subservicing fees subservicers will require are likely to increase, which could limit Lakeview's ability to purchase MSRs if it cannot engage subservicers at servicing fee rates that are consistent with the MSR Funds' investment objectives.

There can be no assurance that governmental actions and regulations will have a beneficial impact on the financial markets. To the extent the market does not respond favorably to these initiatives or these initiatives do not function as intended, the Funds may not receive the anticipated positive impact from the legislation. It is also possible that competitors may utilize the programs, which would provide them with attractive debt and equity capital funding from the U.S. government. In addition, the U.S. government, the Federal Reserve, the U.S. Treasury and other governmental and regulatory bodies have taken or are considering taking other actions to address the lingering effects of the financial crisis. Bayview cannot predict whether or when such actions may occur, and such actions could have a dramatic impact on the business, results of operations and financial condition of the Funds.

*Risks Associated with Foreclosure and Bankruptcy.* In addition to the procedural delays and uncertainties generally incident to the mortgage foreclosure process in various jurisdictions, several courts and state and local governments and their elected or appointed officials also have taken unprecedented steps to slow the foreclosure process or prevent foreclosures altogether. Several laws have been enacted for these purposes, including in California. In relatively recent years it has been widely reported that irregularities in foreclosure processes have been discovered with respect to certain servicers of residential mortgage loans. In judicial foreclosure proceedings and in certain non-judicial foreclosure actions and proceedings, affidavits and other legal pleadings establishing the basis for the foreclosure must be submitted to the applicable court. Such filings are required to be based on the personal knowledge of the facts asserted by the person signing the filings. Many servicers had attempted to streamline this process by employing individuals whose sole function is to sign such pleadings. Recent lawsuits have charged that these individuals have signed and filed tens of thousands of foreclosure affidavits without following proper procedures, including without examining the related documentation to ensure knowledge of the facts being asserted and signing foreclosure affidavits in the presence of a notary public as required. As a result of the disclosure of these practices, several large servicers temporarily halted all foreclosures to conduct reviews of their procedures.

As a result of the review by regulators of deficiencies in servicing and foreclosure practices, certain servicers entered into a consent order with the Office of the Comptroller of the Currency (the "OCC") and agreed to specific commitments regarding servicing and foreclosure practices for delinquent mortgage loans, which are designed to ensure timely and accurate decisions and effective quality control and risk management (the "OCC Enforcement Action"). On January 7, 2013, the OCC and the Federal Reserve reached an \$8.5 billion settlement agreement with ten U.S. banks arising from the OCC Enforcement Action regarding alleged foreclosure abuses (the "2013 Servicing Settlement"). Part of the 2013 Servicing Settlement provides for financial relief for affected homeowners, including

loan modifications and principal reductions, which could have an adverse effect on the value of a mortgage loan.

Certain members of Congress, other political leaders and consumer advocacy groups have called for government-imposed moratoria on foreclosures from time-to-time. There can be no assurance that federal or state governments will not impose such moratoria. Any of these types of laws, regulations, rules, moratoria or proceedings could result in substantial delays in, or prevention of, the foreclosure process, and may lead to reduced payments by borrowers, increased reimbursable servicing expenses, reduced proceeds from further depressed home prices, and additional defaults. In addition, the uncertainty regarding the validity of foreclosures may limit or reduce the potential number of buyers and/or the prices of property for sale after such property is acquired through foreclosure. Any of these consequences may lead to increased losses to the Funds.

Mortgages or assignments of mortgages related to some or all of the Underlying Loans may have been recorded in the name of the Mortgage Electronic Registration System (“MERS”), an electronic record-keeping system that acts as the mortgagee or beneficiary of record for a substantial portion of residential mortgage loans originated in the United States. If a mortgage is recorded in the name of MERS, MERS electronically records the identity of the beneficial owner of that loan internally on the MERS system. Subsequent transfers are noted electronically in MERS records but not in the applicable county or other local land records.

The making of and recording of mortgages in the name of MERS, and the operation of the related MERS registration system, has been challenged through the judicial system and there has been public disclosure that MERS is facing or has faced government investigations relating to its operations. Most judicial decisions have accepted MERS as mortgagee or beneficiary, have upheld the validity of mortgages and deeds of trust in which MERS is a named party, and have confirmed the authority of MERS or its assignees (including securitization trustees to whom a post-transfer assignment is made) to foreclose as mortgagee or beneficiary or nominee, and most related challenges to MERS have not been successful. However, there have been some court decisions where the result was not favorable to MERS.

Challenges to MERS, could result in delays and additional costs in commencing, prosecuting and completing foreclosure proceedings and conducting foreclosure sales of mortgaged properties, or in adverse results that may affect the ability to foreclose. In accordance with MERS procedures and accepted servicing practices, however, BLS intends to record assignments of mortgages or deeds of trust out of the name of MERS and into the name of the related owner or a nominee at an appropriate time prior to a foreclosure action. In addition, if use of MERS or the MERS system is discontinued in any particular jurisdiction, it will become necessary or appropriate to record an assignment of mortgage out of the name of MERS, resulting in additional expense. These delays and additional costs, and any adverse results, could delay the payment of liquidation proceeds on the related mortgage loans.

In recent years, numerous cities and local governments throughout the United States have considered programs to assist homeowners in their jurisdictions that are obligated on residential mortgage loans with outstanding balances in excess of the market value of the related mortgaged properties. The proposed programs include authorization to acquire any such mortgage loans by voluntary purchase or eminent domain and to modify those mortgage loans to allow homeowners to continue to own and occupy their homes, irrespective of whether the mortgage loans are actually in default or foreclosure.

There can be no assurance that other jurisdictions will not take steps to acquire any mortgage loans under such a program in the future, whether any other mortgage loans sought to be purchased will be mortgage loans held in securitization trusts and what purchase price would be paid for any such mortgage loans. Any such actions could have a material adverse effect on the ability of borrowers to refinance or obtain a loan modification, as mortgage lenders may be unwilling to engage in such activities in these jurisdictions. In addition, any such actions could have a material adverse effect on the market value of residential mortgage-backed securities. There is also no certainty as to whether any such action without the consent of investors would face legal challenge, and, if so, the outcome of any such challenge.

In addition to the foregoing recent developments, the existing “right of redemption” in certain states may limit the ability of servicers to sell (or cause the sale of), or prevent a servicer from selling (or causing the sale of), an REO at what would otherwise be an appropriate time for sale. In some states, after sale pursuant to a deed of trust or foreclosure of a mortgage, the borrower and foreclosed junior lienors are given a statutory period in which to redeem the property from the foreclosure sale. In other states, including California, this right of redemption applies only to sales following judicial foreclosure, and not to sales pursuant to a non-judicial power of sale. In most states where the right of redemption is available, statutory redemption may occur upon payment of the foreclosure purchase price, accrued interest and taxes. In other states, redemption may be authorized if the prior borrower pays only a portion of the sums due. The effect of a statutory right of redemption is to diminish the ability of the lender to sell the foreclosed property. The exercise of a right of redemption would defeat the title of any purchaser from the lender subsequent to foreclosure or sale under a deed of trust. Consequently, the practical effect of the redemption right is to force the lender to retain the property and pay the expenses of ownership until the redemption period has run.

Similar to foreclosure considerations, bankruptcy proceedings that involve a mortgage loan could impede the related servicer’s ability to take actions that are necessary or appropriate to preserve the value of the mortgage loan. Although mortgage cram-down legislation was not included in the Dodd-Frank Act, no assurance can be made that future efforts by members of Congress to enact such legislation will not succeed in the future. Various proposals would have allowed a bankruptcy judge in a Chapter 13 proceeding, subject to the satisfaction of certain conditions, to modify the terms of a debtor’s mortgage loan to:

- Bifurcate the mortgage loan into secured and unsecured portions by allowing the debtor to establish a current market value for the mortgaged property and reducing the amount of the secured mortgage loan to such newly established current market value. The unsecured portion of the mortgage loan would be forgiven if the debtor satisfies the requirements of the bankruptcy plan;
- Modify the interest rate of the mortgage loan by reducing the interest rate or delaying interest rate reset dates for an adjustable-rate loan and reducing the interest rate for a fixed-rate loan; and
- Extend the amortization period of the mortgage loan for up to the longer of 40 years or the remaining term of the original loan.

If a similar legislative proposal were passed in the future, the bifurcation of mortgage loans into secured and unsecured portions and the resulting “cram-down” of secured portions of mortgage loans subject to Chapter 13 proceedings to newly established market values could have a negative impact on the value of mortgage loans if this results in losses on the related mortgage loans higher than those which would have occurred pursuant to traditional loss mitigation and loan modification procedures. Any such cram-down modification by a bankruptcy judge could have a significant impact on the principal and interest collections on the related loans, and therefore may have a significant impact on payments to the owner of the mortgage loans and the Funds.

*Risk of Future Legislative, Regulatory or Judicial Action.* There can be no assurance as to what actions might be taken by any federal, state or municipal legal authority that may adversely affect investments held by the Funds. Such actions could include, by way of example, further restrictions on the ability of the holder of a mortgage loan to foreclose upon default by the borrower or delays in the foreclosure process, encouragement of modification of the terms of mortgage loans in ways that may be adverse to the interests of the holder of the mortgage loans or of related securities, and judicial determinations as to whether particular types of mortgage loans are “unfair” under applicable law.

*Lack of Information Regarding Underwriting Standards; Higher Expected Delinquencies in Payment.* Certain Funds may acquire mortgage loans or non-agency MSR. When investing in such mortgage loans and MSR, from time to time, the seller will not have information available to it as to the underwriting standards that were applied in originating the mortgage loans, and such mortgage loans may have been originated in accordance with standards less strict than those of the agencies. Similarly, when acquiring loans through third-party origination (“TPO”), Lakeview may not be underwriting the loan and may have limited information on the underwriting standards that were applied in originating such loan. As a result, certain mortgage loans underlying the MSR Funds’ MSR and certain mortgage loans owned by the Funds may experience higher than expected rates of delinquency and defaults, which could result in losses to the Funds. Changes in the values of mortgaged properties may have a greater effect on the delinquency, default and loss experience of the mortgage loans in the Funds than on mortgage loans that were originated under stricter guidelines.

*Greater Risk Involving Certain Property Types.* The Funds may invest directly or indirectly in residential, commercial and consumer performing, non-performing and re-performing whole loans. The MSR Funds may also invest in MSR for a variety of residential, commercial and consumer performing and non-performing mortgage loans. Mortgage loans secured by multifamily property, mixed use property or commercial property may incur higher losses as a result of delinquency, foreclosure or repossession than mortgage loans secured by single-family residential property. In addition, any such losses could also reduce servicing fees on the related MSR, increase servicing costs and therefore result in losses to the MSR Funds.

*Higher Risk of Loss on Loans Secured by Non-Owner Occupied Properties.* The Funds may invest directly or indirectly in mortgage loans that are secured by properties, including improved and unimproved land, held by borrowers for investment, or by second homes. The MSR Funds may also invest in MSR for mortgage loans that are secured by commercial, multifamily or mixed use properties, or by properties, including improved and unimproved land, held by borrowers for investment, or by second homes. These mortgage loans may present a greater risk of loss, and the unimproved land may present a significantly greater risk

of loss, if a borrower experiences financial difficulties, because these borrowers (i) may be more likely to default on a mortgage loan secured by non-owner occupied property than a mortgage loan secured by a primary residence of a borrower and (ii) may not have an incentive to maintain and upkeep a second home or a property held for investment to the same degree as the borrower's primary residence. Any such losses could also reduce servicing fees on the related MSRs, increase servicing costs and result in losses to the MSR Funds.

*Troubled Origination.* The investments chosen by Bayview may have been originated by financial institutions or other entities that are insolvent, in serious financial difficulty or no longer in existence. As a result, the standards by which such investments were originated, the recourse to the selling institution, or the standards by which such investments are being serviced or operated may be adversely affected.

#### Risks Related to Investments in Mortgage Loans

*Re-performing Mortgage Loans.* Certain Funds may invest in mortgage loans that have previously been in default or delinquent in payment and that, at the time such mortgage loans are acquired by the Funds, are in compliance with the terms of the related mortgage loan documents and are no longer delinquent. While these mortgage loans may have been acquired at a price that reflects the fact that the mortgage loans are re-performing at the time of acquisition, there can be no assurance that such mortgage loans will continue to be current and/or in compliance with the terms of the related mortgage loan document during the time period in which the Funds own such mortgage loans. It is therefore possible that re-performing loans may become non-performing loans and be subject to the same concomitant risks.

*Interest-Only Mortgage Loans.* Certain Funds may invest in interest-only mortgage loans and MSRs for pools of interest-only mortgage loans. Interest-only mortgage loans permit the borrowers to make monthly payments of only accrued interest for the first 60 or 120 months following origination. After such interest-only period, the borrower's monthly payment will be recalculated to cover both interest and principal so that the mortgage loan will amortize fully prior to its final payment date. Interest-only loans are relatively new to the non-prime mortgage sector. As a result, the long-term performance characteristics of these loans are largely unknown. If the monthly payment increases, the related borrower may not be able to pay the increased amount and may default or may refinance the related mortgage loan to avoid the higher payment. Such default or refinancing would also reduce servicing fee revenues and increase servicing expenses and therefore adversely affect any related MSRs held by the MSR Funds. Interest-only mortgage loans reduce the monthly payment required by borrowers during the interest-only period and consequently the monthly housing expense used to qualify borrowers. As a result, the interest-only mortgage loans may allow some borrowers to qualify for a mortgage loan that would not otherwise qualify for a fully amortizing mortgage loan or may allow them to qualify for a larger mortgage loan than otherwise would be the case.

*Geographic Concentration of Mortgage Loans.* The mortgage loans and securities backed by mortgage loans in which the Funds may invest may be concentrated in a specific state or states. Similarly, the MSRs or MBS in which the Funds invest may be related to mortgage loans that are 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. Such inability of borrowers to repay their mortgage loans on time would also increase rates of loss and delinquency, reduce servicing fee revenues and increase servicing expenses of related MSRs held by the MSR Funds.

Properties in certain jurisdictions may be more susceptible than properties located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, 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 and reduce servicing fee revenues. Natural disasters, such as wildfires, severe storms and flooding affecting regions of the United States from time to time may also result in prepayments of mortgage loans. Properties located in certain parts of the southern and midwestern United States may have been damaged by the tornados that have affected those areas. These factors and others may adversely affect the value of mortgage properties in some geographic regions and affect the performance of the Funds.

*Risks Associated with Commercial Mortgage Loans.* Certain Funds may invest in commercial mortgage loans, mortgage-backed securities on commercial mortgage loans and MSRs for commercial mortgage loans. The value of the Funds' commercial mortgage loans, mortgage-backed securities on commercial mortgage loans, and MSRs for commercial mortgage loans will be influenced by the rate of delinquencies and defaults experienced on the commercial mortgage loans and by the severity of loss incurred as result of such defaults. The factors influencing delinquencies, defaults and loss severity include: (i) economic and real estate market conditions by industry sectors (*e.g.*, multifamily, retail, office, etc.); (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Commercial mortgage loans are generally viewed as having a greater risk of loss through delinquency and foreclosure than lending on the security of single family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (*i.e.*, the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses and comply with applicable zoning and laws) rather than upon the existence of independent income or assets of the borrower. Many commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Commercial mortgage loans generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining "balloon" amount at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans and commercial mortgage-backed securities ("CMBS") bear the risk that the borrower will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation.

Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

*Repurchases of Loans.* Certain Funds may sell individual loans or pools of loans. In connection with such transactions, the Funds generally expect to enter into agreements customary to the nature and size of the transaction. In those agreements, the Funds generally will be required to make certain representations and warranties regarding each loan or pool of loans. In the event of an uncured breach of certain representations or warranties contained in such agreements, the Funds may be obligated to repurchase loans or a pool of loans from the purchaser, which may adversely affect the performance of the Funds.

*Credit Scores May Not Accurately Predict the Performance of the Mortgage Loans.* Bayview may rely on credit scores as part of its due diligence process. Credit scores are obtained by many lenders in connection with mortgage loan applications to help them assess a borrower's creditworthiness. Credit scores are generated by models developed by a third party that analyzed data on consumers in order to establish patterns that are believed to be indicative of the borrower's probability of default over a two-year period. The credit score is based on a borrower's historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit and bankruptcy experience. Credit scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a credit score purports only to be a measurement of the relative degree of risk a borrower represents to a lender (*i.e.*, a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score). Lenders have varying ways of analyzing credit scores and, as a result, the analysis of credit scores across the industry is not consistent. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assess only the borrower's past credit history. Therefore, a credit score does not take into consideration the effect of mortgage loan characteristics (which may differ from consumer loan characteristics) on the probability of repayment by the borrower. There can be no assurance that the credit scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans. Any delinquencies or defaults on mortgage loans underlying an MSR could reduce servicing fees on the related MSRs, increase servicing costs and therefore result in losses to the MSR Funds.

*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 impracticable foreclosure on the mortgaged property 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.

*Violation of Various Federal, State and Local Laws May Result in Losses on the Mortgage Loans.* Violation of certain Federal, state or local laws and regulations relating to the protection of consumers, unfair and deceptive practices and debt collection practices may limit the ability of the Funds to collect all or part of the principal of or interest on the mortgage loans and, in addition, could subject the Funds to damages and administrative enforcement.

#### Additional Risks Related to Investments in Mortgage Servicing Rights

*Sources of Servicing Income.* Income related to MSR is generated principally from three sources. Depending upon the servicing agreement applicable to the MSR and the agreements that can be negotiated with subservicers, either the servicer or subservicer may be entitled to additional sources of servicing income. First, servicers are entitled to standard minimum servicing fees, which fees are based on a specified percentage of the mortgagor's interest payments actually collected by the servicer. This fee is payable on a monthly basis, by the servicer retaining a portion of the interest payment collected from the borrower as its servicing fee and forwarding the remainder to the mortgage investor. In most cases, the investor or guarantor on whose behalf the loans are being serviced has no contractual obligation to pay the servicing fee to the servicer. Rather, the fee is contingent entirely on the ability of the servicer to collect either the borrower's monthly payment or sufficient liquidation or insurance proceeds. Lakeview may share or split certain fees associated with the servicing of mortgage loans with a subservicer. Given the regulatory environment and the changes in servicing and origination laws and regulations, there can be no assurance that such sharing or splitting of fees will not be prohibited or curtailed. Changes to the negotiated fees Lakeview receives may have a material adverse impact on the MSR Funds.

The scheduled amortization of principal payments on the loans will cause a corresponding reduction in the amount of the aggregate servicing fees. This is referred to as the "run-off". Similarly, full or partial prepayment of a mortgage loan results in a termination of the servicing fee with respect to the prepaid balance of that mortgage loan. This means that the perceived likelihood of prepayment is a significant factor in valuing servicing.

A second source of servicing income is fees and charges imposed on the borrower, generally by the servicer, such as late charges, assumption fees and other fees relating to the performance of specific servicing tasks either at the request of the borrower or as a result of a borrower action or omission to act. These fees may be limited by applicable state and federal law, the mortgage loan documents, the terms of the servicing agreements or the applicable servicing guides.

Third, servicers can generate interest earnings, or "float," on their maintenance of the principal and interest account and the escrow accounts between the time of the collection of

payments by or on behalf of borrowers and the time of application of such funds. Many states, however, require servicers to pay interest to borrowers on their escrow accounts at a specified rate.

*Approvals and Licensing of Mortgage Loan Servicers.* Lakeview has been approved by Fannie Mae, Freddie Mac and Ginnie Mae to own MSR. Lakeview and any of its subservicers are also subject to licensing requirements as owners of MSR. If the number of states that require the licensing of owners of MSR increases, or the states that require licensing impose additional obligations on the owners of MSR, Lakeview's costs could increase. Any of these outcomes may adversely affect Lakeview's or any Subserving's operations or financial conditions and result in loss to the MSR Funds.

Unlike competitors that are banks, Lakeview is subject to state licensing and operational requirements that result in substantial compliance costs. Because Lakeview is not a depository institution, Lakeview does not benefit from a federal preemption of certain state mortgage banking, loan servicing or debt collection licensing and regulatory requirements. Lakeview must comply with state licensing requirements and varying compliance requirements in all fifty states and the District of Columbia, and it is sensitive to regulatory changes that may increase its costs through stricter licensing laws, disclosure laws or increased fees or that may impose conditions to licensing that it or its personnel are unable to meet. In addition, Lakeview is subject to periodic examinations by state regulators, which can result in refunds to borrowers of certain fees earned by Lakeview, and it may be required to pay substantial penalties imposed by state regulators due to compliance errors. Future state legislation and changes in existing regulation may significantly increase Lakeview's compliance costs or reduce the amount of ancillary fees, including late fees, that it may charge to borrowers. This could make Lakeview's business cost-prohibitive in the affected state or states and could materially affect Lakeview's business.

*Loss of Lakeview's Licenses.* Lakeview's business would be adversely affected if Lakeview loses its licenses. Lakeview's operations are subject to regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations. In most states in which Lakeview operates, a regulatory agency regulates and enforces laws relating to mortgage servicing companies and mortgage originations companies such as Lakeview. These rules and regulations generally provide for licensing as a mortgage servicing company, mortgage originations company or third party debt default specialist, requirements as to the form and content of contracts and other documentation, licensing of Lakeview's employees and employee hiring background checks, licensing of independent contractors with which Lakeview contracts, restrictions on collection practices, disclosure and record-keeping requirements and enforcement of borrowers' rights. In certain states, Lakeview is subject to periodic examination by state regulatory authorities. Some states in which Lakeview operates require special licensing or provide extensive regulation of Lakeview's business. The states that currently do not provide extensive regulation of Lakeview's business may later choose to do so, and if such states so act, Lakeview may not be able to obtain or maintain all requisite licenses and permits. The failure to satisfy those and other regulatory requirements and/or maintain all requisite licenses and permits could result in a default under Lakeview's servicing agreements and have a material adverse effect on Lakeview's operations.

*Subservicer and Termination Risk.* None of the MSR Funds, Lakeview or any controlled affiliates will perform any servicing function or have the capacity to service MSR. Lakeview expects it will customarily enter into subservicing agreements with subservicers

that will undertake to subservice the mortgage loans for Lakeview and the MSR Funds for a specified term (*e.g.*, 2 or 5 years). The subservicers will be responsible for satisfying most of the legal requirements and agency and loan owner's guidelines that relate to the activities of collecting on, and enforcing the terms of, mortgage loans. Nevertheless, as Lakeview will be contractually obligated to service the underlying mortgage loans, Lakeview will have the ultimate responsibility to service the mortgage loans underlying the MSRs and to repurchase any loans from the underlying MSR pool in accordance with agency requirements. Therefore, a failure by a subservicer to satisfy the legal requirements or agency or mortgage investor's guidelines may lead to: (i) Lakeview's loss of approved status to service loans; (ii) demands for indemnification; (iii) criminal and civil liability; (iv) fines, penalties and loss of licensing; (v) administrative enforcement actions; and (vi) loan repurchase obligations. If a servicer termination event or event of default has occurred under a pooling and servicing agreement, Lakeview may be terminated as servicer without any right to compensation for the loss of such MSRs, other than the right to be reimbursed for any outstanding servicing advances as the related loans are brought current, modified, liquidated or charged off. Lakeview will generally provide in its subservicing agreements that subservicers will indemnify Lakeview and the MSR Funds for losses incurred from a subservicer's failure to comply with contractual or regulatory requirements. Lakeview, however, may incur expenses in attempting to obtain and enforce such indemnification and, in certain circumstances (such as the bankruptcy of the subservicer), may not obtain full indemnification for its losses.

In addition, servicing contracts may provide mortgage investors (or agencies) with the authority to terminate servicing rights without cause. In such a circumstance, Lakeview may be provided the right to sell the applicable MSRs to another servicer within a certain time frame. If the mortgage investor (or agency) does not provide Lakeview with such right, or Lakeview is unable to arrange a transfer of the MSRs in the time period provided, Lakeview may be paid a termination fee. The termination fee may be insufficient to cover the value of the MSR Funds' investment in the MSRs. The MSR Funds' loss of the MSRs would have a material adverse impact on investors. If (i) a subservicing agreement is terminated with respect to MSRs or (ii) a subservicer is permanently suspended as a servicer of mortgage loans by a regulatory agency or mortgage investor, there is no assurance that Lakeview will be able to find a suitable replacement subservicer at a cost acceptable to Lakeview. Bayview believes that any contractual arrangements with any subservicers could be replicated given the competitive state of the market and the availability of qualified alternate vendors. However, the inability of the MSR Funds to procure a suitable replacement subservicer at an acceptable cost would have a materially adverse effect on MSR investments.

*Risks Associated with Mortgage Servicer Ratings.* Moody's, Standard & Poor's and Fitch rate many mortgage servicers. These ratings are subject to change in the future without notice. Servicer ratings are important to any servicer's (including Lakeview) ability to finance servicing advances. For example, the amount of debt that is permitted to be outstanding under any advance financing facility may decrease with downgrades in the servicer ratings of the subservicers. Downgrades in the servicer ratings of subservicers could also affect the terms of advance financing facilities that Lakeview may enter into, as lenders may require higher interest rates or may limit the amount of money that Lakeview can borrow to finance servicing advances if subservicers' ratings are deemed by the lenders to be too low. In addition, certain pooling and servicing agreements may also require that the servicer maintain specified servicer ratings. The failure of a subservicer to maintain the specified rating may result in Lakeview's termination as servicer. Accordingly, any such

downgrade could have an adverse effect on Lakeview's business, financing activities, financial condition and result in losses to the MSR Funds.

*Risks Associated with Loan Origination in the MSR Funds.* Lakeview may be subject to liability for potential violations of various lending laws and additional costs associated with state and federal licensing in connection with loans that Lakeview originates as part of its loan origination business. Residential mortgage loan originators and servicers are required to comply with various federal, state and local laws and regulations, including anti-predatory lending laws and laws and regulations imposing certain restrictions and requirements on "high cost" loans. Licensing laws may also require disclosure of certain Limited Partners' names if their beneficial ownership exceeds a certain percentage (typically 5-10% or more) of the regulated servicer. Continued changes in legislation and licensing laws may also require technology updates and additional implementation costs for loan originators. Such legislative changes will likely continue for the foreseeable future and may increase Lakeview's operating expenses related to its loan origination services.

Additionally, in connection with the loan origination business, Lakeview may be required to repurchase loans previously originated by Lakeview or by third parties or may originate loans that are not salable to the agencies. There is a risk that Lakeview may be required to indemnify the agencies for loans it originates if such loans fail to meet certain criteria or characteristics. Many contracts with purchasers of whole loans (and the agencies) contain provisions that require originators to indemnify or repurchase the related loans under certain circumstances. While specific contracts will vary, they may contain provisions that will require Lakeview to repurchase loans if: (i) Lakeview's representations and warranties concerning loan quality and loan circumstances are inaccurate, including representations concerning the licensing of a mortgage broker; (ii) Lakeview fails to secure adequate mortgage insurance within a certain period after closing; (iii) a mortgage insurance provider denies coverage; or (iv) Lakeview fails to comply, at the individual loan level or otherwise, with regulatory requirements in the current dynamic regulatory environment. The risk of Lakeview's losses from representations and warranties may be mitigated if the originator or third party lender of a loan is obligated to repurchase such loan, although there can be no assurance that such mitigation will occur. Lakeview may have the right to seek a repurchase or indemnity from such originator or third party lender, although there can be no assurance that Lakeview will have such rights. However, to the extent Lakeview is required to indemnify or repurchase loans that it originates and sells or securitizes that result in losses that exceed its projections, this could adversely affect Lakeview's business operations and result in losses to the MSR Funds.

*Foreclosure and Bankruptcy.* When delinquent mortgage loans are resolved through foreclosure, the unpaid balance of such loans may cease to be a part of the aggregate unpaid principal balance. Also, delinquent mortgage loans resolved through foreclosure generally require more servicing advances over a longer time horizon prior to reimbursement as compared with servicing advances made with respect to delinquent mortgage loans that are resolved through repayment or permitted loan modifications. Accordingly, foreclosures could reduce the return to Funds and amount of servicing fees to which Lakeview or other controlled affiliates are entitled and increase servicing costs, which could result in losses to MSR Funds. Further, some legislatures are instituting stringent proof of ownership requirements that a servicer must satisfy before commencing a foreclosure action, which could increase costs or provide delays in foreclosure.

*Legal Proceedings.* Legal proceedings, state or federal governmental examinations or enforcement actions and related costs could have a material adverse effect on Lakeview's liquidity, financial position and results of operations. Lakeview will be routinely involved in legal proceedings concerning matters that arise in the ordinary course of its business. These legal proceedings range from actions involving a single plaintiff to class action lawsuits. An adverse result in governmental investigations or examinations or private lawsuits, including purported class action lawsuits, may adversely affect Lakeview's financial results. In addition, a number of participants in the origination and servicing industry have been the subject of purported class action lawsuits and regulatory actions by state regulators, and other industry participants have been the subject of actions by state Attorneys General. Litigation and other proceedings may require that Lakeview pay settlement costs, legal fees, damages, penalties or other charges, any or all of which could adversely affect Lakeview's financial results. In particular, ongoing and other legal proceedings brought under state consumer protection statutes may result in a separate fine for each violation of the statute, which, particularly in the case of class action lawsuits, could result in damages substantially in excess of the amounts Lakeview earned from the underlying activities and that could have a material adverse effect on Lakeview's liquidity, financial position and results of operations.

*Agency Compensatory Fee Risk to the MSR Funds.* The agencies may impose compensatory fees if Lakeview does not complete foreclosure within prescribed time frames. The agencies require routine, uncontested foreclosure proceedings to be completed within prescribed foreclosure time frames, representing the allowable time lapses between the time the case is referred to the attorney (or trustee) to commence a foreclosure action and the completion of the foreclosure sale. These timelines are based on the agencies' interpretation of the legal requirements of the applicable jurisdiction and presume that there are no delays outside the control of the servicer or attorney. For instance, Freddie Mac and Fannie Mae reserve the right to charge a compensatory fee for delays in completing the foreclosure process based on Freddie Mac's or Fannie Mae's, as applicable, monthly monitoring of the servicer's management of the foreclosure process. The compensatory fee is calculated based on the outstanding principal balance of the mortgage loan (regardless of the value of the property or the estimated liquidation proceeds), the applicable pass-through rate, the length of the delay, and any additional foreclosure costs that are directly attributable to the delay. In addition to proving the reason for the delay, the servicer is required to demonstrate that it diligently worked toward resolution of the delay to the extent feasible and reported the reasons for the delay in a timely and accurate manner based on delinquency status codes established by the agencies. The agencies state that they rely on the delinquent loan status data submitted by the servicer as definitively and conclusively reflecting the status of a loan for purposes of the assessment and collection of compensatory fees for delays in liquidating delinquent loans and reserve the right to reject any information provided by the servicer to support a status code that is different from the one reported, even if they were not prejudiced by the changes in information. Compensatory fees are not imposed in lieu of other remedies that the agencies retain under their contracts for servicing breaches.

The timelines established by the agencies do not necessarily represent the average time it would take a servicer to diligently pursue an uncontested foreclosure in a particular jurisdiction and there is no certainty that Lakeview will meet these timelines in individual cases or report the reasons for the delay in a timely and accurate manner. Failure to meet these time frames on a regular basis likely will result in the imposition of significant compensatory fees.

It is anticipated that potential penalties will be priced into MSR acquisitions, however there can be no assurance that such anticipated penalties will be sufficient to cover the actual penalties. Even though servicing may be undertaken by subservicers, the ultimate responsibility for any penalty will be borne by Lakeview, as the owner of the MSRs.

*Risk of Prepayment and Default.* If a mortgage loan is prepaid, the related servicing rights will generate no further income for an MSR investor. If a mortgage loan goes into default, the servicer may not collect a servicing fee for such mortgage loan while it is in default. Following liquidation, the servicing rights on a defaulted mortgage loan will not generate further income for an MSR investor. In addition, the servicer may incur certain costs in connection with foreclosure proceedings on defaulted mortgage loans for which it may not be fully reimbursed. Rates of mortgage loan defaults and prepayments are determined by numerous factors beyond the control of the Funds, including, among others, changes in interest rates, economic trends both nationally and within particular geographical areas, changes in real estate values and changes in federal, state and local laws. The Funds may attempt to hedge against the risks involved from borrower prepayment and default by purchasing and/or selling certain financial instruments. There can be no assurance that such actions will be effective, and the Funds will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally.

*Advance and Credit Risk.* Pursuant to its servicing agreements, Lakeview may be obligated to make advances to pay taxes, mortgage and hazard insurance premiums, foreclosure expenses, repair and preservation expenses and other similar items. Bayview expects that the subservicing agreements will provide that the subservicers will make all advances and receive reimbursement from the servicer only if the advances are unrecoverable. In other cases, the servicer reimburses subservicers for advances made by such subservicers on a periodic basis prior to the subservicer's attempts to recover such advances. In certain instances, the servicer of mortgage loans will have an obligation to advance funds irrespective of its expectation or ability to be reimbursed, in the case, for example, of property taxes, hazard insurance premiums and principal and interest, if applicable. With respect to certain servicing agreements, primarily relating to MSRs in which the underlying mortgage loans have been pooled and securitized, the servicer may also be required to advance all or part of the scheduled mortgage payments where loan payments are delinquent.

If a mortgagor prepays a mortgage loan, the mortgage servicer may be required to pay interest on the related securities until the end of the month to which the prepayment relates. For the most part, the servicer will have the right to be reimbursed for such advances out of any available funds subsequently collected from (i) the resumption of mortgage payments by a delinquent borrower, (ii) in the case of non-agency MSRs, liquidation proceeds realized upon the sale of a mortgaged property following foreclosure or other means of acquiring title, (iii) in the case of Ginnie Mae MSRs, insurance proceeds realized upon the submission of a claim by the servicer on insurance policies maintained on behalf of the mortgage investor, or (iv) in the case of Fannie Mae and Freddie Mac MSRs, reimbursement by the mortgage investor if the other sources prove to be insufficient. Not all advances, however, are reimbursable. Advances to securities holders for interest shortfalls on mortgage loan prepayments may not be recoverable. In the case of mortgage loans insured by the Federal Housing Administration ("FHA"), only two thirds of foreclosure related expenses, or the costs of acquiring title to the mortgaged property, are reimbursable and other fees and expenses are reimbursable only to prescribed limits. In addition, there may be deductions



from the reimbursement if the foreclosure of loans in default is not conducted within prescribed time frames.

In addition, Lakeview may be required to absorb the costs of funds advanced during the time an advance is outstanding. Payments to servicers generally continue during the delinquency of a mortgage loan. Therefore, while certain advances relating to foreclosure proceedings on defaulted mortgage loans may be unrecoverable, the advance risk associated with nonrecourse servicing is primarily a matter of cash flow timing rather than a credit risk. The obligation to make advances and the delay in receipt of reimbursement could have a negative impact on the MSR Funds' cash flow.

Ginnie Mae servicing, however, involves some recourse features with regard to certain U.S. Department of Veteran Affairs (the "VA") and U.S. Department of Agriculture ("USDA") loans where the servicer is required to share credit losses with the holders of the securities. For VA-guaranteed mortgage loans under the Ginnie Mae program, the servicer may be subject to a credit loss if the underlying mortgaged property is sold in foreclosure or valued by the VA at a price that is insufficient, along with VA guaranty benefits, to satisfy the outstanding indebtedness of a loan. Additionally, as part of the Ginnie Mae program, loans may be repurchased if they are delinquent or modified, which may result in Lakeview owning such whole loans.

*Additional Risks Associated with Advances by Subservicers in the MSR Funds.* Although Lakeview will be responsible for funding servicing advances, the subservicers will be responsible for ensuring that servicing advances are made in compliance with the terms of the pooling and servicing agreements relating to the MSRs and its stop loss policy so that the servicing advances with respect to a mortgage loan do not exceed the amount expected to be collected with respect to such mortgage loan. Servicing advances that are improperly made may not be eligible for financing under the advance financing facility relating to the MSRs and may not be reimbursable by the owner of the mortgage loan or the related securitization trust, which would reduce Lakeview's liquidity and may result in losses to the MSR Funds. In the event a subservicer fails to remit advances, Lakeview and Bayview would be responsible. If either Lakeview or the MSR Funds are unable to make such advances, it could result in the termination or loss of MSRs and/or other material adverse consequences to the MSR Funds and their investments. Furthermore, certain interest advanced by a servicer for a FHA loan may not be fully reimbursable by the FHA under its guidelines.

*United States Military Operations may Increase Risk of Service Members Civil Relief Act Shortfalls.* The U.S. Service Members Civil Relief Act provides certain relief to borrowers who enter active military service after the origination of the borrower's mortgage loan. These borrowers may not be required to pay interest in excess of 6% per annum. The note holder is also restricted from exercising certain enforcement remedies during the period of the borrower's active duty status. Several states have enacted or are considering similar laws. As a result of military operations abroad, the United States has placed a substantial number of armed forces reservists and members of the U.S. National Guard on active duty status. It is possible that the number of reservists and members of the U.S. National Guard placed on active duty status might remain at high levels for an extended time. To the extent service members are borrowers on loans underlying MSRs the MSR Funds purchase, the interest rate limitation of the U.S. Service Members Civil Relief Act, and corollary state laws, will apply to the loans. An increase in the number of borrowers taking advantage of those laws may increase servicing expenses, and may also reduce cash flow and the interest payments

collected from those borrowers. In the event of default, some of these laws result in delaying or preventing the loan servicer from exercising remedies for default. If these events occur, they might result in interest shortfalls on the loans to which the MSR Funds relate, increase servicing costs, and reduce the value of the MSR Funds purchase.

*Violations of Federal, State and Local Laws that may Result in Losses on Mortgage Loans, Rescission of the Loans or Penalties that may Adversely Impact the Funds' Income.* A loan seller's failure to comply with certain requirements of federal and state laws could subject the seller (and any subsequent holders of the mortgage loans) or servicer to monetary penalties or may limit the ability of the Funds to collect all or part of the principal of or interest on the mortgage loans, even if the subsequent holder or servicer was not responsible for and was unaware of those violations. These adverse consequences vary depending on the applicable law and may vary depending on the type or severity of the violation, but they can include:

- the inability of the holder of the loan to collect all of the principal and interest otherwise due on the loan;
- the right of the homeowner to a refund of amounts previously paid (which may include amounts financed by the loan), or to set off those amounts against his or her future loan obligations;
- the liability of the servicer and the mortgage investor for actual damages, statutory damages and punitive damages, civil or criminal penalties, costs and attorneys' fees; and
- in limited circumstances, the ability of the homeowner to rescind, or cancel, the loan.

The terms of the documents under which the MSR Funds intend to purchase MSRs may entitle the holders of the loans to contractual indemnification against these liabilities. For example, the sellers of loans typically represent that each mortgage loan was made in compliance with applicable federal and state laws and regulations at the time it was made. If there is a material breach of that representation, the seller may be contractually obligated to cure the breach or repurchase or replace the affected mortgage loan. If the seller is unable or otherwise fails to satisfy these obligations, the value of the MSRs might be materially and adversely affected. Due to the well-publicized relatively recent deterioration in the housing markets, many of the sellers that issued these indemnifications are no longer in business or are unable to financially respond to their indemnification obligations. Consequently, holders of interests of the MSRs might ultimately have to absorb the losses arising from the sellers' violations. While Bayview will attempt to take these factors into account in the prices to be paid for MSRs, there can be no assurances concerning the validity of the assumptions used in pricing decisions. Similar risks apply to the loans that serve as security for MBS and the documentation governing those loans and the MBS.

*Risks Associated with Assumptions in Determining Purchase Price.* The success of the MSR Funds will be highly dependent upon accurate pricing of MSRs and other assets. In determining the purchase price for MSRs (and MBS in certain instances), Bayview may make assumptions regarding: the rates of prepayment and repayment of the underlying mortgage loans, the amount of future servicing advances; projected rates of delinquencies and defaults; future interest rates; and the costs associated with engaging subservicers to service the loans.

If any of Bayview's assumptions regarding the MSR's or other assets acquired are inaccurate or the basis for such assumptions change, the price paid to acquire such MSR's or other assets may prove to be too high, which could result in losses to the Funds.

*Limited Investigation of MSR's.* While Bayview will conduct reasonable due diligence of prospective MSR's prior to their purchase by the MSR Funds, it will not be possible to perform an investigation that is certain to identify all negative factors with respect to the seller or the MSR's due to the number of mortgage loans involved in each portfolio, the cost of conducting such an investigation and limitations on available time. Thus, various negative factors concerning the seller or the MSR's may come to light after the MSR Funds have acquired the portfolio. The acquisition agreements that the MSR Funds use when acquiring MSR's generally do not limit the MSR Funds' right to seek indemnification from the seller for defects in the MSR's that the MSR Funds either discovered or failed to discover during its investigation.

*Origination Defects.* The mortgage loans acquired through TPO or underlying the MSR Funds' MSR's may have been originated by financial institutions or other entities that are insolvent, in serious financial difficulty or no longer in existence. As a result, the standards by which such investments were originated, the recourse to the selling institution, or the standards by which such investments are being serviced or operated may be adversely affected.

*Successor in Interest to the Representations and Warranties of the Originator.* In many instances, servicing contracts may require that the servicer assume the original sales representations and warranties relating to the mortgage loans underlying the MSR's that were made by the seller of such mortgage loans. If those representations and warranties have been breached, Lakeview may be required to repurchase such mortgage loans. Any subsequent loss on such repurchased mortgage loans on their resale or foreclosure by Lakeview would be borne by the MSR Funds, subject to any indemnification rights the MSR Funds may have in its contract with the seller of the MSR's. The MSR Funds have provided, and intend to continue to provide, in their agreements relating to the acquisition of MSR's that the seller of MSR's to the MSR Funds will indemnify the MSR Funds for any losses they incur as a result of the seller's, any prior servicer's or any originator's non-compliance with contractual or regulatory requirements. Again, the MSR Funds may incur expenses in attempting to obtain indemnification and, in certain circumstances, may not obtain full indemnification for their losses. The MSR Funds have performed, and intend to continue to perform, due diligence investigations on MSR's the MSR Funds purchase, although there can be no assurance that such investigations will uncover all such breaches.

#### Additional Risks Related to Investments in Mortgage-Backed and Asset-Backed Securities

*Mortgage-Backed and Asset-Backed Securities Generally.* The Funds may invest in MBS and asset-backed securities ("ABS"), including subordinated tranches of such securities. The value of MBS and ABS will be influenced by factors affecting the value of the underlying assets, and by the terms and payment histories of such MBS and ABS.

Some or all of the MBS and ABS contemplated to be acquired by the Funds may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated MBS and ABS, or "B-pieces", in which the Funds intend to invest have speculative characteristics and can involve substantial

financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than “B” by the rating organizations can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner’s equity in the property may be insufficient to protect the Funds from loss. As an investor in subordinated MBS and ABS in particular, the Funds will be first in line among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral.

The Funds may acquire subordinated tranches of MBS and ABS issuances. In general, subordinated tranches of MBS and ABS are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and also have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of non-payment than are senior tranches of MBS and ABS or MBS and ABS backed by third-party credit enhancement. In addition, an active secondary market for such subordinated securities is not as well developed as the market for certain other mortgage-backed securities. Accordingly, such subordinated MBS and ABS may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

Some investment characteristics of MBS and ABS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying mortgages (or other assets) generally may be prepaid at any time. The frequency with which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans and other assets underlying MBS and ABS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. Although ABS are generally less likely to experience substantial prepayments than are residential MBS, certain of the factors that affect the rate of prepayments on residential MBS also affect the rate of prepayments on ABS. Typically, commercial mortgage loans are not prepayable or are subject to prepayment penalties or interest rate adjustments, while the principal on most residential mortgage loans generally may be prepaid at any time without penalty. Particular investments may experience outright losses, as in the case of an interest only security in an environment of accelerated actual or anticipated prepayments. Particular investments will be affected by the credit quality of their underlying loan and the creditworthiness of the borrower. Also, particular investments may underperform relative to hedges that the Funds may have constructed in these investments, resulting in a loss.

*Residential MBS.* The Funds may invest in residential MBS (“RMBS”) including subordinated tranches of RMBS. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. The value of RMBS will therefore be influenced by factors affecting the value of the underlying portfolio or mortgage loans, as discussed below, and by the terms and payment histories of such RMBS. These risks, which are discussed below in the context of the underlying mortgage loans and the mortgage market in general, include, without limitation, default, delinquencies, prepayment and modification risks, as well as interest rate and general market risks.

In addition, residential mortgage loans underlying RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, delay foreclosures or permit or encourage modifications, which could have an adverse effect on the value of a mortgage loan and the corresponding RMBS. Violation of such laws, public policies and principles may limit the servicer's ability to collect all or part of the principal 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. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

Some or all of the RMBS and other mortgage-backed securities contemplated to be acquired by the Funds may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated RMBS, or "B-pieces", in which the Funds intend to invest have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than "B" by the rating organizations can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner's equity in the property may be insufficient to protect the Funds from loss.

The Funds may acquire subordinated tranches of RMBS issuances. In general, subordinated tranches of RMBS are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and also have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of nonpayment than are senior tranches of RMBS or RMBS backed by third-party credit enhancement. As an investor in subordinated RMBS in particular, the Funds will be first in line among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral. In addition, an active secondary market for such subordinated securities is not as well developed as the market for certain other mortgage-backed securities. Accordingly, such subordinated RMBS may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

The value of RMBS and other mortgage-backed securities in which the Funds may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities will decline. In addition, to the extent that the mortgage loans which underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline. Typically, commercial mortgage loans are not prepayable or are subject to prepayment penalties or interest rate adjustments, while the principal on most residential mortgage loans generally may be prepaid at any time without penalty.

In addition, it is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

*Servicing Advances.* Most RMBS transactions will have provided for the servicers to make certain monthly advances (of principal and interest) and servicing advances pursuant to the applicable servicing agreements. As indicated above, the costs of servicing an increasingly

delinquent mortgage loan portfolio may be rising without a corresponding increase in servicing compensation. Any regulatory oversight, proposed legislation and/or governmental intervention designed to protect consumers or otherwise may have an adverse impact on servicers and, as a result, may have an adverse impact on mortgage loans and on RMBS. These factors, among others, may have the overall effect of increasing costs and expenses of servicers while at the same time decreasing servicing cash flow. Such financial difficulties may have a negative effect on the ability of servicers to pursue collections on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on the sale of underlying properties following foreclosure. Increased levels of delinquencies and defaults on subprime, Alt-A, other non-prime and prime mortgage loans also have resulted in increases in the amounts of advances by servicers of pooled mortgage loans. Many servicers are experiencing advance requirements that are significantly higher in total dollar amount than was anticipated and this can create liquidity or capacity pressures for these servicers. In addition, a servicer may generally stop advancing on a mortgage loan when, in the good faith exercise of its servicing judgment, it believes the proposed advance would not ultimately be recoverable from the related mortgagor, related liquidation proceeds or other recoveries in respect of the mortgage loan. There can be no assurance as to the current or continuing financial condition of any mortgage servicer or its ability to access markets for financing such advances.

Over the past several years, because of the depreciation in home values, servicers had to reconsider their assumptions regarding when to make monthly advances and servicing advances to avoid making such advances beyond the time that reimbursement for such advances would be unlikely. Falling home prices resulted in higher loan-to-value ratios and combined loan-to-value ratios which yield lower recoveries in foreclosure, and an increase in loss severities above those that would have been realized had property values remained the same or continued to increase. If servicers make advances that are not recoverable from the proceeds of the related foreclosure, the Funds' investments in RMBS could suffer losses. In addition, in the event an RMBS servicer determines not to advance, the related RMBS trust will suffer an interest rate shortfall which may result in bond interest shortfalls and may result in lower available credit protection provided that this interest serves as a form of credit enhancement ("excess interest"). This combined with the introduction of modification programs, including the Home Affordable Modification Program ("HAMP"), and potentially any bankruptcy cramdown legislation or equivalent change based on industry settlements or regulatory requirements, where the servicer can recoup prior advances upon modification and reduce the mortgage interest rate or forbear principal of the underlying mortgage loans, there is the risk that the interest available to the underlying securitization will be reduced in some instances increasing bond interest rate shortfalls and decreasing the overall credit protection of the bond. In addition, this modification of interest rates, specifically by changing adjustable rate loans into a modified loan with a fixed rate, will potentially increase the mismatch between the bond interest adjustment features and the underlying loans. This potential decline in RMBS bond interest may increase the risk of leverage and the basis mismatch between the underlying bonds and the financing.

Although RMBS transactions may provide that the loan servicer is required to make advances in respect of delinquent mortgage loans, servicers experiencing financial difficulties, including those resulting from or exacerbated by servicing-related settlements with governmental entities, regulators or as a result of various civil lawsuits, may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts.

Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee. There may be contractual differences related to the requirement of the servicer to advance delinquent principal and interest.

*Commercial MBS.* Mortgage loans on commercial properties underlying MBS often are structured so that a substantial portion of the loan principal is not amortized over the loan term and is instead payable at maturity. Repayment of the loan principal therefore 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. Many commercial mortgage loans underlying MBS 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 MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS 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 the related MBS. Revenues from the assets underlying such MBS 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.

*Asset-Backed Securities.* Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass through structures. The Funds may invest either directly or indirectly, through collateralized debt obligations ("CDOs"), in these and other types of ABS that may be developed in the future.

ABS presents certain risks that are not presented by MBS. Primarily, these financial instruments do not have the benefit of the same security interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some

cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with MBS, ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

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

#### Additional Risks Related to Investments in Commodities, Derivatives and Distressed and High-Yield Securities

*Trading in Commodities and Derivatives.* Certain Funds may utilize derivative instruments such as options, futures, forward contracts, total return swaps, credit default swaps, and interest rate swaps, caps and floors, both for investment purposes and to hedge against fluctuations in the relative values of its positions. These are instruments whose values are based upon underlying assets, indices or reference rates or a combination of these, and generally represent future commitments to exchange cash flows or to purchase or sell other financial instruments (or make an equivalent cash payment) at specified future dates. Certain derivatives (options and credit default swaps in particular) may have intrinsic value separate from the value of underlying assets based upon market perception of creditworthiness or expected volatility in the value of the asset. The use of derivatives involves a variety of material risks, including the possibility of counterparty non-performance as well as of deviations between the actual and theoretical value of the derivatives. Derivatives also are inherently subject to two sources of risk: risk of loss due to adverse changes in the value of the underlying asset and risk of loss due to the insolvency or creditworthiness of the counterparty. In addition, the markets for certain derivatives may be illiquid.

Derivatives are typically intrinsically leveraged investments that may entail investment exposures that are greater than the initial amount of collateral required to enter into the derivative, meaning that an investment in a derivative could ultimately incur losses many times greater than the initial collateral requirements and could therefore have a disproportionate effect on the performance of such Funds. Funds could also experience losses if the derivatives that are acquired or sold as a hedge are poorly correlated with the investment to be hedged, or if such Funds are unable to liquidate a position because of an illiquid secondary market. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives.

Certain Funds may trade commodities, futures and options, and may enter into swap agreements. The prices of commodities contracts and all derivative instruments, including



futures and options, may depend upon a number of factors, including the prices of the underlying assets and may be highly volatile. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, the Funds are subject to the risk of failure of any of the exchanges on which they trade, their clearinghouses or the clearing brokers through which their trades clear. In the case of commodity contracts traded on non-U.S. exchanges and certain derivative instruments, the Funds may be subject to the risk of the inability of, or refusal by, the counterparty to perform. In addition, profits realized in non-U.S. markets could be eliminated by adverse changes in the applicable currency exchange rate, or the Funds could incur losses as a result of those changes.

*General Risks of CDO Investments.* The value of the CDOs owned by the Funds generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO (“CDO Collateral”), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof.

CDO Collateral may consist of high yield debt securities, loans, ABS and other instruments, which often are rated below investment grade (or of equivalent credit quality). The lower ratings of high yield securities and below investment grade loans 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. In addition, the lack of an established, liquid secondary market for some CDOs (CDO equity securities in particular) may have an adverse effect on the market value of those CDOs and will in most cases make it difficult to dispose of such CDOs at market or near-market prices.

*Structured Investment Products.* Certain Funds may invest in, or otherwise participate in a variety of different structured investment products; for example, total return swaps, participating notes, options, credit default swaps and collateralized debt obligations. These structured products involve not only the risks of the underlying “reference asset,” but also other risks including, without limitation, acceleration of the financing embedded in the structure, counterparty credit risk, and/or restrictions imposed on the management and nature of the permissible reference assets and costs of creating the structured products.

*Credit Default Swaps.* Certain Funds may enter into credit derivative contracts such as credit default swaps (“CDS”), LCDS, CDX and LCDX contracts. The typical CDS and LCDS contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities or loans issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic and/or upfront payments equal to a fixed percentage of the notional amount of the contract. The Funds may also purchase or sell credit default swaps on a basket of reference entities or an index that is CDX and LCDX contracts. In circumstances in which the Funds do not own the debt or loans that are deliverable under a credit default swap, the Funds will be exposed to the risk that deliverable securities or loans will not be available in the market, or will be available

only at unfavorable prices, as would be the case in a so-called “short squeeze”. In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation had occurred. In either of these cases, the Funds would not be able to realize the full value of the credit default swap upon a default by the reference entity. As a seller of credit default swaps, the Funds incur leveraged exposure to the credit of the reference entity and are subject to many of the same risks they would incur if they were holding debt securities or loans issued by the reference entity. However, the Funds will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Funds following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Funds. Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact the Funds’ ability to otherwise productively deploy any capital that is committed with respect to such contracts.

*Hedging with Derivative Instruments.* The Funds intend to use derivative financial instruments, including without limitation, futures, swaps, options, floors, total return swaps, and CDS, IOS, POS, LCDS, CDX, LCDX, ABX and CMBX contracts, primarily for leveraging and hedging purposes. The use of derivative instruments involves a variety of material risks, including the 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 (*i.e.*, non-conformance 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 to the Funds to close out positions in order either to realize gains or to limit losses.

Many of the derivatives which the Funds trade in will be principal to principal or “over the counter” contracts between the Funds and third parties entered into privately, rather than on an exchange. As a result, the Funds are not afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price that the same dealers would actually be willing to pay for such derivative should the Funds wish or be forced to sell may be materially different. Such differences can result in an overstatement of the Funds’ net assets and could materially adversely affect the Funds in situations in which the Funds are required to sell derivative instruments.

Interest-only securities (“IOS”) may be utilized by the Funds for hedging or other investment purposes. An IOS is a synthetic total return swap index that references the interest component of various coupons of 30-year fixed rate agency pools of loans. Indices are generally categorized by net coupon and yearly vintage. IOS provide exposure to agency pool coupon cashflows via synthetic total return swap (“TRS”) contracts. Net cashflow

exchanges are a function of the change in market value of the reference pool interest component and standard monthly exchanges of coupon and financing. Corresponding POS tranches represent the principal component and corresponding MBX tranches represent the entire cashflow stream. The Funds may make long or short investments in various tranches for hedging or other investment purposes.

*Distressed and High-Yield Securities.* The Funds may invest in securities issued by, or other indebtedness of, companies in weak and/or deteriorating financial condition, experiencing poor operating results, needing substantial capital investment, having negative net worth, facing special competitive or product obsolescence problems or involved in bankruptcy or reorganization proceedings. Investments of this type are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace, and further, may involve substantial financial and business risks, which are often heightened by an inability to obtain reliable information about the issuers. The investments can result in significant or even total losses. In addition, the markets for distressed and high-yield securities are frequently illiquid. The market prices of distressed and high-yield assets are subject to abrupt and erratic market movements and above-average price volatility, and the spreads between the bid and asked prices of such assets may be greater than those prevailing in other markets. It may take a number of years before the market price of the assets reflects their perceived intrinsic value, if they ever do. Distressed assets also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments and lender liability, as well as bankruptcy and other judicial courts' power to disallow, reduce, subordinate or disenfranchise particular claims.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

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

**ITEM 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

**A. Broker-Dealer Registration Status**

Not applicable.

**B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.**

Not applicable.

**C. Material Relationships or Arrangements with Industry Participants**

Registrant's Relationship with Other Bayview Entities

The Registrant and its affiliated general partner and management company entities provide discretionary investment management services to the Funds, as more fully discussed in Item 4.

Certain inherent conflicts of interest arise from the fact that the Registrant and its Bayview affiliates provide investment management services to other investment funds, and may in the future provide investment management services to other funds, client accounts or proprietary accounts (such other funds, clients and accounts, collectively the "Other Accounts"), in which the Funds will not have an interest. The investment programs of the Funds and Other Accounts may overlap or may not be similar and Bayview may give advice and recommend securities to a Fund or an Other Account which may differ from advice given to, or investments recommended or bought for, the Funds or Other Accounts, even though their investment objectives may be the same or similar to each other. While Bayview will undertake to manage the Funds and Other Accounts diligently in pursuit of their respective investment objectives, Bayview will devote as much of its time to the activities of the Funds and Other Accounts as it deems necessary and appropriate. When a conflict of interest arises Bayview will endeavor to ensure that the conflict is resolved fairly.

Pursuant to certain agreements between the Funds (and/or a Controlled Affiliate thereof), the Registrant and its subsidiaries (including BLS) (the "BAM Agreements"), Bayview provides services to certain Funds with respect to: (i) sourcing investment opportunities, underwriting, and managing the purchase process for investments; (ii) servicing certain of the loans in such Funds' portfolios; (iii) providing loss mitigation services, foreclosure services and bankruptcy services to subservicers with respect to mortgage loans owned by Funds and those underlying MSRs; and/or (iv) providing loan origination services, third-party origination services and information technologies services including, without limitation, services relating to various sales functions in connection with sourcing eligible third party originated loans, loan underwriting and loan processing, capital market activities, credit policy and lender management, new loan set-up and other support functions. Such Funds will pay Bayview Acquisition Fees, Servicing Fees, Component Fees and Origination Fees in respect of such services. In addition, as discussed more fully in Item 5C above the Funds may pay BLS Refinancing Fees and/or Facilitation Fees. The foregoing fees are in addition to and will not offset management fees or performance compensation paid or allocated to

Bayview. The foregoing fees are described more fully in the confidential private placement memorandum of each Fund to which such fees apply.

The BAM Agreements have been negotiated between related parties and their terms, including fees payable, may not be as favorable to the Funds as if they had been negotiated at arm's length with an unaffiliated third party, and may be costly and difficult to terminate. However, Bayview believes the fees to be competitive with those standard in the market.

In addition to providing services to the Funds, BLS also does business with, and earns fees and commissions from third-parties. Notwithstanding BLS' affiliation with Bayview, BLS does not owe any fiduciary duties to the Funds. Accordingly, BLS generally will take actions in accordance with the BAM Agreements and does not have other obligations with respect to the Funds. The Funds will not be entitled to, and may not receive, any special consideration or forbearance by BLS in the exercise of its clients' rights as a result of the Funds' relationship with BLS.

#### Registrant's Relationship with Blackstone and Other Related Persons

As discussed in Item 4 above, Blackstone owns a minority interest in the Registrant. While Blackstone does not have an active role in managing the Funds, Bayview will be subject to a number of actual and potential conflicts of interest involving Blackstone and its affiliates.

By virtue of its ownership interest in the Registrant, Blackstone will have access to information that investors in the Funds may not have and will be entitled to receive information regarding Bayview and its activities, including without limitation, information about the Funds' portfolios, subscriptions, withdrawals and other information relating to the Funds, as well as confidential, proprietary information about Bayview. Blackstone has implemented certain policies and procedures (*e.g.*, information walls) to seek to ensure that the information that Blackstone receives by virtue of its ownership interest in the Registrant does not flow through the Blackstone organization.

BAM and Blackstone have entered into a repurchase and option agreement whereby BAM agreed to repurchase the equity interests in BAM owned by Blackstone over the next three years. Upon the repurchase of the initial one-third of the equity interests, which occurred in March 2015, Blackstone's designees to BAM's board of directors resigned and Blackstone no longer is entitled to appoint directors to BAM's board of directors or to approve matters presented to BAM's board of directors. Blackstone's rights to appoint directors and approve matters presented to BAM's board of directors will be reinstated if (i) BAM does not timely exercise any of the options and repurchase the underlying equity interests owned by Blackstone (an "Unexercised Option Event") or (ii) certain events related to David Ertel's employment with BAM occur (a "Trigger Event"). Furthermore, Blackstone will be entitled to appoint a majority of the members of BAM's board of directors if both an Unexercised Option Event and a Trigger Event occur. If an Unexercised Option Event occurs, BAM's governing documents provide that Blackstone, as unitholders of BAM, have the ability to cause BAM to conduct a process designed to result in either an initial public offering of BAM or a sale of BAM (each, an "Exit"). In such an event, Blackstone will have the ability to cause all of the BAM equity interests (including those held by David Ertel) to be sold to a third-party buyer.

As part of its regular business, Blackstone manages and/or advises other funds with investment objectives that overlap with the objectives of certain Funds and that may compete for investment opportunities with such Funds and may provide advice or take actions that are different or opposing to the actions taken by such Funds. Blackstone is under no obligation to resolve any conflicts arising out of its management of such investment funds or otherwise in favor of the Funds. Blackstone also provides a broad range of investment banking, advisory and other services. In the regular course of its investment banking and advisory businesses, Blackstone represents potential purchasers, sellers and other involved parties, including corporations, financial buyers, management, shareholders and institutions, with respect to transactions that could give rise to investments that are suitable for the Funds. Blackstone's clients typically require Blackstone to act exclusively on their behalf. Blackstone will not have any obligation to: (i) allocate any investment opportunities to the Funds; (ii) engage in any business exclusively through the Funds; or (iii) decline any such engagements in order to make an investment opportunity available to the Funds. For additional information regarding investments made by Blackstone that may also be appropriate for the Funds, see Item 11C below.

Bayview engaged Park Hill Group LLC, an affiliate of Blackstone and registered broker dealer ("Park Hill"), to serve as placement agent for the BOF-II Funds, the BOF-IVa Funds and the BOF-IVb Funds (all of which are no longer open to investment), and may engage Park Hill to serve as placement agent for Other Accounts in the future. Management fees payable to Bayview from the BOF-II Funds, the BOF-IVa Funds and the BOF-IVb Funds are reduced on a dollar-for-dollar basis by any fees paid to Park Hill by the BOF-II Funds, the BOF-IVa Funds and the BOF-IVb Funds, respectively.

Set forth below is a list of all of the Registrant's related persons (excluding Bayview entities discussed herein) who are broker-dealers, investment advisers, commodity trading advisors and commodity pool operators. Other than as described in this Item 10C, there are no material arrangements between Bayview and such related persons at this time.

<b>Broker-Dealer</b>	
Blackstone Advisory Partners L.P.	Provides a variety of investment banking services
Park Hill Group LLC	Places alternative investment products in private offerings to mostly institutional investors
<b>Investment Advisers</b>	
Blackstone Alternative Investment Advisors, LLC	Provides investment advisory services to open end mutual funds.
Blackstone Alternative Asset Management L.P.	Manages a series of private funds engaged in multi-manager investment programs ( <i>e.g.</i> , fund of hedge funds)

Blackstone Alternative Solutions L.L.C.	Provides investment advisory services to private investment funds which participate in a broad range of direct investment opportunities
Blackstone Clean Technology Advisors L.L.C.	Provides investment advisory services to private investment funds specializing in the cleantech energy sector
Blackstone Communications Advisors I L.L.C.	Provides investment advisory services to a private investment fund specializing in communications-related private equity investments
Blackstone Debt Advisors L.P.	Provides investment advisory services to private investment funds specializing in debt securities
Blackstone Management Partners III L.L.C.	Provides investment advisory services to various private equity funds
Blackstone Management Partners IV L.L.C.	Provides investment advisory services to various private equity funds
Blackstone Management Partners L.L.C.	Provides investment advisory services to various private equity funds
Strategic Partners Fund Solutions Advisors L.P. (formerly Blackstone Mezzanine Advisors II L.P.)	Provides investment advisory services to private investment funds specializing in mezzanine financing
Blackstone Mezzanine Advisors L.P.	Provides investment advisory services to private investment funds specializing in mezzanine financing
Blackstone Real Estate Advisors III L.P.	Provides investment advisory services to various private real estate investment funds
Blackstone Real Estate Advisors IV L.L.C.	Provides investment advisory services to various private real estate investment funds
Blackstone Real Estate Advisors V L.P.	Provides investment advisory services to various private real estate investment funds
Blackstone Real Estate Advisors L.P.	Provides investment advisory services to various private real estate investment funds
Blackstone Real Estate Advisors International L.L.C.	Provides investment advisory services to various private real estate investment funds
Blackstone Real Estate Advisors Europe L.P.	Provides investment advisory services to various real estate investment funds
Blackstone Real Estate	Provides investment advisory services to private investment



Special Situations Advisors L.L.C.	funds which invest primarily in public and private debt and other interests of real estate assets and real estate-related holdings
Blackstone Strategic Alliance Advisors L.L.C.	Manages a series of private funds engaged in a multi-manager investment program
Blackstone Strategic Capital Advisors, L.L.C.	Established to manage private funds engaged in acquisitions of minority interests in alternative asset managers
Blackstone Tactical Opportunities Advisors L.L.C.	Provides investment advisory services to multi-discipline, multi-asset class private funds
CT Investment Management Co., LLC	Provides collateral management services to securitized asset funds
GSO / Blackstone Debt Funds Management LLC	Provides investment advisory services to a number of debt-focused private investment funds, registered investment companies and separately managed accounts
GSO Capital Advisors LLC	Provides investment advisory services to a number of debt-focused private investment funds and separately managed accounts
GSO Capital Partners LP	Provides investment advisory services to a number of debt-focused private investment funds and separately managed accounts
GSO Capital Partners International LLP	Provides investment advisory services to a number of debt focused private investment funds and separately managed accounts
Blackstone / GSO Debt Funds Management Europe Limited	Provides investment advisory services to a number of debt focused private investment funds and separately managed accounts
Blackstone / GSO Debt Funds Management Europe II Limited	Provides investment advisory services to a number of debt focused private investment funds and separately managed accounts
Blackstone / GSO Debt Funds Europe Limited	Provides investment advisory services to a number of debt focused private investment funds and separately managed accounts
Blackstone Property Advisors L.L.C.	Provides investment advisory services to one or more real estate investment funds
Blackstone Treasury Solutions Advisors L.L.C.	Provides investment advisory services to funds invested primarily in diversified fixed income and hedge fund products

Blackstone Senfina Advisors L.L.C.	Provides investment advisory services to various private investment funds which allocate capital among unaffiliated portfolio managers and invest capital directly
BSCA Advisors L.L.C.	Provides investment advisory services to certain investment vehicles relating to funds managed by Blackstone Strategic Capital Advisors L.L.C.
BXMT Advisors L.L.C.	Provides investment advisory services to real estate debt and securities private funds, managed accounts and CDOs focused on loans and securities backed by commercial real estate assets
CT High Grade Mezzanine Manager, LLC	Provides investment advisory services to real estate debt and securities private funds, managed accounts and CDOs focused on loans and securities backed by commercial real estate assets
CT High Grade Partners II Manager, LLC	Provides investment advisory services to real estate debt and securities private funds, managed accounts and CDOs focused on loans and securities backed by commercial real estate assets
CT Large Loan Manager, LLC	Provides investment advisory services to real estate debt and securities private funds, managed accounts and CDOs focused on loans and securities backed by commercial real estate assets
CT OPI Manager, LLC	Provides investment advisory services to real estate debt and securities private funds, managed accounts and CDOs focused on loans and securities backed by commercial real estate assets
GSO Capital Advisors II LLC	Provides investment advisory services to a number of debt focused private investment funds and separately managed accounts
Strategic Partners Fund Solutions Advisors L.P.	Provides investment advisory services to a number of pooled investment vehicles and custom vehicles operating as private investment funds
<b>Commodity Trading Advisor &amp; Commodity Pool Operator</b>	
Blackstone Alternative Asset Management L.P.	Manages a series of private funds engaged in multi-manager investment programs ( <i>e.g.</i> , funds of hedge funds)
Blackstone Alternative Investment Advisors L.L.C.	Established by Blackstone Hedge Fund Solutions Group to provide investment advisory services to open end mutual

	funds
Blackstone Alternative Solutions L.L.C.	Provides investment advisory services to private investment funds which participate in a broad range of direct investment opportunities
Blackstone Strategic Capital Advisors L.L.C	Manages private funds engaged in acquisitions of minority interests in alternative asset managers
<b>Commodity Pool Operator</b>	
Blackstone Alternative Asset Management Associates L.L.C.	Serves as general partner in funds which are structured as limited partnerships

#### **D. Material Conflicts of Interest Relating to Other Registrants**

In addition to the relationships discussed in Item 10C above, certain Funds may also participate in pooled investment vehicles and allocate portions of their assets to unaffiliated third-party managers to manage on a discretionary basis. The Funds may be subject to various costs relating to such investments, including additional performance-based or fixed asset-based fees or allocations in addition to the fees and compensation payable or allocable to Bayview. Other than as described above, such arrangements do not give rise to any material conflicts of interest at this time.

**ITEM 11**  
**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**  
**AND PERSONAL TRADING**

**A. Code of Ethics**

The Registrant strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, the Registrant has adopted a Code of Ethics (the “Code”). The Code incorporates the following general principles that all employees are expected to uphold: employees must at all times place the interests of clients first; all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee’s position of trust and responsibility must be avoided; employees must not take any inappropriate advantage of their positions; information concerning the identity of securities and financial circumstances of the Funds, including the Funds’ investors, must be kept confidential; independence in the investment decision-making process must be maintained at all times; and employees must comply with applicable Federal and state securities laws and Bayview’s company policies. The Code also places restrictions on personal trades by employees that are “access persons”, including that they disclose their personal securities holdings and transactions to Bayview on a periodic basis, that such employees pre-clear certain types of personal securities transactions and that all employees are generally prohibited from trading in “covered securities” of “restricted entities”.

Investors may receive further information about the Code by contacting the Registrant at the address or telephone number listed on the first page of this document.

**B. Securities in which the Registrant or a Related Person Has a Material Financial Interest**

Certain Funds may enter into transactions and other arrangements with Bayview that may be viewed as cross or “principal” transactions. Investments may be purchased jointly by or for the benefit of one or more of the Funds and Other Accounts (whether currently in existence or formed in the future) managed by Bayview. Such investments may be initially purchased by an entity jointly owned by some or all of such investment entities before being allocated among the investment entities. Pursuant to one of the BAM Agreements, BLS may originate a new loan to a borrower to refinance an existing loan owned by one or more Funds or may accomplish modifications that result in a new loan. A Fund may purchase such loan from BLS at a price equal to the fair market value of the loan at the time of such sale or otherwise purchase assets from Bayview at fair market value from time to time. In addition, a Fund may enter into transactions and other arrangements with Blackstone that may be viewed as related-party or principal transactions. No Fund will purchase assets from Bayview (including BLS) or Blackstone unless such purchase is disclosed in such Fund’s constituent documents or is approved by such Fund’s advisory board or investors.

Certain opportunities in the mortgage credit sector require licensing and approvals that the Funds may not have. In order to take advantage of these opportunities, the Funds may enter into agreements with BLS to effect these transactions (e.g., agreements pursuant to which BLS buys or sells assets on the Funds’ behalf at no material increase in cost to the Funds); provided that the arrangements with BLS will be structured so that the economic result would

be substantially identical to the economics that would have existed had the Funds entered into the transactions directly. Since the transactions are for the benefit of the Funds, the transaction agreements will provide that the Funds will indemnify BLS with respect to any costs and losses associated with respect to the obligations and any other costs and losses associated with the transactions.

Additionally, BAM acquired an ownership interest in Houses.com, LLC, which owns the domain name “Houses.com”. Houses.com, LLC is in the business of publicizing the sale of real estate and promoting real estate related businesses for a fee. Since BAM has an ownership interest in the business, it may receive a benefit from business that Houses.com, LLC may do with the Funds. Any transaction between the Funds and Houses.com, LLC will be structured on an arms-length basis and on terms that are similar to or better than those for similar services as would be provided by unrelated parties.

Certain Funds may purchase mortgage-backed securities (“BOF Sponsored MBS”) issued in connection with securitizations of certain whole loans sponsored by the BOF Funds (the “BOF Securitization”). Such Funds may invest in up to thirty percent (30%) in the aggregate of the issued BOF Sponsored MBS from each such BOF Securitization. Because Bayview may have certain input in determining the terms and price of the BOF Sponsored MBS, such input may give rise to potential conflicts of interest. In connection with such transactions, Bayview will act in a fair and equitable manner to the BOF Funds and such other Funds. Additionally, the Funds will purchase any BOF Sponsored MBS at the price set by, and through, the underwriter, and will be subject to the same terms and conditions as other market participants.

### **C. Investing in Securities that the Registrant or a Related Person Recommends to Clients**

As more fully disclosed in the MSR Funds’ constituent documents, Bayview may invest in certain MSRs that Bayview has determined would not be appropriate for investment by the MSR Funds pursuant to pre-determined criteria (each, a “Bayview MSR Investment”). While each Bayview MSR Investment will, as a whole, not be appropriate for investment by the MSR Funds, due to the negotiations involved in acquiring MSRs, Bayview will have the ability to influence the mortgage loans underlying each Bayview MSR Investment. There may be individual servicing rights within a Bayview MSR Investment that would be appropriate for acquisition by the MSR Funds. Additionally, Bayview may purchase Bayview MSR Investments from counterparties that sell MSRs to the MSR Funds, and Bayview may receive intangible benefits when transacting with such counterparties on its own behalf. Bayview intends to analyze each MSR opportunity separately, and will not price portfolios in any way that will benefit the Bayview MSR Investments to the detriment of any opportunity that is appropriate for the MSR Funds. Additionally, since the MSR Funds will not participate in investments related to loans that are not eligible to be sold to the agencies, such investments may be acquired by Bayview or another Fund, even if the non-agency loans were sourced from a third-party originator that sells agency loans to Lakeview.

Under certain circumstances, the Funds may invest in financial instruments in which Blackstone has already invested or is expected to invest and in some cases, Bayview may invite Blackstone to co-invest with the Funds. In the event Blackstone is offered the opportunity to co-invest alongside the Funds, the terms with respect to such opportunity generally are expected to be similar to those applicable to the Funds (as agreed from time to

time). Blackstone and the Funds generally are expected to invest and divest with respect to any such co-investment opportunities at the same time (subject to applicable tax, legal or regulatory considerations). While the foregoing should reduce potential conflicts of interest that arise in connection with shared co-investments, there can be no assurance that Blackstone will invest on the same terms, and invest and divest at the same time, as the Funds and no assurance can be made that such conflicts will not materialize. In addition, there may be certain situations where the Funds and Blackstone make separate investments in the same asset or issuer, in which case the terms of the Funds' investments, including the type of security purchased, may be different from the terms of Blackstone's investment or the type of security that Blackstone purchases (or the level at which the investment is made in an issuer's capital structure). Conflicts could arise after Blackstone on the one hand, and the Funds on the other hand, make separate investments in the same financial instrument with respect to the manner and timing of the Funds' exit from the investments compared to Blackstone's exit. Should Blackstone invest in a different type of security from the security purchased by the Funds, additional conflicts may arise, particularly if the issuer experiences financial difficulties.

The Funds may also co-invest with clients of Blackstone in particular investment opportunities, and the relationship with such clients could influence the decisions made by Bayview with respect to such investments. Blackstone and other co-investors may utilize the services of Bayview affiliates in connection with such co-investments (*e.g.*, BLS), which may present additional conflicts of interest. Bayview will endeavor to ensure that any such conflict is resolved fairly.

#### **D. Conflicts of Interest Created by Contemporaneous Trading**

Participation in specific investment opportunities may be appropriate, at times, for one or more Funds. Bayview will allocate to the MSR Funds all opportunities to invest in MSRs related to agency loans, other than any MSR transaction (a) where the purchase price (as a percentage of loan balance) for the related MSRs is less than 50% of the annualized servicing fee for the related MSRs, (b) that requires regulatory approvals that Lakeview does not have; or (c) where MSRs are part of a corporate or strategic transaction involving the transfer of material operations and assets of an entity, including MSRs as a part of the overall transaction. When it is determined that it would be appropriate for one or more commitment-based Funds to participate (i) in an investment opportunity in whole loans, Bayview generally will seek to allocate such investment opportunity for all of the participating investment accounts in proportion to the relative amount of capital available for such investment opportunity by such investment accounts (*e.g.*, undrawn commitments plus investment proceeds available for reinvestment) or (ii) in an investment opportunity in securities, Bayview generally will seek to allocate such investment opportunity for all of the participating investment accounts in proportion to their program size for such opportunity (*i.e.*, if a Fund's investment strategy is focused 100% of securities, the program size for that Fund generally will include 100% of such Fund's targeted gross asset value). The program size of a Fund for a particular strategy generally will equal the targeted gross asset value allocated to such strategy, which will be its net asset value plus uncalled capital commitments allocated to such strategy and will also take into account the target leverage to be utilized for such strategy. The amount of capital available, or the program size of a Fund, as applicable, for a particular type of investment opportunity may not be 100% of such Fund. Bayview's investment committee will periodically determine the percentage of each account's capital (or program size with respect to securities) that is available for a particular type of investment

opportunity based on a number of factors, including such Fund's investment program, the total expected target size of a particular Fund or program (including expected leverage to be utilized for a particular strategy), relative exposure to various investments and the perceived relative value of the investment opportunity relative to other investment opportunities available to such Fund, and after each such determination that percentage will be the percentage used to allocate investment opportunities of that type among accounts. For instance, 100% of the BMS Funds' program size is likely to be available for opportunities to invest in securities, while the percentage of the BOF Funds available for opportunities to invest in securities is expected to vary over time.

However, Bayview, in its sole discretion, may make non-*pro rata* allocations among the Funds based on, among other things, Bayview's perception of the liquidity of the Funds at the time of the investment and on a going-forward basis; relative exposure to market trends; the remaining term or time remaining in the investment period of each such account (*i.e.*, Bayview expects to over-allocate opportunities to a Fund or account that is nearing the end of its investment period); the terms, structure and availability of financing in respect of an investment; the expected target size of the account or program; the geographic focus of the investment programs of the Funds and the location of the investment opportunity; and the investment programs and portfolio positions of the Funds for which participation is appropriate. For example, certain Funds are expected to invest a majority of their assets in loans and pools of loans, and Bayview may determine that an investment opportunity in another financial instrument is not appropriate for a Fund or that the opportunity should be allocated on a non-*pro rata* basis among the Funds based on a Fund's investment program, relative exposure to various investments and the perceived relative value of the investment opportunity (*e.g.*, Bayview may determine to allocate an opportunity to invest in asset-backed securities to an Other Account if the perceived relative value of such security is not deemed appropriate in light the Fund's investment program and its then-current portfolio).

Additionally, certain investment opportunities, although appropriate for one or more Funds, may not be divisible among multiple accounts due to, among other reasons, the small size of the opportunity or the structure of the investment. To the extent an opportunity cannot be allocated among multiple accounts, such opportunities may be allocated among the different accounts on a basis that Bayview considers fair and equitable over time, including allocating the first such opportunity to one account, the second such opportunity to another account and so on. Because Bayview may make non-*pro rata* allocations, the Funds managed by Bayview may produce results that are materially different. To the extent an instrument is being purchased to hedge the portfolio of one or more Funds, such instrument may not be allocated among the Funds on a *pro rata* basis, but instead may be allocated to the particular accounts for which the hedge is appropriate in such amounts that are deemed appropriate to hedge the particular portfolio in the sole discretion of Bayview.

## **ITEM 12**

### **BROKERAGE PRACTICES**

#### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions**

As noted previously, Bayview has full discretionary authority to manage the Funds, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. Bayview's authority is limited by its own internal policies and procedures and each Fund's investment guidelines. Portfolio transactions for the Funds are allocated to brokers and dealers on the basis of best execution and in consideration of a broker's or dealer's ability to effect the transactions, its facilities, reliability and financial responsibility and, in the case of broker-executed transactions, the provision or payment by the broker of the costs of research and research-related services which are of benefit to the Funds and Bayview. The selection of a broker (including a prime broker) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services also may be influenced by, among other things, the following: the financial condition of the broker, diversification of counterparty risk, assessment of jurisdiction and bankruptcy laws governing the entity that holds the Funds' assets, financing terms, including length of commitment and amount and availability of financing, operational capabilities, and other factors deemed appropriate. Bayview need not solicit competitive bids and does not have an obligation to seek the lowest available commission or other transaction costs. The commissions and other transaction costs (which may include dealer markups or markdowns arising in connection with riskless principal transactions) charged to the Funds by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such products and services.

#### Research and Other Soft Dollar Benefits

Bayview does not currently expect that the Funds will use commission or "soft" dollars to any significant extent to pay for research products or services, given that the primary focus of the Funds' investment programs does not incorporate to a significant extent the types of securities trades that generate "soft" dollars that are eligible for treatment under Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. However, particularly in light of the opportunistic investment program of certain of the Funds, Bayview reserves the right to use "soft" dollars in the future. Any such use of "soft" dollars will fall within the safe harbor for soft dollars created by Section 28(e).

#### Brokerage for Client Referrals

Not applicable.

#### Directed Brokerage

Not applicable.



## **B. Order Aggregation**

If Bayview determines that the purchase or sale of the same security is in the best interest of more than one Fund, Bayview may, but is not obligated to, aggregate orders in order to reduce transaction costs to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Fund will receive the average price with transaction costs allocated *pro rata* based on the size of each Fund's participation in the order as determined by Bayview. In the event of a partial fill, allocations generally will be made on a *pro rata* basis on the initial order but may be modified on a basis Bayview deems appropriate, including for example, in order to avoid odd lots or *de minimis* allocations.

### **ITEM 13**

#### **REVIEW OF ACCOUNTS**

Bayview performs periodic reviews of each Fund's portfolio. Such reviews are conducted by the members of Bayview's management, portfolio managers and research associates. A review of a Fund's account may be triggered by any unusual activity or special circumstances.

Investors in the Funds receive a monthly statement of account from Bayview documenting the net asset value and monthly performance of their investment in the Fund, along with unaudited financial information for the Fund, although Bayview may provide certain investors with information on a more frequent and detailed basis if agreed to by Bayview. In addition, Bayview issues investors tax reports and audited financial statements concerning their respective Funds within 120 days of the end of the Fund's fiscal year.

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

**A. Economic Benefits for Providing Services to Clients**

Bayview does not receive economic benefits from non-clients for providing investment advice and other advisory services to clients.

**B. Compensation to Non-Supervised Persons for Client Referrals**

Neither Bayview nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. However, Bayview entered into a placement agreement with Lazard Freres & Co. LLC ("Lazard") in respect of the BOF-III Funds and IVc pursuant to which Lazard agreed to introduce potential investors to the BOF-III Funds and IVc. In addition, as discussed in Item 10C above, Bayview retained Park Hill to serve as placement agent with respect to the BOF-II Funds, the BOF-IVa Funds, the BOF-IVb Funds and the Liquid Credit Strategies Funds. In the future, Bayview or a Fund may enter into arrangements with placement agents providing for payments to such agents of a one-time or ongoing fee based on a percentage of the management fee and/or incentive compensation attributable to the interests of an investor introduced by such placement agent. Management fees payable to Bayview will be reduced on a dollar-for-dollar basis by the fees paid to any placement agent by a Fund.

## **ITEM 15**

### **CUSTODY**

Rule 206(4)-2 promulgated under the U.S. Investment Advisers Act of 1940, as amended (the “Custody Rule”) imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful).

The Custody Rule imposes on advisers with custody of clients’ funds or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients’ funds or securities. However, an adviser need not comply with such requirements with respect to pooled investment vehicles, if each pooled investment vehicle: (i) is audited at least annually by an independent public accountant, and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to its investors within 120 days of its fiscal year-end. Bayview relies upon this audit exception with respect to the Funds, other than with respect to the Blackstone Funds.

## **ITEM 16**

### **INVESTMENT DISCRETION**

The Bayview entities have been appointed as the management company and/or general partner of the Funds with discretionary trading and investment authorization. Bayview has full discretionary authority with respect to investment decisions, and its advice with respect to each of the Funds is made in accordance with the investment objectives and guidelines as set forth in such Fund's respective constituent documents. Bayview assumes discretionary authority to manage the Funds through the execution of investment management agreements and through the organizational documents of the Funds (*e.g.*, limited partnership agreements).

With regard to the Blackstone Funds, Bayview acts as a sub-adviser that exercises investment discretion over of its allocated portion of the assets in each Blackstone Fund within a limited investment mandate and subject to the oversight of the fund's adviser and its board of directors.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

#### **A. Policies and Procedures Relating to Voting Client Securities**

As a fiduciary, an investment adviser with proxy voting authority has a duty to monitor corporate events and to vote proxies, as well as a duty to cast votes in the best interest of clients and not subrogate client interests to its own interests. Rule 206(4)-6 under the Advisers Act (the “Proxy Voting Rule”) places specific requirements on registered investment advisers with proxy voting authority.

Due to the nature of the Registrant’s investment strategy, equity securities will generally not be a large portion of the investments of any Fund. Nevertheless, because the Registrant generally has discretionary authority over the equity securities held by certain Funds, the Registrant is viewed as having proxy voting authority over such securities. Accordingly, the Registrant is subject to the Proxy Voting Rule. To meet its obligations under this rule, the Registrant has adopted written Proxy Voting Policies and Procedures, which are available upon request by contacting the Registrant at the address, phone number or email address on the cover of this Brochure. These policies and procedures are reasonably designed to ensure that Registrant’s voting with respect to proxy proposals, amendments, consents or resolutions (collectively, “proxies”) is exercised in a manner that serves the best interest of its clients, as determined by Registrant in its sole discretion, and address how Registrant will resolve any conflict of interest that may arise when voting proxies. Registrant, in its sole discretion, may elect not to vote a proxy if such a vote would be unduly burdensome or not serve the best interests of its clients.

Bayview’s investment mandate as sub-adviser to the Blackstone Funds does not involve purchasing the type of investments that would require voting proxies.

**ITEM 18**  
**FINANCIAL INFORMATION**

Bayview is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.