

**ITEM 1**  
**COVER PAGE**

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

**KAH CAPITAL MANAGEMENT, LLC**

OCTOBER 2018

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*This brochure (the “Brochure”) provides information about the qualifications and business practices of Kah Capital Management, LLC (“KCM”). If you have any questions about the contents of this Brochure, please contact us at (703) 677-3424.*

*Additional information about KCM also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link “Investment Adviser Search,” select “Investment Adviser Firm ” and type in KCM's name). Results will provide you with both Parts 1 and 2 of KCM's Form ADV.*

*The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. KCM is registered with the SEC as an investment adviser, which does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, serve as information for you to use to evaluate KCM and should be considered in your decision whether to hire KCM or to continue to maintain a mutually beneficial relationship.*

## **ITEM 2**

### **MATERIAL CHANGES**

This is the initial filing of the Form ADV Part 2A for KCM and as such, there are no material changes to report. In the future, this Item 2 will discuss specific material changes that were made to the Brochure and will provide a summary of such changes.

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## **ITEM 4**

### **ADVISORY BUSINESS**

*This Brochure generally includes information about KCM and its relationships with its affiliates. References in this Brochure to “clients” are references to investment funds and separately managed accounts.*

#### **A. General Description of Advisory Firm**

KCM is a Delaware limited liability company that commenced operations in 2018 and has an investment advisory office in McLean, Virginia. The principal owners of KCM are Kah, LLC, a Delaware limited liability company the “Kah Member”) and Anacostia LLC, a Delaware limited liability company (the “Chimera Member”). The Kah Member is the managing member of KCM, and directly owns 75.1% of the equity interests in KCM. The Chimera Member directly owns 24.9% of the equity interests in KCM. The principal owner of the Kah Member is Adama Kah and the principal owner of the Chimera Member is Chimera Investment Corporation.

#### **B. Description of Advisory Services**

KCM will provide investment management services to various funds and separately managed accounts on both a discretionary and non-discretionary basis (collectively, “Clients”). KCM will enter into an investment management agreement with each Client, which will contain or refer to such Client’s investment mandates, parameters and restrictions (the “Investment Guidelines”). The Investment Guidelines are periodically reviewed and revised, as needed or appropriate, by KCM and the applicable Clients.

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

Not applicable.

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

Not applicable.

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

KCM does not manage any assets at this time.

**ITEM 5**  
**FEES AND COMPENSATION**

**A. Fees and Compensation**

Currently, KCM does not receive any fees or other compensation.

**B. Additional Fees and Expenses**

Additional Fees

Not applicable.

Manager Expenses

Currently KCM does not have any expenses paid by any Clients.

**D. Prepayment of Fees**

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

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

KCM or the general partner or managing member of a Client (each, a “General Partner”) may be entitled to receive a performance-based fee or allocation from a Client, which is based on a percentage of capital gains on or capital appreciation of the assets of such Client. The performance-based fee or allocation is subject to a high watermark, which prevents KCM, or a General Partner, from receiving any performance-based fee or allocation with respect to profits that simply restore previous losses, and is intended to ensure that the performance-based fee or allocation is based on the long-term performance of an investment in the Client. As noted in Item 7, each Client must be an “accredited investor” and a “qualified purchaser”, therefore any performance-based fees or allocations will only be assessed to such investors.

Investors should be aware that performance-based fee or allocation arrangements may create an incentive for KCM, or a General Partner, to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. This arrangement may cause investors to pay a greater expense than if such fees were not charged. KCM seeks to address such conflicts in a fair and equitable basis in its good faith discretion and has established policies and procedures to address the potential conflicts of interest described above through careful review of investment opportunities.

## **ITEM 7**

### **TYPES OF CLIENTS**

KCM intends to provide investment advice to Clients in the future which will consist of pooled investment vehicles and separately managed accounts. The constituent documents for each Client will set minimum amounts for investment by prospective investors for each such Client. KCM may modify or waive such minimum investment requirements from time to time. Generally, interests in a Client that is a pooled vehicle may only be acquired by certain investors that meet the criteria of an “accredited investor,” as defined in Regulation D under the Securities Act of 1933, as amended (the “Securities Act”), and a “qualified purchaser,” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Investment Company Act”).

## ITEM 8

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

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

The investment program for each Client will involve a substantial degree of risk and such activities could result in a substantial loss of capital, which investors should be prepared to bear. Subject to any limitations in particular constituent documents, KCM is authorized to invest in various types of securities, other financial instruments which may include, but are not limited to, (a) seasoned and re-performing residential mortgages loans on real estate properties (including, without limitation, residential performing, non-performing and re-performing whole loans, agency, non-agency mortgage-backed securities and the collateral securing such loans, (b) structured transactions and securities sourced from government sponsored agencies and private sellers.

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

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

The following risk factors do not purport to be a complete list or explanation of the risks involved with the activities of KCM or any Client. These risk factors include only risks KCM believes to be material, significant or unusual based on information currently available, and relate to particular investment strategies employed by KCM and any Client investments made pursuant thereto.

##### Overall Investment Strategy and Investment Risks

*Risks of Investments Generally.* All investments risk the loss of capital. No guarantee or representation is made that a Client's investment strategy will be successful. A Client's investment strategy may involve, without limitation, risks associated with limited diversification and concentration, leverage, investments in speculative assets and the use of speculative investment strategies and techniques, interest rates, volatility, tracking risks in hedged positions, credit deterioration or default or prepayment risks, systems risks and other risks inherent in a Client's activities. Certain investment techniques of a Client (e.g., use of direct leverage or indirectly through leveraged investments) can, in certain circumstances, magnify the impact of adverse market moves to which such Client may be subject. In addition, a Client's investments may be materially affected by conditions in real estate markets, the financial markets and overall economic conditions occurring globally.

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



*Limited Diversification.* In the normal course of making investments on behalf of its Clients, KCM will be concentrated within the mortgage credit sector. In addition, KCM may select investments that are concentrated in a limited number or type of financial instruments or assets. From time to time, a Client's portfolio may consist of a significant portion of either mortgage loans or securities. Such concentration of risk may increase the losses suffered by a Client or reduce their ability to hedge their exposure and to dispose of depreciating assets. Limited diversity could expose Clients to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those financial instruments or assets.

*Leverage.* KCM generally intends to lever Clients' assets through various types of financings, including seller financing, and through various securitization vehicles. KCM may also cause Clients to leverage their investment returns with options, short sales, swaps, forwards and other derivative instruments.

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

*Illiquidity.* A substantial portion of a Client's assets may consist of loans, structured assets or other financial instruments that are not actively or widely traded and a Client may invest in illiquid securities, or securities that become illiquid after a Client's investments in such securities. Mortgage-backed loans and asset-backed securities are generally less liquid than are other securities (e.g., stocks or Treasury bonds). A reduction in dealer market-making capacity in the fixed income markets similar to that which occurred in recent years would have the potential to further reduce liquidity. Certain securities and other investments held by a Client may also be illiquid because, for example, they are subject to legal or other restrictions on transfer. Valuation of a Client's investments may be difficult or uncertain, including with respect to securities, because there may be limited information available about the issuer. In addition, the sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. A Client may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Even those markets which are expected to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid. Consequently, it may be relatively difficult for a Client to dispose of certain investments rapidly and at favorable prices in connection with withdrawal requests, adverse market developments or other factors.

*Investments Longer than Term.* A Client may make investments, which may not be advantageously disposed of prior to the date that such Client will be dissolved, either by expiration of such Client's term or otherwise. A Client may have to sell, distribute or otherwise dispose of

investments at a disadvantageous time as a result of dissolution. There can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the investors will occur.

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

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

*Investments in Undervalued Instruments.* Clients may invest in undervalued instruments. The identification of investment opportunities in undervalued instruments is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued instruments offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from a Client's investments may not adequately compensate for the business and financial risks assumed.

*Necessity for Counterparty Trading Relationships; Counterparty Risk in General.* KCM expects to establish relationships to obtain financing, derivative intermediation and brokerage services that permit Clients to trade in any variety of markets or asset classes over time. There can be no assurance that a Client will be able to establish or maintain such relationships. An inability to establish or maintain such relationships would limit a Client's trading activities and could create losses, preclude a Client from engaging in certain transactions, financing, brokerage services and prevent a Client from trading at optimal rates and terms. Moreover, a disruption in the financing, and brokerage services provided by any such relationships before a Client establishes additional relationships could have a significant impact on a Client's business due to such Client's reliance on such counterparties.

Some of the markets in which a Client may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight in the same manner as are members of "exchange-based" markets. This may expose a Client to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing a Client to suffer a loss. In addition, in the case of a default, a Client could become subject to adverse market

movements while replacement transactions are executed. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Client have concentrated their transactions with a single counterparty or small group of counterparties.

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

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

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

*Volatility Risk.* A Client’s investment strategy may involve the purchase and sale of relatively volatile instruments such as derivatives, which are frequently valued based on implied volatilities of such derivatives compared to the historical volatility of underlying financial instruments. Fluctuations or prolonged changes in the volatility of such instruments, therefore, can adversely affect the value of investments held by a Client.

*Interest-Rate Risks.* The prices of assets held by a Client may be sensitive to interest-rate fluctuations. Clients will not be obligated to hedge their exposure to interest-rate, or any other risks.

The value of the fixed rate securities in which a Client invests generally will have an inverse relationship with interest rates. Current economic conditions may result in a continued rise in interest rates, which currently rising from historic lows. If interest rates continue to rise the value of a Client’s fixed rate securities may decline. Furthermore, the higher a fixed rate security’s duration, the greater its price sensitivity to changes in interest rates. In addition, to the extent that the receivables or loans underlying specific securities are prepayable without penalty or premium, the value of such securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

*Competition; Availability of Investments.* The markets in which Clients may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that a Client will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, REITs, large financial institutions, the public equity markets and other investors may reduce the availability of investment opportunities. Competitive investment activity by other firms and institutions will reduce a Client's opportunity for profit by generally increasing price pressure on desired assets, reducing mispricings in the market as well as the margins available on those mispricings that can still be identified.

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

*Hedging Generally.* A Client may invest in various securities, derivatives, indexes and cash equivalents and related instruments both to hedge their portfolio positions and to seek to meet such Client's investment objectives opportunistically as more fully described above. The success of a Client's hedging strategy is subject to the ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many instruments change as markets change or time passes, the success of the instances when a Client hedges portfolio positions is also subject to the ability for hedges to be continually recalculated, readjusted and executed in an efficient and timely manner. While a Client may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for a Client than if it had not engaged in any such hedging transactions. For a variety of reasons, a perfect correlation may not be established between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a Client from achieving the intended hedge or expose a Client to risk of loss. Moreover, the portfolio will always be exposed to certain risks that may not be hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of a Client's portfolio holdings. Clients will not be required to hedge any particular risk in connection with a particular transaction or their portfolio generally.

*Fraud.* Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of a Client to perfect or effectuate a lien on the collateral securing the loan. A Client will

rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a Client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

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

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

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

*No Material Limitation on Strategies.* Clients may opportunistically implement whatever strategies or discretionary approaches KCM believes from time to time may be best suited to prevailing market conditions. There can be no assurance that KCM will be successful in applying any strategy or discretionary approach to each Client's trading.

*Cybersecurity Risk.* As part of its business, KCM will process, store and transmit large amounts of electronic information, including information relating to the transactions of Clients and potentially personally identifiable information of investors. Similarly, service providers of KCM or a Client may process, store and transmit such information. KCM has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to KCM may be susceptible to compromise, leading to a breach of KCM's network. KCM's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. Online services provided by KCM to a Client or investors may also be susceptible to compromise. Breach of KCM's information systems may cause information relating to the transactions of a Client and personally identifiable information of investors to be lost or improperly accessed, used or disclosed.

The service providers of KCM and its Clients are subject to the same electronic information security threats as KCM. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of a Client and personally identifiable information of investors may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of KCM or a Client's proprietary information may cause KCM or a Client to suffer, among other things, financial loss, the disruption of their business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on a Client and investors' investments therein.

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

*Conditions in the U.S. Residential Mortgage Market May Adversely Affect the Performance of a Client.* KCM intends to invest for its Clients in assets involving the U.S. residential mortgage market, including in performing or non-qualified (under the Qualified Mortgage Rule (as described below)) mortgage loans, securities backed directly or indirectly by performing or non-qualified mortgage loans. The performance of residential mortgage loans and the performance of associated derivative securities (such as mortgage-backed securities ("MBS")) are influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner behavior.

It is possible that delinquencies, defaults and foreclosures on residential mortgage loans will increase in the future. The increase in delinquencies, defaults and foreclosures may significantly affect (although not be limited to) performing and "subprime" mortgage loans, which generally refers to loans made to borrowers with impaired credit, and may also affect "alt-A" mortgage loans, which generally refers to loans held by or made to borrowers with good credit attributes but for which limited documentation or no documentation of borrower income and/or assets was required in connection with their loan application, and even "prime" mortgage loans, which generally refers to loans made to borrowers with excellent credit who provide full documentation. Historically, these borrowers pay higher rates of interest, go into delinquency more often and have their properties foreclosed on at a higher rate than prime borrowers. In addition, losses related to defaulted loans with higher initial loan-to-value ratios are generally higher than losses related to defaulted loans with lower initial loan-to-value ratios. As a Client may invest in one or more of these types of mortgage loans and securities backed by such mortgage loans, the performance of such Client may be sensitive to the same economic factors that affect these types of mortgage loans.

Market conditions may impair borrowers' ability to refinance or sell their residential properties, which may contribute to higher delinquency and default rates. These risks could be exacerbated to the extent that prevailing mortgage interest rates increase from current levels. If there is significant home price depreciation, it may also leave borrowers with insufficient equity in their homes to enable them to refinance. Borrowers who are unable to make the minimum monthly payments on their mortgage loans and intend to sell their homes may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their mortgage loans. While some mortgage loan originators and servicers have created or otherwise

are participating in modification programs in order to assist borrowers with refinancing or otherwise meeting their payment obligations, not all borrowers will qualify for or will take advantage of these opportunities.

Unfavorable economic conditions could increase the likelihood of delinquencies and defaults. A general unavailability of credit also affects the overall economy in ways that could result in increased delinquencies and defaults on residential mortgage loans.

Another factor that may in the future result in, higher delinquency rates in residential mortgage markets is the increase in monthly payments on adjustable-rate mortgage loans (“ARMs”) and/or pay option ARMs, each of which presents special default and prepayment risks.

Borrowers with ARMs are being exposed to increased monthly payments (1) when the related mortgage interest rate adjusts upward from the then-current rate to the rate computed in accordance with the applicable index and margin, (2) if interest rates rise significantly, (3) in the case of interest-only mortgage loans that are still in an interest-only period, from the large increases in monthly payments when the interest-only terms expire and the monthly payments on these loans are recalculated to amortize the outstanding principal balance over the remaining term and/or (4) in the case of loans with negative amortization features, from the large increases in monthly payments when the payments are recalculated to amortize the outstanding principal balance, including amounts of deferred interest on such loans.

Pay option ARMs permit a borrower, for a limited period of time, to elect to make a monthly payment that may be insufficient to pay the full amount of interest due on the loan. Borrowers with pay option ARMs are exposed to even greater increases in monthly payments due to the negative amortization of the principal balances of their loans. These increases in borrowers’ monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with ARM loans. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Many borrowers who might otherwise qualify for refinancing have been unable to obtain new loans due to conditions in the credit markets. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed-rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans, or that prospective buyers of their homes are unable to obtain financing. These events, alone or in combination, may contribute to higher delinquency rates or defaults.

*Regulation of the Mortgage Industry and the Dodd-Frank Act.* In response to the financial crisis, the United States government implemented sweeping financial and regulatory reform legislation. These reforms have created a level of uncertainty in the securitization market and the financial markets, generally, particularly with respect to mortgage-related investments.

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

In addition, violations, or even alleged violations, by loan servicers of laws or regulations applicable to mortgage loan origination and servicing, could adversely affect any such entity's ability to continue its performance of its obligations with respect to the mortgage loans.

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

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

Actions that have been taken and may be taken in the future by the U.S. government or by state or municipal governments may have the effect of encouraging, or may require, that the terms of residential mortgage loans be modified in order to reduce the applicable interest rate, reduce the outstanding principal amount, extend the term to maturity or otherwise benefit the borrower to the detriment of the holder of the mortgage loan. These loan modifications may affect only residential mortgage loans that are in default or may also affect other loans as to which the borrower has negative equity in the mortgaged property or is otherwise considered to be disadvantaged or deserving of assistance. Investments held by a Client could be adversely affected, resulting in decreased yield or losses to investors.

There can be no assurance that governmental actions and regulations will have a beneficial impact on the financial markets. To the extent the market does not respond favorably to these initiatives or these initiatives do not function as intended, a Client may not receive a positive impact from the legislation. It is also possible that competitors may utilize the programs, which would provide them with attractive debt and equity capital funding from the U.S. government. In addition, the



U.S. government, the Federal Reserve, the U.S. Treasury and other governmental and regulatory bodies may consider taking other actions to address the lingering effects of the financial crisis. KCM cannot predict whether or when such actions may occur, and such actions could have a dramatic impact on the business, results of operations and financial condition of a Client.

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

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

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

In addition to the foregoing developments, the existing “right of redemption” in certain states may limit the ability of servicers to sell (or cause the sale of), or prevent a servicer from selling (or causing the sale of), an REO at what would otherwise be an appropriate time for sale. In some

states, after sale pursuant to a deed of trust or foreclosure of a mortgage, the borrower and foreclosed junior lienors are given a statutory period in which to redeem the property from the foreclosure sale. In other states, including California, this right of redemption applies only to sales following judicial foreclosure, and not to sales pursuant to a non-judicial power of sale. In most states where the right of redemption is available, statutory redemption may occur upon payment of the foreclosure purchase price, accrued interest and taxes. In other states, redemption may be authorized if the prior borrower pays only a portion of the sums due. The effect of a statutory right of redemption is to diminish the ability of the lender to sell the foreclosed property. The exercise of a right of redemption would defeat the title of any purchaser from the lender subsequent to foreclosure or sale under a deed of trust. Consequently, the practical effect of the redemption right is to force the lender to retain the property and pay the expenses of ownership until the redemption period has run.

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

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

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

*Risk of Future Legislative, Regulatory or Judicial Action.* There can be no assurance as to what actions might be taken by any federal, state or municipal legal authority that may adversely affect investments held by a Client. Such actions could include, by way of example, further restrictions on the ability of the holder of a mortgage loan to foreclose upon default by the borrower or delays

in the foreclosure process, encouragement of modification of the terms of mortgage loans in ways that may be adverse to the interests of the holder of the mortgage loans or of related securities, and judicial determinations as to whether particular types of mortgage loans are “unfair” under applicable law.

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

#### Risks Related to Investments in Mortgage Loans

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

*Interest-Only Mortgage Loans.* Clients may invest in interest-only mortgage loans for pools of interest-only mortgage loans. Interest-only mortgage loans permit the borrowers to make monthly payments of only accrued interest for a period of time following origination, generally the first 60 or 120 months. 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. 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 that would not otherwise qualify for a fully amortizing mortgage loan or may allow them to qualify for a larger mortgage loan than otherwise would be the case.

*Troubled Origination.* The investments chosen by KCM may have been originated by financial institutions or other entities that are insolvent, in serious financial difficulty or no longer in existence. As a result, the standards by which such investments were originated, the recourse to

the selling institution, or the standards by which such investments are being serviced or operated may be adversely affected.

*Geographic Concentration of Mortgage Loans.* The mortgage loans and securities backed by mortgage loans in which a Client may 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 properties located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the residential real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in the loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the mortgage loans and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of or losses on the mortgage loans. Natural disasters, such as wildfires, severe storms, tornadoes, hurricanes and flooding affecting regions of the United States from time to time may also result in prepayments of or losses on mortgage loans. These factors and others may adversely affect the value of mortgage properties in some geographic regions and affect the performance of a Client.

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

*Environmental Risks.* Real property pledged as security for a mortgage loan may be subject to certain environmental risks. Under the laws of certain states, contamination of a property may give rise to a lien on the property to ensure payment of the costs of cleanup. In several states, such

a lien has priority over the lien of an existing mortgage against the property. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, a lender may be liable, as an “owner” or “operator”, for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property if agents or employees of the lender have become sufficiently involved in the operations of the borrower, regardless of whether or not the environmental damage or threat was caused by a prior owner.

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

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

*Homeowner Association Super Priority Liens.* In some jurisdictions it is possible that the first lien of a mortgage may be extinguished by super priority liens of homeowners associations (“HOAs”), potentially resulting in a loss of the outstanding principal balance of the mortgage loan. In a number of states, HOA or condominium association assessment liens can take priority over first lien mortgages in certain circumstances. The number of these so called superlien jurisdictions has increased in the past few decades and may increase further. Recent rulings by the highest courts in Rhode Island, Nevada and the District of Columbia have held that the superlien statute provides the HOA or condominium association with a true lien priority rather than a payment priority from the proceeds of the sale, creating the ability to extinguish the existing senior mortgage and greatly increasing the risk of losses on mortgage loans secured by homes whose owners fail to pay HOA or condominium fees.

The laws of these superlien jurisdictions that provide for HOA superliens vary in terms of (a) the duration of the priority period (which in some cases may be unlimited), (b) the assessments secured by the HOA lien (charges can include not only unpaid HOA assessments but also late charges, collection costs, attorney fees, foreclosure costs, fines and interest), (c) whether the HOA must give lenders with liens encumbering the mortgaged property notice of the failure by the homeowner to pay the assessment and (d) the statute of limitations on HOA foreclosure rights.

There is currently no efficient mechanism available to loan servicers to track the status of payments of HOA assessments that are governed by superlien statutes. There is no unified database for HOA information nor is there a centralized place for HOAs and loan servicers to contact one another. Consequently, in some superlien jurisdictions there is often no practical, systemic method for a servicer to determine when an HOA assessment is unpaid or when the HOA initiates foreclosure of its lien. In some circumstances a servicer may make a servicing advance to pay (i) delinquent

HOA fees or (ii) the costs of determining whether any mortgaged property is subject to an HOA or related lien.

If an HOA, or a purchaser of an HOA superlien, completes a foreclosure in respect of an HOA superlien on a mortgaged property, the related mortgage loan may be extinguished. In those circumstances, a Client could suffer a loss of the entire principal balance of such mortgage loan. The servicer might be able to attempt to recover, on an unsecured basis, by suing the related borrower personally for the balance, but recovery in these circumstances will be problematic if the related borrower has no meaningful assets against which to recover.

*Special Assessments and Energy Efficiency Liens May Take Priority Over the Mortgage Lien.* Mortgaged properties securing mortgage loans may be subject to the lien of special property taxes and/or special assessments. These liens may be superior to the liens securing the related mortgage loans, irrespective of the date of the mortgage. In some instances, individual mortgagors may be able to elect to enter into contracts with governmental agencies for Property Assessed Clean Energy (PACE) or similar assessments that are intended to secure the payment of energy and water efficiency and distributed energy generation improvements that are permanently affixed to their properties, possibly without notice to or the consent of the mortgagee. These assessments may also have lien priority over the mortgages securing the related mortgage loans. No assurance can be given that any mortgaged property so assessed will increase in value to the extent of the assessment lien. Additional indebtedness secured by the assessment lien would reduce the amount of the value of the mortgaged property available to satisfy the affected mortgage loan in the case of a sale or foreclosure of the related mortgaged property.

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

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

Commercial mortgage loans are generally viewed as having a greater risk of loss through delinquency and foreclosure than lending on the security of single family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (i.e., the ability of

tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses and comply with applicable zoning and laws) rather than upon the existence of independent income or assets of the borrower. Many commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

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

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

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

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

Some or all of the MBS and ABS contemplated to be acquired by a Client may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated MBS and ABS, or "B-pieces", in which a Client intend to invest have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than "B" by the rating organizations can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner's equity in the property may be insufficient to protect a Client from loss. As an investor in subordinated MBS and ABS in particular, a Client will be first in line among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral.

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

Some investment characteristics of MBS and ABS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying mortgages (or other assets) generally may be prepaid at any time. The frequency with which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans and other assets underlying MBS and ABS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. Although ABS are generally less likely to experience substantial prepayments than are residential MBS, certain of the factors that affect the rate of prepayments on residential MBS also affect the rate of prepayments on ABS. Particular investments may experience outright losses, as in the case of an interest only security in an environment of accelerated actual or anticipated prepayments. Particular investments will be affected by the credit quality of their underlying loan and the creditworthiness of the borrower. Also, particular investments may underperform relative to hedges that a Client may have constructed in these investments, resulting in a loss.

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

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

The value of RMBS and other mortgage-backed securities in which a Client may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities will decline. In addition, to the extent that the mortgage loans which underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

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

*Servicing Advances.* Most RMBS transactions will have provided for the servicers to make certain monthly advances (of principal and interest) and servicing advances pursuant to the applicable



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

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

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

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

#### Additional Risks Related to Investments in Derivatives

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

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

Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives.

*Hedging with Derivative Instruments.* Clients may use derivative financial instruments, including without limitation, futures, swaps, options, floors, total return swaps, primarily for leveraging and hedging purposes. The use of derivative instruments involves a variety of material risks, including the high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance, as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (*i.e.*, non-conformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to a Client to close out positions in order either to realize gains or to limit losses.

Many of the derivatives which a Client trade in will be principal to principal or "over the counter" contracts between a Client and third parties entered into privately, rather than on an exchange. As

a result, a Client are not afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

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

Interest-only securities ("IOS") may be utilized by Clients for hedging or other investment purposes. An IOS is a synthetic total return swap index that references the interest component of various coupons of 30-year fixed rate agency pools of loans. Indices are generally categorized by net coupon and yearly vintage. IOS provide exposure to agency pool coupon cashflows via synthetic total return swap contracts. Net cashflow exchanges are a function of the change in market value of the reference pool interest component and standard monthly exchanges of coupon and financing. Corresponding POS tranches represent the principal component and corresponding MBX tranches represent the entire cashflow stream. A Client may make long or short investments in various tranches for hedging or other investment purposes.

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

Neither KCM nor any of its management persons have been involved in any legal or disciplinary events that are material to a Client, investor, prospective Client or prospective investor's evaluation of KCM's advisory business or the integrity of its management

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

**A. Broker-Dealer Registration Status**

Not applicable.

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

KCM intends to seek exemptions from registration as a commodity pool operator and commodity trading advisor.

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

KCM's Relationship with Chimera Investment Corporation

KCM was formed pursuant to an Amended and Restated Limited Liability Company Agreement (the "Joint Venture Agreement") of Kah Asset Management, LLC dated July 2, 2018 between Kah, LLC, a Delaware limited liability company and Anacostia LLC, a Delaware limited liability company. 100% of the membership interest in Kah, LLC is owned by Adama Kah and 100% of the membership interests in Anacostia, LLC is owned by Chimera Investment Corporation, a publicly traded company (NYSE: CIM). Kah LLC is the managing member of KCM, and directly owns 75.1% of the equity interests in KCM. Anacostia, LLC directly owns 24.9% of the equity interests in KCM. Kah Asset Management, LLC changed its name to Kah Capital Management, LLC on August 7, 2018. KCM has no other material relationships with respect to other investment advisers or regulated entities that could precipitate a conflict of interest. Chimera Investment Corporation may directly invest in the same securities and other investments made by one or more Clients. These investments might constitute a potential conflict of interest.

## **ITEM 11**

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

Pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended (“Advisers Act”), KCM has adopted a written code of ethics (“Code of Ethics”), which is designed to address and avoid potential conflicts of interest and is applicable to all employees of KCM (“Staff Members”). The Code of Ethics may also be applied to any other person designated by the Chief Compliance Officer of KCM (“CCO”).

A summary of the Code of Ethics is provided below. A full copy of the Code of Ethics will be made available to investors in each Client upon written request.

The Code of Ethics addresses personal trading of “reportable securities” (as such term is defined in Rule 204A-1 of the Advisers Act), receiving and giving gifts and entertainment, engaging in outside activities, making political contributions and payments, making other donations, and the administration and enforcement of the Code of Ethics.

The personal trading policy and procedures place restrictions on personal trading of reportable securities by all Staff Members, including that they disclose to KCM on a periodic basis all security accounts and reportable security holdings and transactions, in which a Staff Member has a direct or indirect beneficial ownership. KCM, its affiliates and Staff Members may only trade shares of ETFs and mutual funds unless otherwise permitted in advance by the CCO; provided however, that such Staff Members shall be permitted to dispose their securities that they acquired prior to joining KCM. Staff Members are required to obtain pre-approval by the CCO for other transactions involving reportable securities (except for certain exempt transactions, such as non-volitional transactions).

The Code of Ethics has specific provisions relating to identifying potential conflicts of interest. The provisions prohibit a Staff Member from directing Client transactions for the purpose of obtaining a personal benefit. They also generally prohibit personal business dealings with Clients or investors without the prior approval of the CCO.

All violations of the Code of Ethics must be promptly reported to the CCO, who is primarily responsible for administering and enforcing KCM’s Code of Ethics. A violation of the Code of Ethics may result in the imposition of disciplinary and remedial measures, including, without limitation, disgorgement or termination.

## **ITEM 12**

### **BROKERAGE PRACTICES**

KCM will seek “best execution” for Client trades. Best execution generally refers to the execution of portfolio transactions in such a manner that total cost or proceeds in each transaction is the most favorable under the circumstances. The SEC defines best execution as “best qualitative execution,” not merely the lowest possible execution cost.

KCM will seek to satisfy its best execution obligation with respect to the Clients by taking into account a number of the following factors when selecting broker-dealers, including among others: price, timeliness of execution, the availability of financing, the financial stability and reputation of a broker, the value of research, brokerage and other services provided, the responsiveness of a broker-dealer, a broker-dealer’s financial resources, counterparty credit risk, and access to liquidity for certain less liquid products.

KCM does not engage in so-called “soft dollar” agreements with broker-dealers to pay for research-related expenses. However, KCM does intend to cause or allow Clients to take advantage of certain services offered directly to them by brokers and dealers (*e.g.*, exchange connectivity and certain execution applications), which KCM will review under an overall “best execution” analysis. In addition, KCM may receive periodic client updates, capital introduction “market color” reports, seminar invitations, or consulting services relating to technology and office space and other services from service providers (including brokers, counterparties, law firms and auditors) by virtue of being a client or prospective client of such providers (and/or by virtue of being an advisor to a client or prospective client of such providers).

KCM does not direct brokerage activity to specific broker-dealers in exchange for client referrals. KCM does, however, intend to utilize certain capital introduction services offered by a number of its brokers-dealers, pursuant to which KCM receives introductions to qualified prospective investors in its Clients. We will review the performance and costs of the brokerage services provided by these brokers-dealers as part of our “best execution” analysis.

In certain circumstances, a proposed investment opportunity may meet the investment objectives of multiple Clients. In such circumstances, KCM will follow the allocation procedures described in the relevant Clients’ governing documents.

KCM may, but is not obligated to, aggregate sale and purchase orders of securities placed for one Client with the same or similar orders being made simultaneously by KCM for one or more other Clients, if in KCM’s sole judgment, such aggregation would be consistent with its goal of best execution and if permitted by applicable law or regulation.

### **ITEM 13**

#### **REVIEW OF ACCOUNTS**

KCM intends to perform periodic reviews of a Client's portfolio. Such reviews will be conducted by KCM's chief investment officer. A specific review of a Client's account may be triggered by any unusual activity or special circumstances.

Clients, or investors in Clients that are pooled investment vehicles, will receive a quarterly statement of account from KCM documenting the net asset value and quarterly performance of their investment. Clients that are pooled investment vehicles will receive audited financial statements that will be sent to the investors in such Client in accordance with such Client's constituent documents, but in no case longer than 120 days after the end of such Client's fiscal year, consistent with the Custody Rule described in Item 15.



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

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

KCM does not receive economic benefits from non-Clients for providing investment advice and other advisory services. However, as detailed in Item 12, KCM may receive certain benefits from service providers by virtue of being a client or potential client of such providers.

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

Neither KCM nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. KCM does not currently utilize third-party placement agents. If KCM elects to utilize such placement agents in the future, KCM will disclose that such placement agents may receive compensation for referring investors to the Clients.

Furthermore, as stated in Item 12 above, from time to time, broker-dealers and other counterparties may assist a Client for which KCM or an affiliate acts as General Partner in raising additional funds from investors by introducing such Client to prospective investors, including participating in capital introduction programs provided by the broker-dealer or its affiliates. Subject to best execution, KCM may direct brokerage through such broker-dealers or may engage such broker-dealers for the provision of brokerage services. While KCM confirms that no additional brokerage compensation is charged in respect of such services and no requirements are imposed regarding any particular level of business, KCM may nevertheless face a conflict of interest in that it may have an incentive to select a broker-dealer for a Client based on KCM's interest in receiving investor referrals, rather than on such Client's interest in receiving most favorable execution.

## **ITEM 15 CUSTODY**

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

The Custody Rule imposes on advisers with custody of clients’ fund or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients’ fund or securities. However, an adviser need not comply with such requirements with respect to limited partnerships or pooled investment vehicles, if each limited partnership or pooled investment vehicle: (i) is audited at least annually by an independent public accountant, and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to its investors within 120 days of its fiscal year-end. KCM relies upon this audit exception with respect to Clients that are pooled investment vehicles. All Clients will maintain their assets in organizations that are “qualified custodians” as defined in the Custody Rule.

**ITEM 16**  
**INVESTMENT DISCRETION**

As described in Item 4 above, KCM will provide discretionary and non-discretionary management services depending on the services requested by each Client.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

To the extent KCM is delegated proxy voting authority on behalf of its Client accounts, KCM will comply with its proxy voting policies and procedures. Such policies and procedures are designed to verify that such proxies are voted in the best interest of the Client. The investors in a Client may not direct voting of proxies.

In furtherance of KCM's goal of voting proxies in the best interests of Client accounts, KCM will follow its policies and procedures designed to identify and address material conflicts that may arise. If KCM determines that it may have, or be perceived to have, a conflict of interest when voting proxies, KCM will vote in accordance with its proxy voting policies and procedures and accordingly may refrain from voting certain proxies.

Upon request, KCM will provide Client investors with a copy of its proxy voting policies and procedures and/or a record of all proxy votes cast by KCM on behalf of the respective Client.

Due to the nature of KCM's current investment strategy, equity securities generally will not be a large portion of the investments of any Client. However, from time to time, class action lawsuits involving securities that may be held by one or more of Clients may result in notices being sent to class members for participation in a lawsuit. KCM may submit certain proofs of claims for payment against settlements or awards in actions for which the Client(s) have received notice. Amounts received as a result of a participation in class actions will be credited to the participating Client(s). It should be noted that the Clients bear the cost (i.e. receive a reduced amount of the class action proceeds) of any third party vendor used for class action recovery services. KCM does not anticipate serving as the lead plaintiff in class actions.

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

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