

# Rock Creek Investment Advisors

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This Disclosure Brochure provides information about the qualifications and business practices of Rock Creek Investment Advisors, LLC. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT ROCK CREEK INVESTMENT ADVISORS, LLC OR ANY PRINCIPALS OR EMPLOYEES OF ROCK CREEK INVESTMENT ADVISORS, LLC POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.

If you have any questions about the contents of this brochure, please contact us at the telephone number listed above. Additional information about Rock Creek Investment Advisors, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The date of this Disclosure Brochure is  
October 3, 2019

## Material Changes

Since our annual disclosure brochure dated February 7, 2019, the principal office and place of business address of Rock Creek Investment Advisors, LLC changed. The new address can be found on the cover of this disclosure brochure.

There have been no other material changes to report.

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## Advisory Business

Rock Creek Investment Advisors, LLC (“Rock Creek”) is a Delaware limited liability company that was formed in August 2018 and became a registered investment adviser in October 2018.

Rock Creek provides investment management advisory services to institutional clients on a separate account basis by investing primarily in residential mortgage-backed securities (“MBS”) consisting of agency MBS or private-label MBS. Agency MBS include residential mortgage pass-through certificates for which the principal and interest payments are guaranteed by a U.S. government sponsored enterprise (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or by a U.S. government agency, such as the Government National Mortgage Association (“Ginnie Mae”). Private-label MBS, or non-agency MBS, include residential MBS that are not guaranteed by a GSE or the U.S. government. Rock Creek may also invest in U.S. Treasury securities on a temporary basis.

As part of its residential MBS investment advisory services, Rock Creek may leverage the investment portfolio to increase the potential returns for its clients based on each client’s specific investment goals and risk tolerance by structuring a client’s investment portfolio to include securities that are funded by collateralized short-term financing arrangements known as repurchase agreements. In addition, Rock Creek’s investment advisory services include seeking to mitigate the interest rate sensitivity of a client’s cost of borrowing and the value of the MBS investment portfolio through various interest rate hedging instruments.

Rock Creek’s investment management advisory services are limited to investing in residential MBS as well as investing in U.S. Treasury securities on a temporary basis. Rock Creek will tailor its advisory services to the individual needs of institutional clients for whom it manages separate accounts. Such clients may request restrictions on investing in certain residential MBS and place limitations on the leverage levels.

As of February 4, 2019, Rock Creek had \$102,368,128 of regulatory assets under management, all of which are managed on a discretionary basis.

Rock Creek is a wholly-owned subsidiary of Arlington Asset TRS Holdings, LLC, which is a wholly-owned subsidiary of Arlington Asset Investment Corp. (“Arlington”). Arlington is a publicly-traded investment firm that focuses on acquiring and holding a levered portfolio of residential MBS and is traded on the New York Stock Exchange under the symbol “AI”. Arlington has been investing in residential MBS for over 20 years.

## Fees and Commissions

Rock Creek is compensated by providing services set forth in the relevant investment management agreement that is negotiated with each individual client. Compensation consists of a management fee based upon a percentage of the capital funded by the client to its

separate account. The capital funded by the client to its separate account equals the funds provided directly by the client. It does not include any client assets funded with secured borrowings in the separate account and does not include the unrealized gain or loss of any assets in the client's separate account. Accordingly, the capital funded by the client to its separate account will likely not equal the current market value of the assets in the account.

Rock Creek deducts the management fee from each separate account either monthly or quarterly. Rock Creek does not customarily collect management fees in advance although individual arrangements to do so may be negotiated with its institutional clients.

In addition to management fees paid to Rock Creek, clients also pay ordinary operating expenses related to their separate accounts, unless provided otherwise. For certain expenses that are not directly attributable to the client, the expenses are assessed *pro rata* based on the percentage that the client's capital represents Rock Creek's total capital under management. The expenses that clients may pay can vary, but generally include the following:

- investment expenses such as mark-ups, mark-downs, or other securities transaction charges (see further discussion in the section titled "Brokerage Practices"), custodial fees, bank service fees, futures commission merchant commissions and fees, interest expense, periodic net interest settlements of interest rate swap hedges, and expenses incurred with conducting due diligence on potential investments and surveillance of investments;
- research and research related expenses such as costs of financial and research databases and market data services;
- cost of valuation and pricing services;
- accounting, audit and tax preparation expenses;
- computer software, information technology and security and data processing costs;
- withholding, transfer or any other taxes;
- proxy advisor fees;
- printing and mailing expenses and fees and all expenses incurred in connection with communications with clients; and
- other expenses associated with the operation of client's separate account and all extraordinary expenses.

## Performance-Based Fees and Side-by-Side Management

Rock Creek does not charge performance-based fees.

Rock Creek is an indirect wholly-owned subsidiary of Arlington and all the personnel providing investment advisory services of Rock Creek are employees of Arlington. Rock Creek and Arlington make similar investments with respect to residential MBS. Arlington is an internally-managed investment firm with all residential MBS investment returns retained by Arlington.

Personnel of Arlington that provide investment advisory services through Rock Creek may have an incentive to allocate investment opportunities to Arlington since the total investment return from the residential MBS investment earned by Arlington may be greater than the management fee earned by Rock Creek from such investment. However, with regards to agency MBS, such investments are generally not limited in supply or otherwise of scarce opportunity.

To mitigate potential conflicts of interest, investment opportunities are allocated between Rock Creek's clients and Arlington in a manner designed to be fair to all participants over time based on fiduciary responsibilities, compliance with the Investment Advisers Act of 1940, as amended, and the investment mandates of Arlington and the clients of Rock Creek. However, if it is communicated in advance in writing to a client in the investment management agreement, Arlington may have the priority in the trading of investments over that client's account.

## Types of Clients

Rock Creek provides investment advisory services to institutional clients for whom it manages a separate account. Requirements for establishing or maintaining a separately managed account are negotiable and may vary by strategy or client.

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

Rock Creek manages each client's investment portfolio with the goal of obtaining a high risk-adjusted return on the client's capital tailored to each client's investment goals and risk tolerance. Rock Creek invests primarily in residential MBS consisting of either agency MBS or private-label MBS. Rock Creek may also invest in U.S. Treasury securities on a temporary basis.

### **Agency MBS**

Agency MBS consist of residential pass-through certificates that are securities representing undivided interests in "pools" of mortgage loans secured by residential real property. The monthly payments of both principal and interest of the securities are guaranteed by a government agency or GSE to holders of the securities, in effect "passing through" the monthly payments made by individual borrowers on the mortgage loans that underlie the securities plus "guarantee payments" made in the event of any defaults on such mortgage loans, net of fees paid to the issuer/guarantor and servicers of the underlying mortgage loans, to the holders of the securities. Mortgage pass-through certificates distribute cash flows from the underlying collateral on a pro rata basis among the holders of the securities. Although the principal and interest payments are guaranteed by a U.S. government agency or GSE to the security holder, the market value of the agency MBS is not guaranteed by a U.S. government agency or GSE.

The agency MBS that Rock Creek invests in are issued by Fannie Mae, Freddie Mac or Ginnie Mae. Fannie Mae and Freddie Mac are stockholder-owned corporations chartered by Congress

with a public mission to provide liquidity, stability and affordability to the U.S. housing market. Fannie Mae and Freddie Mac are currently regulated by the Federal Housing Finance Agency (“FHFA”), the U.S. Department of Housing and Urban Development (“HUD”), the U.S. Securities and Exchange Commission (“SEC”), and the U.S. Department of Treasury (“U.S. Treasury”). Fannie Mae and Freddie Mac are currently operating under the conservatorship of the FHFA, and the U.S. Treasury has agreed to support the continuing operations of Fannie Mae and Freddie Mac with any necessary capital contributions while in conservatorship. Ginnie Mae is a wholly-owned corporate instrumentality of the United States within HUD.

The loans underlying the Fannie Mae and Freddie Mac agency MBS must meet certain underwriting standards established by the GSEs. The loans underlying Ginnie Mae agency MBS consist of mortgages insured by the Federal Housing Administration (“FHA”), or partially guaranteed by the Department of Veterans Affairs. The loans underlying agency MBS may be fixed or adjustable rate loans with maturities generally ranging from 15 to 30 years. Agency MBS provide for a monthly payment that consists of both interest and principal. In addition, agency MBS may be prepaid, without penalty, at par at any time due to prepayments on the underlying mortgage loans.

Rock Creek will purchase agency MBS either in initial offerings or in the secondary market through broker-dealers or similar entities.

Investment in agency MBS involves risk that a client could incur a loss. While the payment of both principal and interest of agency MBS are guaranteed by a U.S. government agency or GSE, the U.S. government does not guarantee the securities issued by a GSE, and the market value of the agency MBS is not guaranteed by U.S. government agency or GSE. In general, the market value of a fixed-rate agency MBS will decline as interest rates rise. Also, the market value of an agency MBS will decline if the market yield on an agency MBS investment and benchmark interest rates widens. In addition, the conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws or regulations affecting the relationship between Fannie Mae and Freddie Mac and the federal government, could adversely affect the value of agency MBS. As a result of these factors, a client could realize a loss in the future if an agency MBS investment is sold.

### ***Private-label or Non-Agency MBS***

Private-label MBS are residential MBS that are not issued or guaranteed by a U.S. government agency or GSE. Private-label MBS are often referred to as non-agency MBS. Private-label MBS are generally issued by a securitization trust referred to as a Real Estate Mortgage Investment Conduit (“REMIC”). The securitization trust will generally issue both senior and subordinated interests. Senior securities are those interests in the trust that have the first right to cash flows and are the last in line to absorb losses. Conversely, the most subordinate securities are those interests in the trust that have the last right to cash flows and are the first in line to absorb losses.

Private-label MBS are generally backed by pools of single-family residential mortgages that can be composed of prime or non-prime mortgage loans. Prime mortgage loans are residential mortgage loans that generally conform to the underwriting guidelines of a U.S. government agency or a GSE but that do not carry any credit guarantee from either a U.S. government agency or GSE. Jumbo prime mortgage loans are prime mortgage loans that conform to such underwriting guidelines except with respect to maximum loan size. Non-prime mortgage loans are residential mortgage loans that do not meet all the underwriting guidelines of a U.S. government agency or GSE and therefore carry higher credit risk than prime mortgage loans. Non-prime mortgage loans include loans commonly referred to as alternative-A paper (“Alt-A”) or as subprime. Alt-A mortgage loans are generally considered riskier than prime mortgage loans but less risky than subprime mortgage loans. Alt-A mortgage loans are typically characterized by borrowers with less than full documentation, lower credit scores and higher loan-to-value ratios and include a higher percentage of investment properties as collateral. Subprime mortgage loans are considered to be of the lowest credit quality among residential mortgage loans. Private-label MBS may also be backed by pools of reperforming mortgage loans which have a history of delinquency and generally have been restructured since origination. Reperforming mortgage loans may or may not have originally conformed to GSE underwriting guidelines, and due to past delinquencies, borrowers generally have impaired credit histories and low credit scores and may have a greater than normal risk of future delinquencies and defaults.

In addition to being categorized as either prime or non-prime mortgage loans, residential mortgage loans included in private-label MBS may also be classified as being either a qualified or non-qualified mortgage. A qualified mortgage is a mortgage that meets certain requirements for lender protection and secondary trading under the Dodd-Frank Wall Street Reform and Consumer Protection Act. In general, a qualified mortgage (i) contains less risky loan features, including interest-only periods, negative amortization or balloon payments, (ii) has debt-to-income ratio limits, (iii) has no excess upfront points or fees, and (iv) has certain legal protections for lenders. Qualified mortgages may or may not meet the underwriting standards of a U.S. government agency or GSE. Non-qualified mortgage loans carry a higher credit risk than qualified mortgage loans.

In addition, private-label MBS also may include a re-securitization of MBS which is also referred to as a “re-REMIC” security. A Re-REMIC is a transaction in which private-label MBS is transferred to a special purpose entity that has formed a securitization vehicle that has issued multiple classes of securities secured by and payable from cash flows on the underlying private-label MBS.

Non-agency MBS also includes GSE credit risk transfer (“CRT”) securities, which are unsecured obligations issued by a GSE. CRT securities transfer a portion of the risk associated with credit losses incurred by pools of conventional residential mortgage loans from the GSEs and/or third parties to private investors. Unlike agency MBS, full repayment of the original principal balance



of CRT securities is not guaranteed by a GSE or other third party; rather, “credit risk transfer” is achieved by writing down the outstanding principal balance of the CRT securities if credit losses on the related pool of loans exceed certain thresholds. By reducing the amount that issuers are obligated to repay to holders of CRT securities, they offset credit losses on the related pool of loans.

The private-label or non-agency MBS that Rock Creek may invest in could be non-investment grade or not rated by major rating agencies. While the payment of principal and interest of agency MBS are backed by a U.S. government agency or GSE, private-label MBS are generally only supported by one or more forms of private credit enhancement such as limited issuer guarantees, reserve funds, private mortgage guaranty pool insurance, overcollateralization and subordination.

Rock Creek will purchase private-label MBS either in initial offerings or in the secondary market through broker-dealers or similar entities.

Investment in private-label MBS involves risk that a client could incur a loss. The residential mortgage loans underlying private-label MBS are secured by residential property and are subject to risks of delinquency, foreclosure and loss. The ability of a borrower to repay a loan secured by residential property is dependent upon the income of the borrower. In the event of a default under a mortgage loan, the holder of the mortgage loan bears the risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest on the mortgage loan. Investments in subordinated tranches of private-label MBS are the first or among the first classes of securities in such a structure to bear a loss from the underlying loan collateral. Private-label MBS also tend to be less liquid, which may make it difficult to sell such a security if the need or desire arose.

### ***Financing Strategy***

Rock Creek may use leverage to finance a portion of a client’s MBS portfolio to seek to increase the client’s potential returns. Rock Creek may structure a client’s investment portfolio such that it includes securities that are funded by collateralized short-term financing arrangements known as repurchase agreements. The overall leverage ratio (i.e. debt to client capital ratio) is tailored to each client’s specific investment goals and risk tolerance.

To the extent that Rock Creek utilizes leverage for an institutional client’s separate account, Rock Creek will engage in repurchase agreement transactions on behalf of the client and negotiate master repurchase agreements with third-party counterparties on behalf of the client.

In a repurchase agreement transaction, the securities held in the client’s separate account are initially sold to a counterparty under a master repurchase agreement in exchange for cash from the counterparty. The counterparty is obligated to resell the securities back to the client at the end of the term of the repurchase agreement, which typically is 30 to 60 days, but may have

maturities as short as one day or as long as one year. Amounts available to be borrowed under the repurchase agreements are dependent upon lender collateral requirements and the lender's determination of fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, credit quality and liquidity conditions within the capital markets. In addition, the counterparties apply a "haircut" to the pledged collateral, which means the collateral is valued, for the purposes of the repurchase agreement transaction, at less than market value. Under the repurchase agreement, the client typically pays the counterparty a rate based on the London Interbank Offer Rate ("LIBOR"), plus or minus a spread, for the term of the agreement. These transactions are accounted for as secured financings by the client.

The use of leverage involves risk to a client that it could incur a loss. To the extent that income earned from levered residential MBS exceeds the interest expense, hedging expense and other costs of financing, a client's net income will be greater than if it had not borrowed funds and had not invested in such assets on a leveraged basis. Conversely, if the income earned from levered residential MBS does not sufficiently cover the interest expense, hedging expense and other costs of financing, a client's net income will be less or its net loss will be greater than if the client had not borrowed funds. Due to the short-term nature of repurchase agreements used to finance MBS investments, a client's borrowing costs are particularly sensitive to changes in short-term interest rates. An increase in short-term interest rates would generally reduce the spread between returns on the MBS investments and the cost of borrowing. The relationship between short-term and long-term interest rates is often referred to as the "yield curve." Ordinarily, short-term interest rates are lower than longer-term interest rates. If short-term interest rates rise disproportionately relative to longer-term interest rates, resulting in a "flattening" of the yield curve, the borrowing costs may increase more rapidly than the interest income earned on investments. It is also possible that the short-term interest rates may exceed longer-term interest rates, often referred to as an "inverted yield curve."

In addition, the use of leverage increases a client's liquidity risk which could result in a client incurring a loss. Under the repurchase agreements, a client may be required to pledge additional assets to the lender in the event the fair value of the pledged collateral under the repurchase agreements declines and the lender demands additional collateral (commonly referred to as a margin call), which may take the form of additional securities or cash. Margin calls on repurchase agreements collateralized by residential MBS primarily result from declines in the market value of the securities caused by such factors as rising interest rates, prepayments, conditions in the broader capital markets, or in the case of private-label MBS, higher delinquencies or credit defaults. In the event of a margin call, a client must provide additional securities or cash on the same business day that the margin call is made if the lender provides notice prior to the margin notice deadline on such day. Furthermore, upon the renewal of a repurchase agreement financing at maturity, a lender could increase the "haircut" percentage applied to the pledged collateral reducing a client's liquidity.

Also, the use of leverage increases the risk that a client could incur a loss if Rock Creek is unable to renew or replace a client's existing funding upon maturity. If a repurchase agreement financing is unable to be renewed or replaced upon maturity, the financed assets may have to be sold, possibly at a loss to the client.

The use of leverage also exposes a client to a risk of loss that a lender in a repurchase agreement transaction defaults on its obligation to resell the pledged security back to the client at the end of the term of the agreement. If the lender in a repurchase transaction defaults on its obligation to resell the pledged security back to the client, the client could incur a loss on the transaction equal to the amount of the "haircut", assuming no change in the value of the securities. Also, the use of repurchase agreements may give the lenders greater rights in the event that either a client or any of the lenders file for bankruptcy, which may make it difficult for a client to recover its collateral. Borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving lenders the ability to avoid automatic stay provisions of the bankruptcy code and take possession of and liquidate a client's collateral under the repurchase agreement without delay if a client files for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for a client to recover its pledged assets in the event that a lender files for bankruptcy.

### ***Risk Management Strategy***

Rock Creek's investment strategy exposes clients to market risks, including interest rate, prepayment, extension, spread, credit and liquidity risks. Rock Creek uses a variety of strategies to manage a portion of a client's exposure to these risks to the extent Rock Creek believes it to be prudent, considering each client's specific investment strategy and the cost of any hedging transaction.

- ***Interest Rate Risk*** – Our clients are exposed to interest rate risk in their MBS portfolio. As interest rates rise, the fair value of a client's fixed-rate agency MBS portfolio would be expected to decline. In addition, to the extent Rock Creek utilizes leverage in a client's separate account, a client is exposed to potential interest rate mismatches between the interest earned on long-term fixed-rate investments and the interest paid on short-term borrowings.

Through the use of interest rate hedging instruments, Rock Creek attempts to economically hedge a portion of a client's exposure to changes in agency MBS fair values and future interest cash flows on short-term financing arrangements attributable to changes in benchmark interest rates. The primary hedging instrument used by Rock Creek is interest rate swaps. Under the terms of an interest rate swap agreement, the client makes semiannual interest payments based upon a fixed interest rate and receives quarterly variable interest payments based upon the prevailing three-month LIBOR on the date of reset on the notional amount of the agreement. In addition to interest rate swaps, Rock Creek may also use additional interest rate hedging

instruments such as U.S. Treasury note futures, Eurodollar futures, interest rate swap futures, options on U.S. Treasury note futures, swaptions, options on agency MBS and short positions in “to-be announced” agency MBS. Rock Creek also negotiates futures commission merchant agreements on behalf of clients so that clients can transact in the various hedging instruments in their separately managed accounts.

While the use of interest rate hedging instruments is designed to limit interest rate risk, they are not designed to eliminate the exposure to interest rates, and a client can still experience a loss as a result of changes in interest rates.

- *Prepayment Risk* – Because residential borrowers have the option to prepay their mortgage loans at par at any time, our clients face the risk that they will experience a return of principal on their agency MBS investment more quickly than anticipated, which is referred to as prepayment risk. If agency MBS that is purchased have a higher interest rate than the then-prevailing market interest rate, the security will likely be purchased at a premium to par value. If a security purchased at a premium is prepaid in whole or in part at a faster rate than originally expected, the overall effective return on the investment will likely be lower than originally expected. If agency MBS that are purchased have a lower interest rate than the then- prevailing market interest rate, the security will likely be purchased at a discount to par value. If a security purchased at a discount is prepaid in whole or in part at a rate slower than originally expected, the overall effective return on the investment will likely be lower than originally expected.

Homeowners tend to prepay mortgage loans more quickly when interest rates decline. Accordingly, prepayment risk generally increases when interest rates decline. Although prepayment rates generally increase when interest rates fall and decrease when interest rates rise, changes in prepayment rates are difficult to predict. Prepayment rates may also occur as the result of an improvement in the borrower’s ability to refinance the loan as a result of home appreciation or wage growth. Prepayments can also occur when borrowers sell the property and use the proceeds to prepay the mortgage as part of a physical relocation or when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property. Also, Fannie Mae and Freddie Mac will generally, among other conditions, purchase mortgages that are 120 days or more delinquent from holders of such mortgages when the cost of guarantee payments to such holders, including advances of interest at the loan coupon rate, exceeds the cost of holding the nonperforming loans in their portfolios. Consequently, prepayment rates may also may be affected by conditions in the housing and financial markets.

In addition to interest rate hedging instruments, Rock Creek attempts to manage a client’s exposure to prepayment risk through asset selection. Agency MBS with

different original maturities, coupons, vintage and loan collateral will perform differently in various economic and interest rate environments. Rock Creek may seek to invest in agency MBS that are secured by pools of residential mortgage loans specifically selected for their relatively lower propensity for prepayment. However, agency MBS backed by specified pools of residential mortgage loans selected for their lower propensity for prepayment trade at a price premium over generic agency MBS commonly referred to as a “pay-up”. As a result, the ability to manage prepayment risk through asset selection may be limited by the amount of a “pay-up” premium of specified agency MBS.

- *Extension Risk* – Because residential borrowers have the option to make only scheduled payments on their mortgage loans, rather than prepay their mortgage loans, our clients face the risk that a return of capital on their agency MBS investment will occur more slowly than anticipated, which is referred to as extension risk. In this scenario, a client’s investment returns can be negatively impacted as it may have to finance its investments at potentially higher costs without the ability to reinvest principal into higher yielding securities.

Extension risk generally increases when interest rates rise. In addition to interest rate hedging instruments, Rock Creek attempts to manage a client’s exposure to extension risk through asset selection similar to how it manages prepayment risk.

- *Spread Risk* – Because the spread between the market yield on a residential MBS investment and benchmark interest rates, such as U.S. Treasury rates and interest rate swap rates, may vary, our clients are exposed to spread risk. The inherent spread risk associated with a residential MBS investment and resulting fluctuations in fair value of these securities can occur independent of interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by the U.S. Federal Reserve, liquidity, or changes in market participants’ required rates of return on different assets.

Although Rock Creek utilizes interest rate hedging instruments to mitigate the impact of changes in benchmark interests on the value of residential MBS, it generally does not attempt to mitigate the impact of spread risk on a client’s residential MBS investment portfolio. Rock Creek generally accepts the spread risk inherent in its investment strategy. Accordingly, the value of a client’s overall investment portfolio and earnings are at a risk of loss due to spread risk.

- *Credit Risk* – To the extent that Rock Creek invests in private-label MBS in a client’s separately managed account, a client’s private-label MBS investment portfolio will be

subject to credit risk to the extent that the underlying residential mortgage loans experience defaults or losses at a higher rate than originally expected.

Rock Creek seeks to manage credit risk through prudent asset selection, pre-acquisition due diligence, post-acquisition performance monitoring, and the sale of assets for which Rock Creek identifies negative credit trends.

- *Liquidity Risk* – Our clients are exposed to the risk that they may be unable to meet their obligations in the separately managed accounts as they come due which is referred to liquidity risk. To the extent that Rock Creek utilizes leverage in a client’s separately managed account, liquidity risk includes the risk that there is an inability to liquidate assets or obtain funding upon the maturity of any short-term repurchase agreement financing arrangement. Liquidity risk also includes the risk of having to sell assets at a loss to generate liquid funds.

In addition, liquidity risk includes the inability to fund daily margin requirements under a client’s repurchase agreements or hedging instruments. Repurchase agreements contain provisions that may require a client to pledge additional assets daily to the repurchase agreement counterparty in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional securities or cash. Interest rate hedging instruments also contain provisions that require the client to exchange daily cash variation margin with the interest rate hedging counterparty based upon daily changes in the fair value of interest rate hedging instruments as well as depositing and maintaining an initial margin with the counterparty. In addition, interest rate hedging counterparties or the clearinghouses through which the hedging instruments are cleared could increase the initial margin requirements based on market conditions which would require a client to deposit additional cash initial margin with the counterparty. In general, if interest rates rise, the value of fixed-rate agency MBS would be expected to decline, and the client would likely be required to pledge additional margin to the repurchase agreement counterparty. However, the value of the interest rate hedging instruments would be expected to increase, and the client would likely receive cash variation margin from the interest rate hedging counterparty. Accordingly, the use of interest rate swaps helps mitigate the liquidity risk associated with the daily margin requirements of repurchase agreements, and vice versa. However, the daily margining requirements of repurchase agreements and interest rate hedging instruments will likely not fully offset each other and therefore the use of leverage and interest rate hedging instruments still expose a client to liquidity risk.

Rock Creek seeks to manage liquidity risk by managing the overall leverage levels and through the use of interest rate hedging instruments.

## Disciplinary Information

There are no legal or disciplinary events involving Rock Creek or its management persons to be disclosed.

## Other Financial Industry Activities and Affiliations

Neither Rock Creek or its management persons are registered or have an application pending to register as a (i) broker-dealer or a registered representative of a broker-dealer, (ii) futures commission merchant, (iii) commodity pool operator, or (iv) commodity trading advisor.

Neither Rock Creek or its management persons have any relationship or arrangement with any related parties that are a (i) broker-dealer, (ii) investment company or other pooled investment vehicle, (iii) investment adviser or planner, (iv) futures commission merchant, commodity pool operator, or commodity trading advisor, (v) banking or thrift institution, (vi) accounting or law firm, (vii) insurance company or agency, (viii) pension consultant, (ix) real estate broker or dealer, or (x) sponsor or syndicator of limited partnerships that is material to Rock Creek's advisory business or to its clients.

Rock Creek does not recommend or select other third-party investment advisors for its clients.

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

### ***Code of Ethics***

Rock Creek has adopted a Code of Ethics that sets forth professional standards of conduct expected of all the firm's personnel. The code describes key legal and fiduciary standards and requires personnel to comply with all applicable laws and regulations. Rock Creek's goal is to protect client interests at all times and to demonstrate its commitment to its fiduciary duties of honesty, good faith and fair dealing. Persons associated with Rock Creek are also required to report any violations of the Code of Ethics. A copy of Rock Creek's Code of Ethics is available to clients and prospective clients upon request.

### ***Cross or Principal Transactions***

Although Rock Creek does not anticipate causing a client to engage in "cross trades" via the purchase of a portfolio investment from or a sale of a portfolio investment to another client, Rock Creek may, from time to time, cause a client to engage in "cross trades", provided that the sale or purchase is (i) consistent with Rock Creek's fiduciary obligations, (ii) in the best interest of each client (iii) effected at the then-current market price for the assets subject to such cross trade, and (iv) otherwise complies with applicable law and Rock Creek's policies.

Rock Creek does not engage in “principal trades” between a client and Rock Creek or its affiliates.

### ***Allocation of Investment Opportunities***

Rock Creek is an indirect wholly-owned subsidiary of Arlington and all the personnel providing investment advisory services of Rock Creek are employees of Arlington. Rock Creek and Arlington make similar investments with respect to residential MBS. However, with regards to agency MBS, such investments are generally not limited in supply or otherwise of scarce opportunity.

To mitigate potential conflicts of interest, investment opportunities are allocated between Rock Creek’s clients and Arlington in a manner designed to be fair to all participants over time based on fiduciary responsibilities, compliance with the Investment Advisers Act of 1940, as amended, and the investment mandates of Arlington and the clients of Rock Creek. However, if it is communicated in advance in writing to a client in the investment management agreement, Arlington may have the priority in the trading of investments over that client’s account.

### **Brokerage Practices**

Trades in residential MBS are typically made through broker-dealers that, acting as principal, charge markups, markdowns or other charges in connection with such trades. These broker-dealers do not charge commissions. Thus, it is purchasing or selling securities at the best price under the circumstances that defines Rock Creek’s objective in seeking best execution. Rock Creek seeks best execution for client’s securities transactions by identifying appropriate broker-dealers through which to affect such transactions. In seeking best execution, Rock Creek evaluates, on an ongoing basis, the prices that are available in the broker-dealer markets. Rock Creek generally considers the following factors, among others, in selecting and approving broker-dealers that may compete for Rock Creek’s business:

- (i) quality of execution, such as accuracy and timeliness of execution, clearance and cooperation in resolving errors and disputes;
- (ii) reputation;
- (iii) reliability;
- (iv) willingness to execute difficult transactions;
- (v) access to underwritten offerings of fixed income securities;
- (vi) nature of the security and availability of market makers;
- (vii) desired timing of transactions and size of trades;
- (viii) confidentiality of trading activity, particularly in less liquid sectors;
- (ix) market intelligence and knowledge regarding trading activity;
- (x) ability to settle trades;
- (xi) salesperson’s ability to harness his or her firm’s resources to the benefit of the client; and



- (xii) research capabilities.

Rock Creek may also use electronic trading systems to execute trades. These systems charge transaction fees that are included in the price of the security.

Rock Creek does not participate in “soft dollar” arrangements under which it “pays up” (in the form of higher markups, markdowns or commissions charged to clients for fixed income trades) for research in connection with fixed income trades. Rock Creek may, however, receive research (including proprietary research) from various broker-dealers through which it executes trades where Rock Creek’s receipt of the research does not result in additional cost to the client. Research so obtained results in an economic benefit to Rock Creek, and it does not account for the value of this research. Rock Creek generally uses the research to assist it in its investment decision-making process, but this research may be used for a client. Rock Creek may have an incentive to select or recommend a broker-dealer based on Rock Creek’s interest in receiving the research or other products or services, rather than on a client’s interest in receiving the most favorable execution.

Rock Creek does not participate in directed brokerage arrangements.

Although Rock Creek does not anticipate combining multiple orders of the same security purchased by various client accounts or combining it with orders of the same security purchased by Arlington (commonly referred to as “block trading”), Rock Creek may, from time to time, combine orders through block trading. Subject to Rock Creek’s discretion, when it combines orders, each participating account pays an average purchase price for all transactions and pays a proportionate share of all transactions costs, if any. Rock Creek will distribute these securities to the participating accounts based on the following:

- (i) the primary investment strategy of each account;
- (ii) the effect of the securities on the diversification of each account by coupon, purchase price, size, payment characteristics and leverage;
- (iii) the cash requirements of each account;
- (iv) the anticipated cash flow of each account; and
- (v) the amount of funds available to each account.

## Review of Accounts

Rock Creek regularly reviews each client’s separately managed account and investment guidelines. Comprehensive reviews of client’s accounts are conducted monthly. Client accounts are monitored daily, particularly during periods of market volatility. Rock Creek’s Chief Investment Officer and/or Chief Financial Officer and their respective staffs conduct the reviews of each client’s account.

Rock Creek provides its clients with monthly or quarterly written reports based on the terms of each investment advisory agreement, which typically include, among other information,

holdings and transaction information, performance and risk analysis, accounting data and portfolio reviews.

## Client Referrals and Other Compensation

Rock Creek may use third-party solicitors to refer clients to the firm. Rock Creek pays solicitors a portion of Rock Creek's fees related to the clients they refer. Rock Creek may use solicitors that are or are affiliated with a broker-dealer to execute or clear transactions on behalf of a client account or act as a counterparty to transactions for a client account, as compensation for client referrals.

## Custody

Client assets are kept at a qualified custodian such as a broker-dealer or a bank. Rock Creek is considered to have custody of client's funds solely as a consequence of Rock Creek's authority to withdraw its advisory fee from client accounts. Rock Creek does not use a qualified custodian affiliated with Rock Creek. Clients receive statements directly from the qualified custodian either monthly or quarterly, and clients are urged to compare the account statements they receive from the qualified custodian with those received from Rock Creek.

## Investment Discretion

Rock Creek customarily has and exercises discretionary investment authority over client accounts. Rock Creek's authority with respect to a particular separately managed account is typically described in the applicable investment advisory agreement. Such agreements may also place restrictions on this authority or describe limitations to it.

## Voting Client Securities

Rock Creek does not typically invest in equity securities as part of its residential MBS investment strategy of its client's separately managed accounts. Accordingly, Rock Creek does not customarily vote proxies for such clients. In the rare event that a client was to receive a proxy related to one of its investment securities, Rock Creek would either vote the security itself, engage a proxy advisor to determine how the proxy should be voted, or vote the proxy with the consent or based on the instructions of the client. Rock Creek would oversee the administration of the voting and ensure that records were maintained in accordance with regulations, reports were filed as applicable, and the results provided to the relevant parties as appropriate.

## Financial Information

Rock Creek is not aware any financial condition affecting the firm that is reasonably likely to impair its ability to meet its contractual commitments to its clients.