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ANNALY MANAGEMENT COMPANY LLC

1211 AVENUE OF THE AMERICAS

41st FLOOR

NEW YORK, NY 10036

212-696-0100

This brochure provides information about the qualifications and business practices of our firm, Annaly Management Company LLC (the “Advisor”). If you have any questions about the contents of this brochure, please contact us at 212-696-0100.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC” or the “Commission”) or by any state securities authority. Additional information about us is available on the SEC’s website at www.adviserinfo.sec.gov.

We are an investment adviser registered with the SEC. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information to aid in your determination to hire or retain an adviser.

When we use the term “we” “us” and “our” in this brochure, we are referring to the Advisor. In addition, any reference to “our employees” or “our officers” means officers and employees of the Advisor.

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Item 2 – Material Changes

This brochure dated May 8, 2015 is a document updated annually or upon material changes, and prepared according to the SEC's requirements and rules. Pursuant to SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our business' fiscal year. We may provide other ongoing disclosure information throughout the year about material changes, where required.

Our last brochure was dated March 9, 2015. Since then, our sole client, Annaly Capital Management, Inc. ("Annaly"),¹ has had no significant changes to its business model.

We will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge. Currently, our brochure may be requested by contacting Michael T. Dorsey, Esq., at 212-696-0100.

Additional information about the Advisor is available via the SEC's website www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with the Advisor who are registered, or are required to be registered, as investment adviser representatives of the Advisor.

¹ Annaly is listed for trading on the NYSE under the symbol "NLY".

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Item 4 – Advisory Business

FIRM DESCRIPTION

Formed in Delaware in 2013, the Advisor is registered with the SEC. The Advisor specializes in managing pools of assets using credit and interest rate sensitive investment strategies, including residential and commercial loans, mortgage backed securities, and other asset backed securities.

SERVICES PROVIDED

We currently manage the assets of a single client, Annaly, as described in Item 7, for a fee, focusing on interest rate sensitive investment strategies and credit sensitive strategies, including investing in residential and commercial loans, mortgage backed securities, and real estate related assets.

Our services are limited to investments that utilize our team's expertise in analyzing opportunities and executing strategies in interest rate and credit-sensitive debt transactions. This expertise extends to both the asset and liability sides of client accounts, as well as collateral management services. Our advisory strategy involves the use of U.S. Government and Agency securities (collectively, "U.S. Government Securities") in conjunction with leverage to capitalize on the creation of opportunities within this market. Our strategy also utilizes investments in residential mortgage loans, private label residential mortgage-backed securities, real estate and real estate-related securities, commercial mortgage loans, commercial real estate debt, commercial mortgage backed securities and other debt and asset-backed securities. We do not generally offer advice on equity securities. We use derivatives, including interest rate caps and/or swaps in our recommended investment strategy for achieving the client's investment objectives.

INVESTMENT MANAGEMENT AGREEMENT ("IMA")

We manage assets pursuant to an IMA. Fees and investment guidelines are outlined in the IMA. While we often follow our own defined strategies, the client is permitted to impose

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restrictions on investing in certain securities or types of securities, which must be detailed in writing.

We are not permitted to assign an IMA without client consent. The client or the Advisor is generally permitted to terminate an IMA at-will upon one hundred eighty (180) days advance written notice. Fees will be charged through the date service is terminated.

As of March 30, 2015, we calculate approximately \$78,675,677,000 in assets for our client, all of which is on a discretionary basis.

Item 5 – Fees and Compensation

FEE SCHEDULE

All fees are subject to negotiation.

The specific manner in which fees are charged, is established in the client's IMA. We bill our fees on a monthly basis. The client may also elect to be billed directly for fees or to authorize us to debit fees directly from the client's account. Fees may be prorated for each capital contribution and withdrawal made during the applicable calendar month. Accounts initiated or terminated during a calendar quarter are charged a prorated fee.

Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

Our fees are exclusive of brokerage commissions, transaction fees, and other management related costs and expenses which shall be incurred by the client. The client may incur certain charges imposed by custodians, broker-dealers, and other third parties, such as deferred sales charges, odd-lot differential fees, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to our fee, and we do not receive any portion of these commissions, fees, and costs.

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The client is permitted to engage in any recommended transaction with the broker-dealer of its choosing, including broker-dealers or agents that are not affiliated with us.

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

We do not currently charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client); however, we reserve the right, to charge performance-based fees in the future if warranted. We will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (the “Advisers Act”) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

When measuring the client’s assets for the calculation of performance-based fees, we may include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. We have procedures designed and implemented to ensure that the client is treated fairly and in accordance with our fiduciary obligations.

Item 7 – Types of Clients

We have entered into an IMA to be the external manager for Annaly. We currently provide portfolio management services to this single client, which is comprised of a pooled investment vehicle. We do not manage accounts for individuals.

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

INVESTMENT STRATEGIES

Our client, Annaly provides its own risk disclosures and other informational documents to its investors directly, specific to their investments in the client. Our objective is to provide attractive risk-adjusted returns to our client over the long-term, primarily through interest income and secondarily through capital appreciation. We intend to achieve this objective by investing in a diversified investment portfolio of residential mortgage-back securities ("RMBS"), residential mortgage loans, real estate-related securities, commercial real estate loans, and various other asset classes. Depending on specific account guidelines, our purchase of RMBS, asset back securities ("ABS"), commercial mortgage-back securities ("CMBS"), collateralized debt obligations, and other asset classes may include investment-grade and non-investment grade classes, including the BB-rated, B-rated and non-rated classes.

We make investment decisions based on various factors, including expected cash yield, relative value, risk-adjusted returns, current and projected credit fundamentals, current and projected macroeconomic considerations, current and projected supply and demand, credit and market risk concentration limits, liquidity, cost of financing and financing availability, as well as maintaining the stated account or fund guidelines. Over time, we will modify our investment allocation strategy as market conditions change to maximize the returns for an investment portfolio. We believe this strategy, combined with our experience, may enable us to create interest income and achieve capital appreciation throughout changing interest rate and credit cycles and provide attractive long-term returns to investors.

SOURCES OF INFORMATION

We review available information relating to an investment, including Bloomberg and other statistical information, prospectuses, term sheets, trading history and public research and commentaries. We also obtain information from, and rely on, government generated and private sector reports on economic and government activity. In addition, we utilize

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contacts in the professional investment community to gather information relevant to investment advisory activities.

METHODS OF ANALYSIS

Our investment process is designed in such a way that allows the investment team to be flexible and responsive to changes in the markets. We rely on our expertise in identifying assets within our target asset classes and, over time, we will modify our investment allocation strategy as market conditions change, to seek to maximize the returns for an investment portfolio. The investment team will only acquire those assets that it believes it has the necessary expertise to evaluate and manage and which are consistent with the investment guidelines and risk management objectives. In general, among the asset choices available to the investment team, the team will acquire those assets which it believes will generate the highest, risk-adjusted returns on capital invested, after considering:

- The stated objective and limitations of the client or investment fund;
- The amount and nature of the anticipated cash flows from the asset;
- Current and projected credit fundamentals;
- Current and projected macroeconomic considerations;
- The ability to pledge the asset to secure collateralized borrowings;
- The cost of financing, hedging, and the general management of the asset; and
- Any other factors it deems appropriate.

A decision to sell generally begins with a recommendation from an investment team member. A discussion among team members would take place with the goal of reaching consensus on the best course of action. Our investment team monitors and evaluates holdings on a daily basis and will consider a sale under any of the following circumstances:

- Change in credit opinion or market valuation
- Increased loss or default assumptions
- Operating results/financial condition
- Change in collateral performance
- Change in credit quality ratings by NRSROs

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- Shift in market supply/demand balance
- Trading rich versus similar available investment opportunities
- Declining in price
- Change in capital markets
- Change in prepayment expectations
- Change in funding terms for the asset
- Change in accounting or tax treatment for the asset
- Changes in government regulations
- Any other factors it deems appropriate

Based on the work of the investment team, which includes our portfolio managers, our client's portfolio is constructed. We then review the portfolio's exposure to the market sector and the specific security in question. We determine whether the duration impact and credit impact of adding the security would be acceptable within the context of our overall portfolio strategy and the portfolio's investment guidelines. Rather than employ a trading oriented strategy, most purchases are made with a willingness to hold securities to maturity based on intrinsic value. Final portfolio characteristics are guided by the client's objectives and, if applicable, benchmarks.

Our investment process involves ongoing asset allocation discussions. These discussions include input from the entire investment team and executive management. We review relative value opportunities, valuation metrics and technical market factors in all sectors including, corporate debt, government-issued securities, and ABS and whole mortgages.

LEVERAGE

We often employ leverage to increase the potential returns to investors. Leverage involves borrowing funds in an effort to multiply gains. Account guidelines, along with the credit quality, general risk of an asset, availability of funds, as well as the cost of borrowing, as compared to the possible benefits the portfolio expects to achieve, determine the appropriate amount of leverage utilized. The use of leverage will magnify losses as well as gains in the value of a portfolio's investments. Money borrowed by a portfolio also will be subject to interest costs on the borrowed amount which may or may not exceed the income from the investments made with the proceeds of such borrowing.

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Amounts borrowed may be secured by a pledge of securities or cash. If loans to a portfolio are collateralized with portfolio securities that decrease in value, the portfolio may be obligated to pledge additional collateral to a lender in the form of cash or securities to avoid liquidation of the pledged securities. The rights of any lenders to the portfolio to receive payments of interest on, and repayments of principal of, such borrowings will be senior to those of the investors; the terms of borrowings may contain provisions that limit certain activities of a portfolio, including the payment of dividends to investors in certain circumstances. Interest payments and fees incurred in connection with borrowings will reduce the amount of net income available for payment to investors.

We may, from time to time, utilize derivative financial instruments to hedge the interest rate risk associated with the client's borrowings; however, perfect hedges are impossible. Should interest rates move in an unexpected direction, a portfolio may not achieve the anticipated benefits of leverage and thus would be in a worse position than if leverage had not been used. While borrowings are outstanding, a portfolio might be forced to meet redemption or margin requests, or to sell portfolio securities at what we consider to be a disadvantageous time, due to the client's inability to borrow additional funds to pay redemption proceeds or meet margin requirements.

We may access leverage through the multitrillion dollar repurchase agreement market. A repurchase agreement is a current sale of a security and a contemporaneous agreement to repurchase the security at a price reflective of the cost of funds for the term until the repurchase date, and is functionally equivalent to collateralized borrowing. The Federal Reserve Bank uses repurchase agreements to manage adjustments in bank reserves. The major dealers in this market include firms designated as "Primary Dealers" in U.S. Government Securities and a number of money center banks. Such dealers include Goldman Sachs, Bank of America, Citigroup, UBS, among others.

The principal risk to a portfolio in its use of repurchase agreements (other than the risks typically associated with the use of leverage) is the possibility of a delay in the return of collateral beyond the repurchase date if the dealer defaults or becomes insolvent. Such a delay could disrupt a portfolio's investment program and adversely affect a portfolio's investment return. A default could result in the portfolio losing money that it may not recover.

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We may also access leverage using a number of different strategies including warehouse lines, securitizations, collateralized loans, and other debt.

RISK OF LOSS

As with most investments, the client must be prepared to risk the loss of some, or all, of its money.

All investment programs have certain risks that are borne by the investor. Given our fixed-income focus, our investment approach constantly keeps the risk of loss in mind. The client faces the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds rise, causing their market values to decline.
- **Market Risk:** The price of a security or bond may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed-income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, mortgage REITs are affected by monetary policy, cost of credit, the mortgage market and the real estate market. They carry a higher risk of profitability than mortgage funds that use no leverage and rely simply on interest and capital appreciation to reward investors.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested

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in a standardized product. For example, Treasury Bills are highly liquid while real estate properties are not.

- **Credit Risk:** Excessive borrowing to finance a business' operations or a consumer's consumption increases the risk to profitability and solvency, because the company or consumer must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in principal losses, bankruptcy and/or a declining market value.
- **Extension and Prepayment Risk:** During periods of rising interest rates, the average life of certain types of securities is extended because of slower than expected principal prepayments. This may lock in a below market interest rate, increase the security's duration and reduce the value of the security. During periods of declining interest rates, the issuer of a security exercises its option to prepay principal earlier than scheduled, forcing the client to reinvest in lower yielding securities. To the extent an account invests significantly in asset-backed and mortgage-related securities, its exposure to prepayment and extension risks may be greater than other investments in fixed-income securities.
- **Counterparty Risk:** The institutions, including brokerage firms and banks, with which we (directly or indirectly) do business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities to trade security positions.
- **Regulatory Risk:** Recently there has been increased governmental, as well as self-regulatory organization, scrutiny of the securities industry in general. It is impossible to predict what, if any, changes in regulations will result from these developments, but any regulations which restrict the ability of us to employ, or broker, and other counterparties to extend credit in their trading (as well as other regulatory changes which result) could have a material adverse impact on the profit potential.
- **Leverage risk:** As discussed above, leverage involves the use of various financial instruments or borrowed capital, to increase the potential return of an investment. Although the use of leverage may create an opportunity for increased return, it also results in additional risks and

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can magnify the effect of any losses. If the income and gains earned on the securities and investments purchased with leverage proceeds are greater than the cost of the leverage, the return will be greater than if leverage had not been used. Conversely, if the income and gains from the securities and investments purchased with such proceeds does not cover the cost of leverage, the return will be less than if leverage had not been used. Reverse repurchase agreements are also subject to the risks that the market value of the securities sold by the client may increase above the price of the securities the client is obligated to repurchase, and that the securities may not be returned to the client. There is no assurance that a leveraging strategy will be successful.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. At least annually, our employees are required to certify if they have any matters that require disclosure. We have no matters that require disclosure.

Item 10 – Other Financial Industry Activities and Affiliations

RELATED PERSONS

We have relationships with, and may utilize, suggest or recommend our own services or those of entities which are related to us and are affiliates of Annaly in connection with our activities. The particular services involved will depend on the types of services offered by affiliates of Annaly. Certain of our trading, advisory and other activity for the client may be delegated to Annaly affiliates at our discretion. These arrangements will generally involve sharing or joint compensation related to each entity's responsibilities for the client, subject to the requirements of applicable law.

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Fixed Income Discount Advisory Company ("FIDAC")

Formed in 1994, FIDAC is a SEC-registered investment advisor specializing in managing pools of assets using credit and interest rate sensitive investment strategies, including residential and commercial loans and other mortgage backed securities, CDO liquidations and other financial services. FIDAC is a wholly-owned subsidiary of our client, Annaly.

Information about FIDAC is available on the SEC's website at www.adviserinfo.sec.gov. The SEC's website also provides information about any persons affiliated with FIDAC who are registered, or are required to be registered, as investment adviser representatives of FIDAC.

RCap Securities, Inc. ("RCap")

Created in 2008, RCap is a wholly owned, broker-dealer subsidiary of our client, Annaly. RCap exists in part to provide broker-dealer and administrative support services for Annaly as well as other Annaly affiliates, such as FIDAC and its clients. Information about RCap is available through FINRA's BrokerCheck portal at www.finra.org.

RCap receives commissions or commission equivalents in connection with the execution of transactions for its parent company, Annaly. To the extent that we use RCap's services for Annaly's transactions, Annaly will be charged; RCap and its employees will be compensated for customary fees paid by Annaly. Customary fees may take the form of commissions, markups, markdowns, fees or other commission equivalents, or the retention of spreads or markups on principal transactions. Generally, RCap earns compensation for principal transactions, but the compensation is reasonable and customary, and would otherwise be paid to a third party broker-dealer if transacting with a non-affiliate.

We will use RCap in connection with a limited amount of our advisory business and most transactions will be executed through unaffiliated third party broker-dealers. RCap engages in principal transactions with our client in compliance with applicable rules and regulations.

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RCap's executions of transactions are effected in accordance with our policies and procedures with respect to best execution. In addition, we may receive record keeping, administrative and support services from RCap, including analyses, reports and other services that we in our advisory capacity may choose to obtain from RCap.

Item 11 – Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics (the "Code") for all of our supervised persons describing our high standard of business conduct, and fiduciary duty to the client. The Code is available to the client or potential client upon request and includes standards of business conduct, avoiding conflicts of interest, a prohibition on insider trading, and personal securities trading procedures, among other things. Our employees must acknowledge the terms of the Code annually, or as amended.

Unless permitted by the Chief Compliance Officer, our supervised persons are prohibited from trading and investing in securities issued by the client, as well as in mortgage backed securities and derivatives of mortgage backed securities. We maintain a Restricted List of securities in which there is a conflict or non-public information known about an issuer of securities. Our employees are prohibited from trading and investing in securities on the Restricted List unless permitted by the Chief Compliance Officer. For compliance purposes, the supervised persons are required to report their transactions quarterly, have their accounts monitored electronically by Schwab Compliance Technologies (formerly Compliance11), or are required to have duplicate confirmations and account statements delivered to us for review if not electronically submitted.

The Code is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of the client, and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interests of the client. In addition, the Code requires pre-clearance of many transactions. Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as the client, the possibility exists employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code through

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Schwab Compliance Technologies (formerly Compliance11) and the review of employee account confirmations and statements, in a reasonable effort to prevent conflicts of interest between us and our client.

The client or prospective clients may request a copy of the Code by contacting the Chief Compliance Officer at 212-696-0100.

Item 12 – Brokerage Practices

We do not enter into soft dollar arrangements. We do not take into consideration whether we or related persons receive client referrals from a broker-dealer or other third party.

The client may direct us to use a particular broker-dealer to execute transactions for its account under such term and arrangements as the client may negotiate with the particular broker-dealer. However, where the use of a particular broker-dealer is so directed, we may not be in a position to negotiate freely rates or spreads, or to select broker-dealers on the basis of best execution.

Depending on the terms of the IMA, we may have the discretionary authority to select the broker-dealer through whom securities and other assets are bought or sold, including accepting the commission rates at which transactions for the client are affected.

In arranging for the purchase and sale of client's securities and other assets, we take numerous factors into consideration, including any legal restrictions and any client imposed restrictions. Within these constraints, we employ or deal with members of the securities exchanges and other brokers-dealers as may in our judgment implement the policy of obtaining best execution (i.e., prompt and reliable execution at the most favorable prices obtainable under the prevailing market conditions) regarding the client's portfolio transactions.

In determining the abilities of a broker-dealer to obtain best execution of transactions, we will consider all relevant factors, including the execution capabilities required by the transactions, the ability or willingness of the broker-dealer to facilitate the transactions as well as cost to the client.

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Item 13 – Review of Accounts

Accounts are generally reviewed daily. Accounts with little or no activity may be reviewed on a less frequent basis, but no less frequently than monthly where there is activity. Reviews of accounts include examination of asset purchases, financing arrangements, and alignment of account objectives with actual positions. Reviewers include Portfolio Managers, Vice Presidents, Assistant Vice Presidents, and accounting personnel, as well as external independent auditors. Reviewers are instructed to confirm the accuracy of the account position, performance, and alignment with account objectives. The Chief Portfolio Officer oversees all of the investment activity.

The nature and frequency of reporting on accounts is specific to the particular contractual agreement and goals of the account, but occurs at least monthly. We may arrange for independently reported account information or may produce reports internally. Reports may include, but are not limited to, a summary of the account's position, a listing of the transactions occurring in that account, and various performance measures.

New York Stock Exchange listed pooled investment vehicles undergo independent reviews or audits of their financials on a quarterly and annual basis. Audited financials are submitted to the Securities and Exchange Commission and disseminated to the public as required by law.

Item 14 – Client Referrals and Other Compensation

We do not compensate third parties for client referrals.

Item 15 – Custody

We are deemed to have custody of certain client assets, which is administered in compliance with applicable rules and regulations. Our client generally undergoes audits by independent accountants, which are hired by the client and all reports are disclosed to investors in that client.

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Item 16 – Investment Discretion

We will receive discretionary authority in writing from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining the amounts to invest, we observe the investment policies, limitations, and restrictions of the client. Our authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments, and favor the holding of investments once made. Investment guidelines and restrictions must be provided to us in writing.

Item 17 – Voting Client Securities

As a matter of policy and practice, we generally do not vote proxies on behalf of the client. The client retains the responsibility for receiving and voting proxies for any and all securities maintained in its portfolios. We may provide advice to the client regarding the client's voting of proxies.

In very limited instances, the client may elect in writing to have us engage in the voting of proxies or making decisions relating to other proposed actions on client securities on its behalf. We have adopted policies and procedures relating to voting proxies and other corporate actions that are designed reasonably to ensure that we vote proxies in the best interest of our client where requested, including notice to the client of any potential or actual conflict of interest that may arise. The client may request a copy of our Corporate Action and Proxy Voting Policy, as well as a history of votes on its behalf by making a written request to the Chief Compliance Officer at the address set forth on the first page of this form.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their respective financial condition. We have no

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financial commitment that impairs our ability to meet contractual and fiduciary commitments to the client, and have not been the subject of a bankruptcy proceeding.