

**PNMAC Capital Management, LLC**

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**PART 2A OF FORM ADV  
BROCHURE**

**March 21, 2019**

**This Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of PNMAC Capital Management, LLC. If you have any questions about the contents of this Brochure, please contact us at (818) 746-2289. 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.**

**PNMAC Capital Management, LLC is registered as an investment adviser with the Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.**

**Additional information about PNMAC Capital Management, LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**ITEM 1: COVER PAGE**

Please refer to previous page.

**ITEM 2: MATERIAL CHANGES**

This Brochure dated March 21, 2019 amends the previous Brochure dated August 29, 2018.

The following is a summary of the material changes since the amendment of the Brochure dated August 29, 2018:

- Item 4, Advisory Business: The principal owners were updated, to reflect a corporate reorganization. The description of the services offered by the Adviser was expanded upon. In addition, the discretionary assets under management was amended to \$7,813,361,000 as of December 31, 2018.
- Item 5, Fees and Compensation: The payment structure of fees and compensation was further described.
- Item 8, Methods of Analysis, Investment Strategies and Risk of Loss: The description of the risks of loss was modified to align with the descriptions found in the public filings of the Adviser's client.

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#### **ITEM 4: ADVISORY BUSINESS**

##### *Description of Firm*

PNMAC Capital Management, LLC (the “Adviser”) is a limited liability company organized in accordance with the Delaware Limited Liability Company Act and provides investment advisory services to PennyMac Mortgage Investment Trust, a publicly traded REIT (“PMT”). The Adviser has been in business since May, 2008.

The Adviser specializes in acquiring and managing residential mortgage-related assets, including distressed mortgage-related assets that are sold by financial institutions including banks, thrifts, and non-bank mortgage lenders.

##### *Principal Owners*

PNMAC Capital Management, LLC is a wholly-owned subsidiary of Private National Mortgage Acceptance Company, LLC (“PennyMac”). PennyMac’s principal owners are PennyMac Financial Services, Inc., a publicly traded company (“PFSI”) and PNMAC Holdings, Inc., a wholly-owned subsidiary of PFSI.

##### *Types of Advisory Services Offered*

The Adviser specializes in managing mortgage-related assets, including investments in credit risk transfer agreements (“CRT Agreements”), mortgage servicing rights (“MSRs”) and excess spread on MSRs (“ESS”), mortgage-backed securities, residential nonperforming and underperforming loans and commercial real estate loans that finance multi-family and other commercial real estate. The Adviser’s affiliate, PennyMac Loan Services, LLC (“PLS”), provides primary and special servicing for PMT’s portfolio of residential mortgage loans and MSRs.

Pursuant to the Second Amended and Restated Management Agreement, dated as of September 12, 2016 between PMT and the Adviser (the “Management Agreement”), the Adviser has sole investment discretion, making all decisions affecting PMT’s assets in accordance with PMT’s stated objectives and policies as outlined in its documents filed with the U.S. Securities and Exchange Commission. The Adviser selects investments for, and places purchase and sale orders for investments on behalf of, PMT. Please refer to Item 8 for further information on the Adviser’s methods of analysis and investment strategies, including details on the specific risks associated with these strategies.

##### *Amount of Client Assets Managed*

As of December 31, 2018, the Adviser has \$ 7,813,361,000 discretionary assets under management for its sole client, PMT.

## **ITEM 5: FEES AND COMPENSATION**

The following chart summarizes the fees and compensation to the Adviser:

<b>Type of Fee</b>	<b>Description</b>
Management Fee	Base management fee is paid in arrears and equal to the sum of (a) 1.5% per year of PMT's average shareholders' equity up to \$2 billion, (b) 1.375% per year of PMT's average shareholders' equity in excess of \$2 billion and up to \$5 billion and (c) 1.25% per year of PMT's average shareholders' equity in excess of \$5 billion.
Performance Incentive Fee	<p>The performance fee is paid in arrears, calculated quarterly and is equal to: (a) 10% of the amount by which net income attributable to common shares of beneficial interest for the quarter exceeds (i) an 8% return on equity plus the high watermark, up to (ii) a 12% return on equity; plus (b) 15% of the amount by which net income for the quarter exceeds (i) a 12% return on equity plus the high watermark, up to (ii) a 16% return on equity; plus (c) 20% of the amount by which net income for the quarter exceeds a 16% return on equity plus the high watermark, as described more fully in the Management Agreement.</p> <p>The "high watermark" is the quarterly adjustment that reflects the amount by which the net income (stated as a percentage of return on equity) in that quarter exceeds or falls short of the lesser of 8% and the Fannie Mae MBS yield (the target yield) for such quarter. The "high watermark" starts at zero and is adjusted quarterly. If the net income is lower than the target yield, the high watermark is increased by the difference. If the net income is higher than the target yield, the high watermark is reduced by the difference. Each time a performance incentive fee is earned, the high watermark returns to zero. As a result, the threshold amounts required for the Adviser to earn a performance incentive fee are adjusted cumulatively based on the performance of PMT's net income over (or under) the target yield, until the net income in excess of the target yield exceeds the then-current cumulative high watermark amount, and a performance incentive fee is earned.</p>

Termination Fee	<p>The termination fee is payable for: (i) PMT's termination of the Management Agreement without cause; (ii) the Adviser's termination of the Management Agreement upon a default by PMT in the performance of any material term of the Management Agreement that has continued uncured for a period of 30 days after receipt of written notice thereof; or (iii) the Adviser's termination of the Management Agreement after the termination by PMT without cause (excluding a non-renewal) of PMT's MBS agreement, MSR recapture agreement or servicing agreement (each as described and/or defined in the most recent Annual Report on Form 10-K of PMT).</p> <p>The termination fee is equal to three times the sum of (a) the average annual base management fee and (b) the average annual (or, if the period is less than 24 months, annualized) performance incentive fee earned by the Adviser during the prior 24-month period immediately preceding the date of termination.</p>
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PMT reimburses the Adviser for its organizational and operating expenses, including third-party expenses, incurred on PMT's behalf, it being understood that the Adviser and its affiliates shall allocate a portion of their personnel's time to provide certain legal, tax and investor relations services for the direct benefit of PMT. With respect to the allocation of the Adviser's and its affiliates' personnel, from and after September 12, 2016, the Adviser shall be reimbursed \$120,000 per fiscal quarter, such amount to be reviewed annually and not to preclude reimbursement for any other services performed by the Adviser or its affiliates. In addition, PMT is required to pay a pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Adviser and its affiliates required for PMT's and its subsidiaries' operations.

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

Performance-based fees are in the form of Performance Incentive Fees and are outlined in the table above.

## **ITEM 7: TYPES OF CLIENTS**

Currently, the Adviser only provides investment advisory services to PMT and does not generally offer investment advisory services to the public.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### *Methods of Analysis*

PMT's objective is to provide attractive risk-adjusted returns to its investors over the long-term, primarily through dividends and secondarily through capital appreciation. The Adviser utilizes a

formal investment policy pursuant to which it has implemented controls and management oversight during the investment process. The process begins with a review of the client's financial circumstances, risk tolerance, legal and regulatory framework and tax circumstances. The decision to acquire an asset takes into account investment objectives, the overall characteristics of an asset, the asset's return potential, and the asset's associated risks. In connection with an exit decision, the Adviser reviews the investment performance and its contribution to the overall return of PMT.

### *Investment Strategies*

The investment strategy deployed targets mortgage-related assets that fit both the weighted average life and yield profile of the client's portfolio requirement. PMT has pursued this objective largely by investing in distressed mortgage assets and acquiring, pooling and selling newly originated prime credit quality residential mortgage loans ("correspondent production") and retaining the mortgage servicing rights ("MSRs") created in such sales. In 2015, PMT began investing in CRT Agreements on certain of the mortgage loans acquired through its correspondent production activity. PMT also invests in ESS on MSRs acquired by PLS, mortgage-backed securities, and commercial real estate loans that finance multifamily and other commercial real estate.

### *Risk of Loss*

Investing in mortgage loans and mortgage-related assets is risky and could result in loss. The client should be aware of the risks and be prepared to bear any such losses. The Adviser does not represent, guarantee or imply that the services or methods of analysis employed by us can or will predict future results, successfully identify market tops or bottoms, or insulate the client from losses due to market corrections or declines. The Adviser cannot offer any guarantees or promises that PMT's goals and objectives will be met. Past performance is in no way an indication of future performance.

A description of the risks involved in the investment strategy of PMT and the mortgage-related assets in which it invests can be found in the most recent Annual Report on Form 10-K of PMT.

Such risks include, but are not limited to, the following:

- Difficult conditions in the mortgage, real estate and financial markets and the economy generally may adversely affect the performance and fair value of the investments.
- Until non-recourse long-term financing structures become more readily available to PMT and it utilizes them, it relies heavily on short-term repurchase and loan and security agreements with maturities that do not match the assets being financed and are thus exposed to risks which could result in losses.
- Interest rate fluctuations could significantly decrease the results of operations and cash flows and the fair value of the investments.
- It is subject to market risk and declines in credit quality and credit spreads, which may adversely affect investment income and cause realized and unrealized losses.
- Derivative financial instruments are utilized for hedging purposes, which may include swaps, options and futures. However, the prices of derivative financial instruments,

including futures and options, are highly volatile, as are payments made pursuant to swap agreements. As a result, the cost of utilizing derivatives may reduce PMT's income and the derivative instruments that the Adviser utilizes may fail to effectively hedge PMT's positions. PMT is also subject to credit risk with regard to the counterparties involved in the derivative transactions.

- PMT is not an approved Ginnie Mae issuer and servicer, and an increase in the percentage or amount of government loans it acquires could be detrimental.
- The retention of credit risk underlying mortgage loans PMT sells to Fannie Mae is inherently uncertain and exposes it to significant risk of loss.
- The CRT Agreements may not be eligible REIT assets, may be required to be held in its taxable REIT subsidiary, and a significant portion of its income from these investments may therefore be subject to U.S. federal and state income taxation in order not to jeopardize PMT's REIT status.
- A significant portion of the investments is in the form of mortgage loans, and the mortgage loans in which PMT invests and the mortgage loans underlying the MBS in which it invests subjects it to costs and losses arising from delinquency and foreclosure, as well as the risks associated with residential real estate and residential real estate-related investments, any of which could result in losses.
- A significant portion of the residential mortgage loans that PMT holds are or may become nonperforming loans, which increases PMT's risk of loss of its investment.
- The Adviser cannot independently protect the MSR or ESS assets from borrower refinancing and are dependent upon PLS to do so.
- The failure of PLS or any other servicer to effectively service the portfolio of MSRs and mortgage loans would materially and adversely affect PMT.
- Investments in subordinated loans and subordinated MBS could subject PMT to increased risk of losses.
- A decline in the fair value of the real estate underlying the mortgage loans or that PMT acquires, whether through foreclosure or otherwise, may result in reduced risk-adjusted returns or losses.
- Risks of loss from adverse weather conditions and man-made or natural disasters.
- Many of the investments are illiquid and the Adviser may not be able to adjust the portfolio in response to changes in economic and other conditions.
- The Adviser utilizes analytical models and data in connection with the valuation of the investments, and any incorrect, misleading or incomplete information used in connection therewith would subject PMT to potential risks.
- The Adviser depends on the accuracy and completeness of information about borrowers and counterparties and any misrepresented information could adversely affect the investment.



## **ITEM 9: DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of an adviser or the integrity of its management.

The Adviser does not have any such legal or disciplinary events to disclose.

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

The Adviser is under common control with a real estate broker, PennyMac Loan Services, Inc., although this relationship does not create a material conflict of interest with PMT.

Although not a related person specified in the categories enumerated in the instructions for Part 2A of Form ADV, the client should be aware that PMT maintains multiple agreements with a wholly-owned subsidiary of the Adviser, PennyMac Loan Services, LLC ("PLS"). All of the loans the Client acquires in its correspondent production operations are fulfilled on its behalf by PLS, which also services the mortgage loans PMT holds in its residential mortgage investment portfolio and the mortgage loans for which it retains the obligation to service as a result of its correspondent production. PMT also invests in excess servicing spread on MSRs acquired by PLS. Additional information regarding the services provided by PLS to PMT and the other contractual arrangements between them can be found in the most recent Annual Report on Form 10-K of PMT.

As a result of the relationship between PLS and the Client, there may be certain direct and indirect economic benefits received by the Adviser, which create conflicts of interest and may indirectly influence the Adviser's choice of investments for the client. In order to mitigate any such conflicts, there are written policies and procedures for the review and approval of related party transactions, including oversight by designated committees of PMT's board of trustees and PFSI's board of directors.

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

### *Description of Code of Ethics*

The Adviser's current Code of Ethics is prepared in accordance with applicable federal securities laws. General principles and specific provisions include:

- At all times, the interests of the Adviser's clients must come first;
- Personal security transactions must be conducted consistently with the code and in a manner that avoids any actual or potential conflict of interest. No inappropriate advantage should ever be taken of any position of trust and responsibility.
- The Adviser prohibits Access Persons from engaging in any outside business activities or

employment that conflict with his or her duties on behalf of the Adviser;

- The Adviser has policies with respect to giving or receiving gifts and entertainment, including reporting of gifts and entertainment over certain de minimis levels; and
- The Adviser requires pre-approval for certain political contributions made by “Covered Associates,” as well as periodic reporting of political contributions by employees.

The Code of Ethics will be provided to the client or prospective client upon request.

#### *Participation or Interest in Client Transactions*

The Adviser does not participate in client transactions but does receive compensation or compensation-in-kind relating to the activities of PLS, its affiliate as further discussed in Item 10 above and in the most recent Annual Report on Form 10-K of PMT.

### **ITEM 12: BROKERAGE PRACTICES**

The Adviser may select dealers or brokers to execute the purchases and sales of the client’s investments. If any dealers or brokers are used in connection with the purchase or sale of any investments, the Adviser will seek best execution for each transaction. Price is not the sole factor the Adviser considers in evaluating best execution. The Adviser also considers the quality of the brokerage services provided by broker-dealers, including the value of the firm's reputation, execution capabilities, commission rates, and responsiveness. Best execution may be measured over time through several transactions rather than a single transaction. The client generally does not pay commissions on investment transactions as substantially all transactions are on a principal basis with dealers or directly with the sellers which may or may not include a markup or a markdown.

#### *Brokerage for Client Referrals*

The Adviser does not receive client referrals in exchange for cash or other compensation, such as brokerage services or research; however, the Adviser may from time to time receive subscriptions to industry publications and conference attendance sponsored by certain brokers.

#### *Directed Brokerage*

The Adviser does not manage or accept instructions from PMT for directing a transaction to a particular broker-dealer.

### **ITEM 13: REVIEW OF ACCOUNTS**

The ALCO & Investment Committee (“Investment Committee”) meets at least quarterly to manage PMT’s investments in correlation with the overall performance of financial markets, while reducing the risk of adverse movements to owned assets through offsetting positions. The Investment Committee also oversees pricing activities and guides the acquisition and disposition of investments that support the strategic objectives of PMT. The Investment Committee is comprised of senior executives, including the President and Chief Executive Officer, the Chief Investment Officer and

the Chief Financial Officer. The Investment Committee reports to the Executive Committee on a quarterly basis and is required to report key activities into certain committees of the board of directors on a periodic basis.

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

The Adviser does not receive any compensation from any third party in connection with providing investment advice nor do we compensate any individual or firm for client referrals.

#### **ITEM 15: CUSTODY**

Pursuant to Rule 206(4)-2 of the Advisers Act, the Adviser is deemed to have custody of client funds since the Adviser has the authority to exercise control over and physically hold certain of its client's assets. To mitigate any potential conflicts of interests due to this arrangement, all of the Adviser's client account assets are maintained with an independent non-affiliated qualified bank custodian.

The investors in PMT's common stock are provided a copy of PMT's annual audited financial statements within 120 days subsequent to its fiscal year end. The annual report is prepared by an independent public accountant, which is registered with and subject to regular inspection by the Public Company Accounting Oversight Board (PCAOB). In addition, the audited financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP).

#### **ITEM 16: INVESTMENT DISCRETION**

##### *Discretionary Authority; Limitations*

Pursuant to the Management Agreement, PMT has granted to the Adviser discretion over the selection and amount of securities to be bought or sold for client accounts and the commission rates and/or transaction cost paid to effect the transactions.

However, such authority may be subject to specified investment objectives, guidelines, and/or conditions imposed by PMT. For example, PMT may specify that certain investments should not exceed specified percentages of the value of the portfolio, and/or restrictions and/or prohibitions of transactions in the securities of a specific type.

##### *Limited Power of Attorney*

The Adviser is authorized to exercise full discretionary authority via a limited power of attorney contained in the Management Agreement. The Adviser is designated as a client's attorney-in-fact with discretionary authority to effect investment transactions in a client's account which authorizes the Adviser to give instructions to third parties in furtherance of such authority.

#### **ITEM 17: VOTING CLIENT SECURITIES**

The Adviser has adopted and implemented written policies and procedures that are reasonably

designed to ensure that all proxy voting of client securities are always in the best interest of the client. However, the Adviser's policy for equity securities is to not vote for this class of securities since this class is not an investment target of its client.

It is the Adviser's policy to vote matters relating to mortgage-backed securities by bringing the matter to the investment committee for careful consideration including determining whether there is a material conflict between the Adviser and client. In all instances proxy voting will be in the best interest of the client.

In the event of a material conflict the Adviser shall request direction from the client. In the event that a material conflict cannot be addressed by taking client direction the Adviser shall utilize a third-party service.

Client may request a copy of the Adviser's Proxy Voting Policy or information about how the Advisor voted the client's securities by contacting the Adviser at its office. Such contact information is reflected on the cover page of this Brochure.

#### **ITEM 18: FINANCIAL INFORMATION**

The Adviser does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. The Adviser has not experienced any financial condition that is reasonably likely to impair its ability to meet any contractual obligations to PMT or future clients.