

Form ADV Part 2A: Firm Brochure

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Tourmalet Advisors, L.P. is an investment adviser that is registered with the U.S. Securities and Exchange Commission. Registration with the U.S. Securities and Exchange Commission does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of Tourmalet Advisors, L.P. If you have any questions about the contents of this brochure, please contact us at (203) 256-0100. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state securities authority.

Additional information about Tourmalet Advisors, L.P. also is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

This brochure contains routine updating of certain information about our clients and assets under management. There have been no material changes since our last annual update on March 27, 2014.

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1. Advisory Business

- A. Tourmalet Advisors, L.P. (also referred to as we, our firm and Tourmalet), founded in 2009, is an investment services firm specializing in investment management for closed ended private investment funds. The principal owners of our firm are Michael Corasaniti, Carlos Rodrigues, Jeremy Joyce, AFSF II AIV-A, L.P. and AFSF II AIV-B, L.P.
- B. Tourmalet specializes in offering investment management services to commingled and dedicated investor closed ended private investment funds. In providing our advisory services to our closed ended private investment funds, we focus on generating interest income and capital appreciation principally from direct and indirect investments in pools of non-performing and performing residential mortgages, real estate owned properties, equity and debt in mortgage servicers and certain other instruments. Tourmalet also provides investment advisory services to four dedicated funds and separately managed accounts for three institutional investors. Additionally, we serve as a credit risk manager to a non-performing loan securitization (the "CLO").
- C. Our firm tailors our advisory services to the individual needs and specified investment mandates of our clients. Our portfolio managers adhere to the investment strategy set forth in each client's private placement memorandum, limited partnership agreement and/or investment management agreement. Clients may impose upon us restrictions on investing in certain securities or types of security, but no such arrangements are currently in place. These types of terms are all arranged on a case-by-case basis.
- D. We do not participate in wrap fee programs.

The amount of client assets that we manage on a discretionary basis, as of December 31, 2014 is approximately \$339,291,971 and the amount of client assets that we manage on a non-discretionary basis, as of December 31, 2014 is \$7,215,414.

2. Fees and Compensation

- A. Our firm, or an affiliate of our firm, typically receives compensation from each of our clients based on both the percentage of assets or commitments we manage and on performance achieved for each client's account. Detailed information concerning our compensation and fees is contained in the private placement memorandum of each client fund. Our fees are generally not negotiable; however, we have the discretion to agree with certain investors to waive or reduce our fees with respect such investors in side letter agreements. The fees charged to our dedicated investor fund clients are negotiated, as set forth in each fund's limited partnership agreement. We may also waive fees for investors that are our affiliates or employees.

We structure certain of our funds in a "master-feeder" structure. We calculate performance-based fees at the master fund level with respect to each of the Matawin offshore funds described below and asset-based fees at the feeder fund level (the asset-based fee is incorporated into the master when determining the performance-based fee). We receive a credit risk management fee from the CLO, which is an asset based fee calculated off unpaid principal balance.

- B. We generally deduct the asset-based fee from clients' accounts monthly in advance and in some instances, quarterly in arrears.

We generally deduct the performance-based fee from our closed ended private investment funds upon the liquidation or other disposition of assets held by such funds.

- C. Each client generally bears its own organizational expenses, investment and trading expenses and accounting and administrative expenses, including, without limitation:
- investment-related fees,
 - brokerage commissions,
 - interest on debit balances or borrowings,
 - clearing and settlement charges,
 - custodial fees,
 - investment related travel expenses,
 - appraisal fees,
 - investment banking expenses,
 - fees and profit-sharing payments due to unaffiliated advisors, sub-advisors, and consultants
 - specific expenses incurred in obtaining or maintaining systems, research and other information and information service subscriptions,
 - expenses relating to voting proxies,

- withholding or transfer taxes,
- accounting, audit, independent valuation, consulting, administration and legal expenses,
- costs of any litigation or investigation involving the client,
- costs associated with reporting and providing information to existing and prospective investors, and
- liability premiums for certain insurance.

For more information on brokerage transactions and costs, please see Section 9: Brokerage Practices.

- D. Investors in our closed ended private investment fund clients are generally not permitted to withdraw money and therefore they will not pay a management fee in excess of what they owe.
- E. Neither our firm nor any of our principals or employees receives any transaction-based compensation for the sale of securities or other investment products.

3. Performance-Based Fees and Side-By-Side Management

Tourmalet or one of its affiliates receives performance-based compensation from most of its clients. The existence of performance-based compensation may create an incentive for our firm or our affiliates to make riskier or more speculative investments on behalf of the clients paying a performance fee or performance allocation than would otherwise be the case.

In addition, the non-existence or the existence of different rates of performance-based compensation may create an incentive for our firm or our affiliates to favor certain clients when making an investment decision than would be the case in the absence of these arrangements. Such conflicts are dealt with on a case by case basis, having regard to relevant facts and circumstances, and we seek to act fairly when we allocate investment opportunities. Our firm has adopted written policies and procedures that are designed to ensure fair allocations and in particular, such policies prevent us from taking into account fee or other compensatory differences in allocating an investment opportunity.

4. Types of Clients

Our clients, or in the case of our commingled fund clients, the investors in our clients, include a broad range of U.S. and non-U.S.:

- Individuals,
- Trusts, estates or charitable organizations,
- Institutions and endowments,
- Pensions,
- Corporations,
- Financial Institutions,
- Funds of funds, and
- Foundations and Family Offices.

Investment Requirements

Our firm determines in its sole discretion any requirements for entering into an investment advisory contract with a client fund or otherwise opening or maintaining an account, including whether a private fund is large enough to implement its desired investment program.

The stated minimum initial subscription for each of our commingled client funds is stated in the fund's private placement memorandum.

To comply with Securities and Exchange Commission regulation, we require that U.S. investors in our 3(c)(7) funds to qualify as both accredited investors and qualified purchasers or knowledgeable employees and in our 3(c)(1) funds to qualify as accredited investors. Our non-U.S. investors are not subject to any particular wealth requirements, but must represent to us that they are sophisticated investors capable of evaluating the merits and risks associated with an investment in our clients.

To ensure that each potential investor meets the applicable qualification discussed above, each investor in one of our 3(c)(1) or 3(c)(7) funds must complete and execute written subscription documents before we can consider its subscription.

This firm brochure is not an offer to invest in our funds.

5. Method of Analysis, Investment Strategies and Risk of Loss

In managing our clients, our investment objective is to generate interest income and capital appreciation principally from direct and indirect investments in pools of non-performing and performing residential mortgages, real estate owned properties, equity and debt in mortgage servicers and certain other instruments. We seek to identify and acquire mortgage loans with potential for capital appreciation and actively monitor and manage individual loans to identify opportunities to realize such appreciation. We select and engage experienced servicers to manage the pools of mortgage loans on behalf of our clients.

Despite our investment approach and methodology, investing in any securities involves a risk of loss that any of our clients or any of the investors in our clients must be prepared to bear.

A. Certain risks associated with an investment in any of our clients include:

- *Overall Investment Risk.* All investments risk the loss of capital. The nature of the investments we make and the investment techniques and strategies we employ in an effort to increase profits may increase this risk. There can be no assurances that our clients will not incur losses. Many unforeseeable events, including actions by various government agencies and domestic and international political events, may cause sharp market fluctuations.
- *Market Risks.* The profitability of a significant portion of our investments depends to a great extent upon our correctly assessing their potential for capital appreciation. There can be no assurance that such appreciation will ultimately be realized. The markets relating to our clients' investments may experience great volatility and unpredictability. Changing market and economic conditions may make our intended investment strategy less profitable.
- *Recent Events in the Global Capital Markets.* Recent events in the global capital markets illustrate that the current environment is one of extraordinary uncertainty for financial services companies and other market participants, including Tourmalet, and that such uncertainty has had, and could continue to have, a material adverse effect on the functioning of capital markets, and on the business and operations of financial services companies and other market participants, worldwide. Our investments may be adversely affected by changes in economic conditions or political events that are beyond its control. For example, a stock market break, the outbreak of hostilities involving the United States or the death of a major political figure may have significant adverse effects on our clients' investment results. Additionally, a serious pandemic, such as influenza, or a natural disaster, such as a hurricane, could severely disrupt the global, national and/or regional economies and/or markets.

Other factors, such as changes in federal or state tax laws, federal or state securities laws, bank regulatory policies or accounting standards, may make certain

investments less desirable or may make certain investment strategies less effective. Similarly, legislative acts, rulemaking, adjudicatory or other activities of the U.S. Congress, the Securities and Exchange Commission, the U.S. Federal Reserve Board, the New York Stock Exchange, the Financial Industry Regulatory Authority or other governmental or quasi-governmental bodies, agencies and regulatory organizations may make our business and/or that of our clients less attractive. A negative impact on economic fundamentals and consumer confidence may negatively impact market value, increase market volatility and cause credit spreads to widen, each of which could have an adverse effect on the investment performance of our clients.

- *Availability of Suitable Investment Opportunities.* Our clients will compete with other potential investors to acquire interests in their targeted investments. Certain of such competitors may have greater financial and other resources and may have better access to suitable investment opportunities. There can be no assurance that we will be able to locate and complete suitable investments that satisfy our clients' objectives. Whether or not suitable investment opportunities are available to our clients, our clients will bear the asset-based fees and other expenses described in Section 2.

- *Counterparty and Settlement Risk.* To the extent our clients enter into contracts for investments with a market counterparty acting as a principal (and not as an agent), our clients may take a credit risk with regard to such counterparties and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It may not always be possible for the securities and other assets deposited with custodians or brokers to be clearly identified as being assets of our clients, and our clients may be exposed to a credit risk in those situations. In addition, there may be practical or time problems associated with enforcing our clients' rights to their assets in the case of an insolvency of any such party. In valuing derivative instruments, it is anticipated that we will typically rely on quotes or other information provided by counterparties.

- *Short Sales.* Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on our clients' portfolios. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There is the risk that the securities borrowed by a client in connection with a short sale will need to be returned to the securities lender on short notice. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and we may be compelled to replace borrowed securities previously sold short with purchases on the open market at the

most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short. Shorting is an inherent part of our investment strategy, and will be used for investment, speculative and hedging purposes.

Provisions of the Dodd-Frank Act and new rules promulgated by the Securities and Exchange Commission may increase the costs of short selling, make interactions with the issuers of securities being sold short more difficult and alter the prices or timing of short sales. The Dodd-Frank Act requires broker-dealers to provide notices to their customers that inform them of their right to opt out of allowing broker-dealers to use their fully paid securities for short sales. In addition, the Dodd-Frank Act requires the Securities and Exchange Commission to adopt rules requiring monthly public disclosure of short selling information. To the extent that we sell short the securities of an issuer and are required to disclose such information publicly, it may be more difficult to obtain access to the issuer's management.

- *Leverage.* We may leverage our clients' capital when we believe that the use of leverage may enable us to capitalize on opportunities to achieve a higher rate of return. While such borrowing will increase the investment opportunities available to our clients, it will also increase the risk of loss on such investments.
- *Financial Fraud.* Instances of fraud and other deceptive practices committed by senior management of certain companies in which we invest may undermine our due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of our clients' investments. In addition, when discovered, financial fraud may contribute to overall market volatility which can negatively impact our investment program.
- *Debt Securities.* Debt securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). With respect to bonds and other fixed income securities, a rise in interest rates typically causes a fall in values, while a fall in interest rates typically causes a rise in values. Debt securities generally involve less market risk than stocks. However, the risk of debt securities can vary significantly depending upon factors such as the issuer and maturity. For example, the issuer of a security or the counterparty to a contract may default or otherwise become unable to honor a financial obligation. The debt securities of some companies may be riskier than the stocks of others.
- *Options.* We may invest in options both for speculative and risk management purposes. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. The purchasing or writing of an option runs the risk of losing the entire investment in such option or of causing significant losses to our clients in a

relatively short period of time. Because option premiums paid or received by our clients will be small in relation to the market value of the investments underlying the options, buying and selling put and call options can result in large amounts of leverage. As a result, the leverage offered by trading in options could cause our clients' net asset values to be subject to more frequent and wider fluctuations than would be the case if we did not invest in options. Upon the exercise of a put option we write on securities, our clients may suffer a loss equal to the difference between the price at which it is required to purchase the underlying securities and their market value at the time of the option exercise, less the premium received from writing the option. Upon the exercise of a call option on securities we write, our clients may suffer a loss equal to the excess of the market value of the securities at the time of the option's exercise over our acquisition cost of the securities, less the premium received from writing the option.

- *Mortgage Regulation.* New legal or regulatory requirements could cause our firm or our clients to suffer financial or reputational harm or to encounter unforeseen risks that could have a material adverse effect on the business and operations of our closed ended private investment fund clients. In addition to the foregoing, the commercial and residential mortgage market in the United States has experienced defaults, credit losses and significant liquidity concerns. Certain commercial banks, investment banks and insurance companies have announced extensive losses from exposure to the commercial and residential mortgage market. These losses have reduced financial industry capital, leading to reduced liquidity for many institutions. The severity of the liquidity limitation was largely unanticipated by the markets, and access to mortgages has been substantially limited. The commercial and residential mortgage market has been severely affected by changes in the lending landscape and there is no assurance that these conditions have stabilized or that they will not worsen. If these conditions persist, it could make it more difficult for us to obtain financing on favorable terms or at all. As a result, our ability to acquire assets and implement its business strategy may be hindered, and the results of operations may be negatively affected.

- *Lack of Diversification.* Our clients' investments will not be widely diversified. Accordingly, our clients may be subject to more rapid changes in value than would be the case if our clients were required to maintain a wide diversification among types of investments.

- *General Credit Risks.* Our clients may be exposed to losses resulting from default and foreclosure. The value of the underlying collateral, if any, the creditworthiness of the borrower and the priority of the lien are each of great importance (although we may invest in subordinate or second priority liens). There is no assurance that we will correctly evaluate the value of the assets collateralizing the loans or the prospects for a successful restructuring or similar action. In any restructuring or liquidation proceeding relating to a particular investment, our clients may lose all or part of the amounts invested. We cannot guarantee the adequacy of the protection of our clients' interests, including the validity or enforceability of the loan and the maintenance of the anticipated

priority and perfection of the applicable security interests. Furthermore, we cannot assure that claims may not be asserted that might interfere with enforcement of our clients' rights. In the event of a foreclosure, our clients or their affiliates may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not exceed the amount invested by our clients, resulting in a loss to our clients. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

- *Lower Credit Quality Loans.* There are no restrictions on the credit quality of the loans we purchase. Loans we purchase may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans which we may acquire have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.
- *Liquidity.* Loans and interests in loans have significant liquidity risks and market value risks since they are not generally traded in organized exchange markets but are traded by banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly-traded securities.
- *Special Risks.* Special risks associated with investments in loans and participations include (1) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (2) so-called lender-liability claims by the issuer of the obligations, (3) environmental liabilities that may arise with respect to collateral securing the obligations, and (4) limitations on our ability to directly enforce our clients' rights with respect to participations. Successful claims by third parties arising from these and other risks, absent bad faith, will be borne by our clients.
- *Risks Associated with Residential Mortgages.* We intend to invest in the residential mortgage market, including in subprime mortgages. The value of our investment in such assets will be influenced by the rate of delinquencies and defaults experienced on the residential mortgage loans and by the severity of loss incurred as a result of such defaults. The factors influencing delinquencies, defaults and loss severity include (1) the economic conditions of the residential mortgage market, (2) the terms and structure of the residential mortgage loans and (3) any specific limits to legal and financial recourse upon a default under the terms of the residential mortgage loans.

Delinquencies and losses with respect to residential mortgage loans in the United States have experienced sharp increases in recent periods, and may continue to

increase, particularly in the subprime sector. In addition, in recent months, housing prices and appraisal values in many states have declined or stopped appreciating, after extended periods of significant appreciation. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans, particularly with respect to second homes and investor properties and with respect to any residential mortgage loan, the aggregate loan amount of which (including any subordinate liens) is close to or greater than the related property value.

Borrowers with adjustable payment mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with adjustable-rate mortgage loans. Investors in residential mortgage loans and securities backed by such loans bear the risk that the borrower will be unable to make monthly payments or to refinance such loans. We may invest in mortgage loans that are secured by multifamily properties or held by borrowers for investment, or by second homes. These mortgage loans may present a greater risk of delinquency, foreclosure or repossession than mortgage loans secured by single-family residential property or on properties used as a primary residence. 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.

- *Interest-Only Mortgage Loans.* We may invest in interest-only mortgage loans. Interest-only mortgage loans permit borrowers to make monthly payments of only accrued interest for a certain period 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. 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 who 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 in which we invest may be concentrated in a specific state or states. Weak economic conditions in these locations or any other location (which may or may not affect

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

- *Lack of Information Regarding Underwriting Standards; Higher Expected Delinquencies in Payment.* We will acquire mortgage loans from various unaffiliated savings institutions, finance companies and other sellers. In selecting mortgage loans for investment, we may not be able to obtain information as to the underwriting standards that were applied in originating the mortgage loans, and such mortgage loans may have been originated in accordance with standards less strict than those of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. As a result, our clients' investments may experience rates of delinquency and default that are higher than those experienced by mortgage loans that were underwritten in accordance with higher standards. 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 trust fund than on mortgage loans that were originated under stricter guidelines.

- *Due Diligence Information May Not Accurately Predict the Performance of the Mortgage Loans.* We may rely on real estate broker price opinions as part of our due diligence process. Broker price opinions provide estimated valuations of properties based on characteristics of the property, such as the value of surrounding properties, sales trends in the neighborhood, estimated costs of selling the property and costs of repairing the property, among other factors. We may also consult appraisals in our due diligence of the properties underlying mortgages. Broker price opinions and appraisals we obtain may not always be current and there can be no assurance of the accuracy of any broker price opinion or appraisal. In addition, we will not necessarily receive notice of any events causing changes in the factors used in a broker price opinion or appraisal. From time to time, we may also receive credit scores of borrowers as part of our due diligence process, however, credit

scores of the mortgagors may not be accurate predictors of the likelihood of repayment of the related mortgage loans.

- *Environmental Risks.* Real property pledged as security for a mortgage loan may be subject to certain environmental risks. Under the laws of certain states, contamination of a property may give rise to a lien on the property to ensure payment of the costs of cleanup. In several states, such a lien has priority over the lien of an existing mortgage against the property. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, a lender may be liable, as an “owner” or “operator,” for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property, if agents or employees of the lender have become sufficiently involved in the operations of the borrower, regardless of whether or not the environmental damage or threat was caused by a prior owner. A lender also risks such liability on foreclosure of the mortgage. Any such lien arising with respect to a mortgaged property would adversely affect the value of the mortgaged property and could make foreclosure on the mortgaged property impracticable in the event of a default by the related borrower. In addition, certain environmental laws impose liability for releases of asbestos into the air. Third parties may seek recovery from owners or operators of real property for personal injury associated with exposure to asbestos, lead paint, radon or other hazardous substances. Property owners in some areas have recently been subject to liability claims associated with mold.

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

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (1) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (2) engages in other inequitable conduct to the detriment of such other creditors, (3) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (4) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” Because of the nature of certain of the investments, our clients could be subject to claims from creditors of an obligor that the investments issued by such obligor that are held by our clients should be equitably subordinated. Our clients may not be the lead creditor in a significant number of investments of this nature. It is,

accordingly, possible that lender liability or equitable subordination claims affecting such investments could arise without the direct involvement of our clients.

- *Direct Holdings of Real Estate.* We may, directly or indirectly, hold real property due to the foreclosure of a mortgage loan we purchase. Special risks associated with such investments include changes in the general economic climate or local conditions (such as an oversupply of space or a reduction in demand for space), competition based on rental rates, attractiveness and location of the properties, changes in the financial condition of tenants, and changes in operating costs. Real estate values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of financing and potential liability under changing environmental and other laws.

- *General Risks of Collateralized Debt Obligation Investments.* While we do not generally anticipate investing in collateralized debt obligations (aka CDOs), we may do so in circumstances we deem appropriate. The value of such CDOs 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, 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. If distributions on the CDO collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished. Issuers of CDOs may acquire interests in loans and other debt obligations by way of sale, assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the loan or debt obligation; however, its rights can be more restricted than those of the assigning institution. CDO collateral may consist of high yield debt securities, loans, asset-backed securities and other instruments, which often are rated below investment grade (or of equivalent credit quality). High yield debt securities generally are unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. 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. Such investments may be speculative.

- *Investments in Mortgage-Backed Securities.* To the extent we invest in mortgage-backed securities, such investments may have characteristics that differ from traditional debt securities. Among the major differences are that interest and principal payments may be made more frequently, often monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time. Mortgage-backed securities may be

adversely affected by changes in prepayments in any interest rate environment, leading to outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments, or underperformance relative to hedges that we may have constructed for these investments. Prepayments (at par) may limit the potential upside of many mortgage-backed securities to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. In addition, the amount, type and nature of insurance policies, subordination, letters of credit and other credit support, if any, with respect to certain mortgage-backed securities are based upon actuarial analysis and therefore are inherently limited in their ability to predict events to take place in the future. There can also be no assurance that data derived from a large pool of mortgage loans accurately predicts the delinquency, foreclosure or loss experience of any particular pool of loans.

- *Credit Default Swaps.* We may enter into credit derivative contracts such as credit-default swaps, loan-only credit default swaps, credit default swap indices and loan-credit default swap indices contracts. These contracts typically require 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. We may also purchase or sell credit default swaps on a basket of reference entities or an index, that are indices contracts. In circumstances in which our clients do not own the debt or loans that are deliverable under a credit default swap, our clients 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, our clients 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, our clients incur leveraged exposure to the credit of the reference entity and are subject to many of the same risks it would incur if it were holding debt securities or loans issued by the reference entity. However, we 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 us following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of our clients. 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 our ability to otherwise productively deploy any capital that is committed with respect to such contracts.

- *High Yield Securities.* “High yield” bonds and preferred securities that are rated in the lower rating categories by the various credit rating agencies (or comparable non-rated securities) are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinly traded and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

- *Use of Over-the-Counter (OTC) Derivatives.* We may make use of derivatives, such as warrants, options, convertible securities, swaps and investments in real estate or other indices, in its investment program. The use of derivative instruments entails a variety of material risks reflecting the often extremely high degree of leverage embedded in such instruments and limited liquidity. Derivative products are highly specialized instruments that require investment techniques and risk analyses different from those associated with other types of securities or obligations, and therefore also present certain operational risks.

In the United States, rules and regulations required under the Dodd Frank Act, have recently begun to become effective and comprehensively regulate the OTC derivatives markets for the first time. The Commodity Futures Trading Commission has recently required that certain interest rate and credit default index swaps be centrally cleared, and the first requirement to execute certain interest rate swap contracts through a swap execution facility. Additional standardized swap contracts are expected to be subject to new clearing and execution requirements in the future. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible margin requirements mandated by the Securities and Exchange Commission or the Commodity Futures Trading Commission. The regulators also have proposed margin requirements on non-cleared OTC derivatives, but have not yet finalized such requirements. Although the Dodd-Frank Act includes limited exemptions from the clearing and margin requirements for so-called “end-users,” we do not expect to be able to rely on such exemptions with respect to our clients. In addition, the OTC derivative dealers with which we execute the majority of its OTC derivatives will not be able to rely on the end-user exemptions under the Dodd-Frank Act and therefore such dealers will be subject to clearing and margin requirements notwithstanding whether our clients are subject to such requirements. OTC derivative dealers are required to post margin to the clearinghouses through which they clear their customers’ trades instead of using such margin in their operations for cleared

derivatives, as is currently permitted. This will increase the OTC derivative dealers' costs, and these increased costs are expected to be passed through to other market participants in the form of higher upfront and mark-to-market margin, less favourable trade pricing, and the possible imposition of new or increased fees.

The Securities and Exchange Commission and Commodity Futures Trading Commission are expected to increase the portion of derivatives transactions that will be required to be executed through regulated securities, futures, or swap exchange or execution facilities. Such requirements may make it more difficult and costly for our clients to enter into highly tailored or customised transactions. They may also render certain strategies in which we might otherwise engage impossible or so costly that they will no longer be economical to implement. OTC derivative dealers and major OTC derivatives market participants have now registered with the Securities and Exchange Commission and/or Commodity Futures Trading Commission, and the Commodity Futures Trading Commission's broad interpretation of its jurisdiction has recently required additional dealers to register. Our clients may be required to register as major participants in the OTC derivatives markets. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers are subject to business conduct standards, disclosure requirements, additional reporting and recordkeeping requirements, transparency requirements, limitations on conflicts of interest, and other regulatory burdens. These requirements may increase the overall costs for OTC derivative dealers, which are likely to be passed along, at least partially, to market participants in the form of higher fees or less advantageous dealer marks. In addition, the Commodity Futures Trading Commission has proposed position limits for certain physical commodity contracts and other referenced contracts, such as swaps that relate to the futures contract, which would limit the ability of our clients to concentrate in a particular type of contract. While many of the requirements of the Dodd-Frank Act have been adopted, the final overall impact of the Dodd-Frank Act on us and our clients is highly uncertain and it is unclear how the OTC derivatives markets will adapt to the final regulatory regime.

Other risks include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates, indices or other derivatives. Many derivatives, in particular privately negotiated derivatives, are complex and are, by their nature, valued subjectively. Incorrect or improper valuations can result in increased payments to counterparties or a loss of value to an investor. The pricing relationship between derivatives and the underlying assets, rates or indices on which they are based may not conform to anticipated or historical correlation patterns, resulting in unanticipated losses. We may invest in certain senior secured and unsecured debt obligations by entering into total rate of return swap transactions on such obligations. Under these transactions, our clients' interest in the obligation will be limited to the economic benefit of the obligation underlying the swap transaction, and our clients will not have any

ownership interest in such obligation. In addition, we generally will not have the right to enforce any right of the lender against the borrower under the loan documentation, nor will we have the ability to force the swap counterparty to exercise our clients' rights, if any, in respect of the underlying loan.

- *Structured Finance Transactions and Obligations.* In the event we invest in structured finance and other transactions, such transactions may be particularly sensitive to changes in prevailing interest rates, and our ability to successfully utilize these instruments may depend in part on our ability to forecast interest rates and other economic data correctly. Structured finance obligations may be subject to prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may depend upon any associated hedge agreement providing for the exchange of interest accruing on the security being repackaged into interest stated to be payable on the trust certificates or similar securities). In addition, the performance of a structured finance obligation will be affected by a variety of factors, including the level and timing of payments and recoveries on and the characteristics of the underlying repackaged securities, remoteness of those assets from the originator or transferor and the adequacy of and ability to realize upon any related collateral.
- *Transaction Costs.* Because we actively manage our investments, purchases and sales of investments may be frequent and may result in higher transactions costs to our clients.
- *Co-Investments with Third Parties.* We may co-invest with third parties through joint ventures or other entities. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that our co-venturer or partner may at any time have economic or business interests or goals which are inconsistent with ours, or may be in a position to take action contrary to our investment objectives. In addition, we may be liable for actions of our co-venturers or partners.
- *Potential Involvement in Litigation.* As a result of the investments in distressed companies and the possibility that we may participate in restructuring activities, it is possible that our clients may become involved in litigation. In addition, with respect to any investments in mortgage loan servicers in which our clients hold a controlling interest, we or our clients may become involved in any litigation brought against control persons of such servicers. Litigation entails expense and the possibility of counterclaims against us and our clients and ultimately judgments may be rendered against our clients for which our clients do not carry insurance. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses. The outcome of such proceedings, which may materially adversely affect the value of our clients, may be impossible to anticipate, and such proceedings may continue without resolution for long periods of time. Litigation may consume substantial amounts of our time and attention, often to an extent disproportionate to the amounts at stake in the litigation.

- *Reliance on Corporate Management and Financial Reporting.* Our strategies often rely on the financial information made available (on a non-confidential basis) by the companies in which investments are made. Recent events in the United States and around the world have demonstrated the material losses that private funds can incur as a result of corporate mismanagement, fraud and accounting irregularities by the issuers of such securities.
 - *Servicer Risks.* Many of our investments may comprise mortgage loans for which certain functions such as payment collection and deposit, record-keeping and reporting with respect to payment collections and deposits are performed by asset servicers. In the event a servicer experiences operational or financial difficulties, our clients' assets serviced by such servicer could experience payment delay, reduction or suspension, thereby reducing the assets' value. In the event of a servicer bankruptcy or other adverse event, our clients' assets serviced by such servicer could experience payment delay, reduction or suspension during a transfer of servicing responsibilities to a conservator receiver or other servicer.
- B. We ask investors in our clients to represent that their investments are rather diversified, yet we still encourage our investors to consider all of the risk factors we have explained, as any investment bears the risk of a total loss of investment and investors must be prepared to assume any potential loss.

6. Disciplinary Information

There have been no legal or disciplinary events involving Tourmalet, its general partner or any of our principals or executive officers that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

7. Other Financial Industry Activities and Affiliates

Tourmalet and its management persons are not registered as broker-dealers and do not have any application pending to register with the Securities and Exchange Commission as a broker-dealer or registered representative of a broker-dealer.

Tourmalet and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

Relationship with Client Funds

We manage each of the client funds as the general partner and/or investment manager. The commingled client funds generally do not have independent management. As a result of our sponsorship of and control over the commingled client funds, the terms of the commingled client funds are not subject to arms' length negotiation.

The principal commingled funds include:

- Tourmalet Matawin Fund, L.P., Tourmalet Matawin Offshore Fund, L.P. and Tourmalet Matawin Offshore Master Fund, L.P.
- Tourmalet Matawin Fund III, L.P., Tourmalet Matawin Offshore Fund III, L.P. and Tourmalet Matawin Offshore Master Fund III, L.P.
- Tourmalet Matawin Fund V, L.P., Tourmalet Matawin Offshore Fund V, L.P. and Tourmalet Matawin Offshore Master Fund V, L.P.
- Tourmalet Matawin Fund VI, L.P., Tourmalet Matawin Offshore Fund VI, L.P. and Tourmalet Matawin Offshore Master Fund VI, L.P.

Tourmalet also provides investment advisory services to four dedicated funds and separately managed accounts for three institutional investors. Additionally, we serve as a credit risk manager to the CLO.

As described above, none of the compensation, liquidity or other terms of our commingled client funds are negotiated at arm's-length. However, we disclose to prospective investors the terms of all of our fees and performance-based compensation, as well as the other terms of an investment, in detail in the private placement memorandum relating to each commingled client fund.

The potential to earn performance-based compensation in certain funds could also give us an incentive to invest client assets in an aggressive or speculative manner. We seek to minimize this conflict by taking a disciplined approach to portfolio risk management. Despite the presence of these conflicts of interest, we seek to act fairly when we allocate investment opportunities and value client assets. Our firm has adopted written policies and procedures that are designed to ensure fair allocations and valuations over time. In

particular, our policy prevents us from taking into account fee or other compensatory differences in allocating an investment opportunity.

Relationship with Servicers

Some of our closed ended private investment fund clients have made an equity and/or debt investment in Kondaur Capital Corporation, MCM Capital Partners, LLC, and MCMCAP Partners, LLC, companies that source, manage, service and provide consulting services relating to mortgage investments (the referred to herein as Servicers). An affiliate of Tourmalet with individual members of the Tourmalet management team also owns equity in Kondaur. Tourmalet and/or individual members of the Tourmalet management team each may, in the future own equity and/or debt interests in MCMCAP and/or one or more other entities engaged in servicing mortgage loans held by a client fund. Our closed ended private investment fund clients co-invest in mortgage loans sourced by the Servicers and will usually also retain the relevant Servicer to perform ongoing servicing and consulting services with respect to such mortgage loans. The Servicers may also, from time to time, compete with each other in bidding on pools for our clients. We may have a conflict of interest with respect to these transactions as we have management discretion with respect to client funds on both sides of the transactions. Therefore, the compensation payable to the Servicers in respect of any such transaction may not have been negotiated at arms' length. Notwithstanding such potential conflict, given our fiduciary duties to each client fund we will not authorize any client fund to enter into any such transaction unless we have determined that it is in the best interest of such client fund.

In connection with our equity interest in Servicers, our employees may sit on the board of directors of the Servicers. Tourmalet's employees may have a conflict of interest with respect to decisions made by the board of directors of the Servicers as the interests of our clients.

8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

- A. We have adopted a Code of Ethics in accordance with the U.S. Securities and Exchange Commission requirements. This Code of Ethics is designed to ensure, among other things, that employees conduct their investing activities in accordance with applicable law and in a manner where clients' interests are placed first and foremost. All employees are responsible for upholding our firm's fundamental principles of openness, integrity, honesty and trust. The Code of Ethics focuses on specific areas where employee conduct has the potential to affect clients' or investors' interests adversely.

An employee must submit an Initial Disclosure Report to our firm's Compliance Department, for the review of the Chief Compliance Officer, or his designee, within 10 days of the start of his or her employment. The Initial Disclosure Report includes all covered accounts such as (1) any personal account of an employee or such employee's related persons; (2) any joint or tenancy in common account in which either the employee or his or her related person has an interest or is a participant; (3) any account for which either the employee or his or her related person acts as trustee, executor, or custodian; (4) any account over which either the employee or his or her related person has power of attorney; and (5) any corporate or investment club accounts in which either the employee or his or her related person has investment discretion or otherwise participates in the investment decision-making process relating to such account. In addition, employees must report any new covered account to the Chief Compliance Officer within 10 days of opening such account on our Add Brokerage Account form. Any changes to a covered account, including account number, name, whether the account is closed, etc. should be reported within 10 days of such change.

Employees must provide our firm with all necessary information to arrange for their broker-dealer, bank or other third-party financial institution to send periodic account statements for each covered account directly to the Chief Compliance Officer.

Our Code of Ethics applies to all of our employees and each of our employee's related persons, which include (i) the employee's spouse, (ii) members of the employee's immediate family living in the same household, including children and/or stepchildren and (iii) other relatives of the employee living in same household who are supported financially by the employee, whose investment holdings and accounts the employee exercises direct or indirect influence or control or from whose investment holdings and accounts the employee derives a financial benefit.

Employees must obtain prior written approval before either they or a related person places an order to sell or otherwise dispose of a security that is being offered as part of an initial public offering or investing in a private placement. Prior to placing an order for such a securities transaction, a pre-trade request via email must be sent.

The submitted request will be reviewed and, as soon as practicable, a determination will be made as to whether the proposed securities transaction(s) can be authorized. If the securities transaction(s) is denied, no explanation will be provided.

Employees must also pre-clear all personal real estate transactions for themselves and their related persons.

Violation of our Code of Ethics provides for a range of sanctions, both legal and those that our firm may impose as we deem, should anyone violate the Code of Ethics. Such sanctions include, but are not limited to, disgorgement of profits (if any), and depending upon the facts or circumstances, more severe actions up to and including monetary fines and termination of employment.

In addition to the policies described above, the Code of Ethics is comprised of several other policies and procedures that are designed to eliminate or reduce potential conflicts of interest, including prohibitions against market manipulation or front running. Tourmalet prohibits the misuse of material non-public information (“inside information”) and maintains a Restricted List of securities that may not be purchased or sold by its employees for their own accounts or for client accounts because of the actual or possible possession of inside information. Tourmalet also has a gifts & entertainment policy which covers the acceptance of gifts or entertainment from service providers and other parties.

Each employee must annually execute a statement to the effect that he has read and understands, has complied with and will continue to comply with, the procedures set forth in this Code of Ethics.

The paragraphs above only represent a summary of key provisions in our Code of Ethics. We provide a copy of our Code of Ethics to any client or any investor in our clients that requests one.

- B. Employees of our firm do not recommend to clients, nor do they buy or sell for client accounts, securities in which they have a material financial interest. Our firm, its employees, officers, partners, directors (and any persons performing similar functions), and persons directly or indirectly controlling our firm, controlled by our firm or under common control with our firm, may not engage in a principal transaction with our firm’s clients.
- C. Principals and employees of our firm are permitted to purchase securities for themselves but are required to pre-clear mortgage investments which may pose a conflict to the fund(s)’ investments in mortgage investments.
- D. Principals and employees of our firm do not recommend securities to clients, or buy or sell securities for client accounts, at the same time that they buy or sell the same securities for their own (or a related person's own) account.

9. Brokerage Practices

A. We strive to obtain best overall execution of securities trades for our clients based on the circumstances of each transaction we place. In selecting broker or dealers and determining the reasonableness of their commissions for our clients' transactions that are applicable, we take into account the following factors:

- the broker-dealer's ability to execute difficult trades
- commitment of capital,
- access to new issues,
- nature and frequency of sales coverage,
- breadth of services provided,
- operational capabilities,
- back office and processing capabilities,
- financial stability and responsibility,
- reputation, access to markets,
- confidentiality,
- commission rates,
- responsiveness, and
- the value of research products and services provided by such brokers.

Recognizing the values of these factors, our clients may pay a brokerage commission in excess of that which another broker might have charged for effecting the same transaction.

Investment staff work together to review any brokerage commissions. The compliance department reviews commissions to ensure that they remain reasonable. When executing market trades, our firm weighs a combination of factors, including a broker-dealer's execution capabilities and trading expertise to execute transactions. Using brokers' commissions as a guideline, the trading department makes a good faith determination that the amount of commission paid over time is reasonable based on the totality of the circumstances and in relation to the value of the research received, viewed in terms of either the specific transaction or our firm's overall responsibility to its clients.

With respect to fixed income trades, our firm will generally obtain more than one offer or bid on purchases and sales for fixed income securities and currencies whenever practical.

Our firm has established a Best Execution Committee, which meets on a periodic basis if needed, to oversee and monitor compliance with this policy. The Best Execution Committee's review includes, trading volumes, commissions paid, gifts and entertainment, as well as trade errors, among other things. Members of the Best Execution Committee include the Chief Compliance Officer and representatives from our firm's Investment Staff, and Operations Department.

Generally, all applicable client trades are required to be placed through a firm-approved broker, unless otherwise approved by the Chief Compliance Officer. All requests to add a new broker to the executing broker list are subject to approval by the Chief Compliance Officer. A broker request form must be completed and the required documentation must be provided for review prior to approval. The Chief Compliance Officer also monitors commissions paid for executed trades that are outside of the established commission schedule range, if any. Additionally, on a monthly basis, if there was such trading activity, the Chief Compliance Officer reviews a report of the brokers to whom commissions were paid if applicable, to determine whether an unusual amount of commissions was paid to a broker that is not considered a top tier broker by our firm. The Chief Compliance Officer is responsible for the reviews and will escalate any issues to the Executive Committee. Additionally, to the extent there has been any such trading activity, the compliance department reviews on a monthly basis the FINRA disciplinary activities to determine if any approved broker is subject to a material violation.

We may buy and sell securities for our clients from brokers with whom our clients' assets are custodied.

1. We May Utilize Research and Other Soft Dollar Benefits. Soft dollar benefits include research and related services furnished by brokers including written information and analyses (including specific market, financial and economic studies and forecasts), statistics and pricing services, third party research, trade execution services, discussions with research personnel and similar services used in the investment and trading process. We may pay a broker a commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage or research services, or other services or facilities provided by the broker. To the extent we enter into soft dollar transactions, we will effect such transactions in compliance with the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Since commission rates in the United States as well as in certain other jurisdictions are negotiable, selecting brokers on the basis of considerations that are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

The Use of Soft Dollars Can Create a Conflict of Interest. Using client transactions to obtain research and other benefits creates incentives that result in conflicts of interest between advisers and their clients. The availability of these benefits may influence us to select one broker-dealer rather than another to perform services for clients, based on our interest in receiving the products and services instead of on our clients' interest in receiving the best execution prices. Obtaining these benefits may cause our clients to pay higher fees than those charged by other broker-dealers. However, we will make a good faith determination that the amount of commission is reasonable in relation to the value of the research and other soft dollar benefits received, viewed in terms of either the specific transaction or our overall responsibility to its clients. We regularly

evaluate the placement of brokerage and the reasonableness of commissions paid as described above.

The use of soft dollars to obtain research services and to pay for other costs and other investment expenses that our firm might otherwise incur (such as third party research and investment information, trade execution services, research and financial newsletters) creates a conflict of interest between our firm and our clients because our clients pay for products and services that are not exclusively for their benefit and that may be primarily or exclusively for the benefit of our firm or other clients. Certain clients, who are the beneficiaries of research services, may have an investment style which results in the generation of a small amount of brokerage commissions due to a lack of active trading for their accounts. As a result, clients who generate sizeable commissions may subsidize research services provided to clients whose accounts generate minimal brokerage commissions since the commission dollars generated by transactions for those clients are not sufficient to pay for research services that may be received by such clients from other brokers. To the extent that we are able to acquire these products and services without expending our own resources, our use of soft dollar benefits tends to increase our profitability.

We May Consider Referrals in Selection Brokers and Dealers. Subject to seeking best execution, we also may consider referrals of potential investors to our clients as a factor in the selection of brokers. We may execute trades with brokers and dealers with whom we have other business relationships, including prime brokerage, credit relationships and capital introduction or investments by affiliates of the broker-dealers in our clients; however, we do not intend for these other relationships to influence the choice of brokers and dealers who execute trades for our clients.

2. Our Clients Do Not Direct Brokerage. Our firm does not recommend, request or require that a client, nor do we permit a client to, direct us to execute transactions through a specified broker-dealer.

- B. We may have conflicts of interest in allocating investments among our various clients. We will act in a manner that we consider fair, reasonable and equitable in allocating investment opportunities among our clients' accounts, taking into consideration available capital, allocation caps, diversification considerations, any other anticipated opportunities and other relevant factors. Under certain circumstances not currently applicable, several existing client accounts may become entitled to disproportionate allocations compared with client accounts established after the first quarter of 2014.

10. Review of Accounts

- A. Our portfolio managers review all the client fund portfolios for which they are responsible and analyze their performance on a regular basis, no less than bi-weekly for the closed ended private investment fund clients. Where applicable, these reviews include an assessment of daily profit and loss reports with respect to our clients' investment positions.
- B. The portfolio managers will meet with the Chief Operating Officer at least monthly or more frequently, as deemed necessary, and will meet upon the occurrence of certain significant events. A "significant event" is generally an event that will materially affect the value of a security for a period of time.
- C. We provide investors in our client funds with unaudited quarterly letters and, as soon as practicable after the end of each fiscal year, unaudited investor account valuation statements sent by our fund administrator on quarterly basis. Additionally, we provide audited annual reports containing financial statements examined by our independent auditors as well as such tax information as is necessary for each investor in our closed ended private investment funds to complete its U.S. federal and state income tax or information returns, along with any other tax information required by law. Finally, we may agree with certain investors, on a case by case basis, to provide additional information on a monthly basis to third party service providers designated by such investors, subject in any case to a confidentiality agreement with those third party service providers.

We provide our managed account clients with audited reports regarding the performance of such accounts as may be requested by the managed accounts.

We provide to the CLO such information as may be required by it.

11. Client Referrals and Other Compensation

- A. Our firm does not, nor do any principals or employees of our firm, receive any economic benefit from non-clients for providing advisory services to our clients.
- B. We have entered into a third party solicitation arrangement in connection with the offering of interests in certain funds and may enter into other such arrangements. Such third party solicitation arrangement is in compliance with Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, to the extent Rule 206(4)-3 is applicable to such arrangements (taking into account current Securities and Exchange Commission guidance). The compensation for referrals is based upon a percentage of fees (including performance-based compensation) and/or assets we receive from investors in our fund clients introduced to us by the referring party for a period of time.

12. Custody

Due to our access to certain client funds and securities as general partner or investment manager of certain client funds that we manage, and our authority to deduct fees and other expenses from a client's account, we are deemed to have constructive custody of our certain clients' funds and securities within the meaning of Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended.

We utilize the services of unrelated financial institutions or other qualified custodians (as defined in Rule 206(4)-2) to hold all funds and securities of any of our clients, with the exception of certain uncertificated privately offered securities. We also ensure that the qualified custodian maintains such funds in accounts that contain only clients' funds and securities.

We comply with the periodic reporting requirements of Rule 206(4)-2 by arranging for annual financial statements for applicable client accounts, which are prepared in accordance with generally accepted accounting principles and are audited by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, to be delivered to each investor in the Tourmalet funds within 120 days of the end of the fiscal year of the fund.

We do not have any actual or constructive custody of the assets of our managed account clients or of the CLO.

13. Investment Discretion

Scope of Authority

All of our firm's investment advisory services, other than those services provided to the CLO, involve the management of client accounts on a fully discretionary basis. We have the authority to determine, without obtaining specific client consent, which securities to buy or sell and the amount of securities to buy or sell, the broker through which we effect trades, and the commission rates at which we effect trades. In exercising this authority, we adhere to the investment strategy and program set forth in each of the Tourmalet fund's private placement memorandum, limited partnership agreement and/or investment management agreement.

With respect to the CLO, we provide ongoing credit-risk management services and advice, but we do not have the ability to execute transactions.

Procedures for Assuming Authority

Before accepting investors' subscriptions for interests, we provide all investors in our clients with a private placement memorandum and governing documents that set forth, in detail, our investment strategy and program and the terms of investment for investors. By completing our subscription documents to acquire an interest in one of our funds, investors give us complete authority to manage their investments in accordance with the private placement memorandum and governing documents they each received.

14. Voting Client Securities

A. Proxy Voting Policies and Procedures

Our firm, in certain circumstances, has the authority to exercise voting discretion over securities or other financial instruments held in our client accounts. The portfolio managers, in consultation with the Chief Compliance Officer, will be responsible for voting proxies, either in writing or via the internet, for such clients. When voting client proxies, our firm is required to vote such proxies in the best interest of its clients. However, we may abstain from proxy votes when, in our reasonable opinion, the outcome of the vote has been decided (regardless of how we may vote) or when the subject of the vote is immaterial to the investment or interest of our clients. Our firm shall be responsible for maintaining records of the manner in which each proxy was voted.

The accounting department is responsible for monitoring corporate actions and receiving, processing and voting proxies. The portfolio managers and the Chief Compliance Officer will set the voting policy, and will review on a periodic basis new corporate governance issues as they arise and determine how our firm will respond to such issues. They also will take steps to ensure that those who assist in the administration of the voting of proxies perform their responsibilities consistent with these voting policies.

Proxies will be voted (i) on computerized proxy cards, where such cards are used by the security issuer, (ii) by returning the proxy voting card via mail per instructions provided by the security issuer, (iii) via e-mail or fax, or (iv) via the internet, in accordance with the specific procedures of such vote.

Factors We Consider When Determining Whether to Vote Proxies

Our portfolio managers consider the following factors, and any other factors he or she determines is relevant, when determining whether to vote a client proxy:

- The holding period of a security's position.
- The economic value of a security's position.
- Whether the cost of voting (e.g., required in-person voting at a distant location) will likely exceed the value of any potential benefits of voting.
- Whether voting is impracticable due to timing or mechanics.
- Whether our custodian lent the securities and had not recalled them as of the relevant voting date.
- Whether the relevant client has specified in writing (e.g., an agreement with us) that it will maintain the authority to vote proxies or that it has delegated the right to a third party.

When a portfolio manager determines that voting a proxy is in a client's best interest, he or she uses all relevant factors and information at his or her disposal to determine how to vote in a client's best interest.

Our portfolio managers do not vote on securities that our account custodian has loaned to a third party.

Clients cannot direct our portfolio managers' proxy votes.

Potential Conflicts of Interest

The Chief Compliance Officer is responsible for identifying potential conflicts of interest concerning the proxy voting process. While this will generally be evaluated on a case-by-case basis, one or more clients' ownership of securities in a company which is the subject of a proxy vote for another client will not in itself create a conflict of interest. In cases where it is determined that a potential conflict exists, the Chief Compliance Officer will disclose the nature of the conflict to the affected client(s), disclose the specific matter under proposal to the clients, and obtain the client(s) consent before voting

In certain circumstances, to address a conflict of interest in the context of proxy voting, we may establish policies for proxy voting with respect to certain issues on which we will vote consistently. In other circumstances, where appropriate, to resolve conflicts of interest, we may consult with counsel and/or appoint an independent third party to evaluate and recommend the voting of proxies.

Recordkeeping

We shall provide a copy of our proxy voting policies and procedures and information regarding any proxies actually voted by a client to any investor in such client upon the request of such investor.

Our firm maintains written records of client requests for proxy information and any written response to any (written or oral) client request for information on how our firm voted proxies on their behalf for a period of seven years.

15. Financial Information

- A. We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.
- B. This item is not applicable because we are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients.
- C. Tourmalet Advisors, L.P. has never been the subject of a bankruptcy petition.