

Form ADV Part 2A: Firm Brochure

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

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

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

Material Changes

Since our last annual brochure in March 2018, we have added one client.

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1. **Advisory Business**

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

The amount of client assets that we manage on a discretionary basis, as of December 31, 2018 is approximately \$309,003,736.

2. Fees and Compensation

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

We structure certain of our funds in a "master-feeder" structure. We calculate performance-based fees at the master fund level with respect to each of the Matawin offshore funds described below and asset-based fees at the feeder fund level (the asset-based fee is incorporated into the master when determining the performance-based fee).

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

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

- C. Each client generally bears its own organizational expenses, investment and trading expenses and accounting and administrative expenses, including, without limitation:

- investment-related fees,
- brokerage commissions,
- interest on debt balances or borrowings,
- clearing and settlement charges,
- custodial fees,
- appraisal fees,
- investment banking expenses,
- fees and profit-sharing payments due to unaffiliated advisors, sub-advisors, and consultants
- specific expenses incurred in obtaining or maintaining systems, research and other information and information service subscriptions,
- expenses relating to voting proxies,
- withholding or transfer taxes,

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

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

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

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

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

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

4. Types of Clients

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

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

Investment Requirements

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

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

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

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

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

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

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

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

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

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

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

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

- *Availability of Suitable Investment Opportunities.* Our clients will compete with other potential investors to acquire interests in their targeted investments. Certain of such competitors may have greater financial and other resources and may have better access to suitable investment opportunities. There can be no assurance that we will be able to locate and complete suitable investments that satisfy our clients' objectives. Whether or not suitable investment opportunities are available to our clients, our clients will bear the asset-based fees and other expenses described in Section 2.
- *Counterparty and Settlement Risk.* To the extent our clients enter into contracts for investments with a market counterparty acting as a principal (and not as an agent), our clients may take a credit risk with regard to such counterparties and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It may not always be possible for the securities and other assets deposited with custodians or brokers to be clearly identified as being assets of our clients, and our clients may be exposed to a credit risk in those situations. In addition, there may be practical or time problems associated with enforcing our clients' rights to their assets in the case of an insolvency of any such party. In valuing derivative instruments, it is anticipated that we will typically rely on quotes or other information provided by counterparties.
- *Leverage.* We may leverage our clients' capital when we believe that the use of leverage may enable us to capitalize on opportunities to achieve a higher rate of return. While such borrowing will increase the investment opportunities available to our clients, it will also increase the risk of loss on such investments.
- *Repurchase Agreements.* We may use repurchase agreements on behalf of certain clients to finance the purchase of assets. In a repurchase agreement, the relevant client sells a financial instrument at one price and simultaneously agrees to buy it back from the purchaser on a later date at the price paid by the purchaser plus interest at a negotiated rate. This type of arrangement is effectively a secured

borrowing by the client. The use by a client of repurchase agreements involves many of the same risks of leverage since the proceeds derived from such repurchase agreements may be invested in additional investments. Repurchase agreements involve the risk that the market value of the investments acquired with the proceeds of the repurchase agreement may decline below the price of the financial instrument the relevant client has sold but is obligated to repurchase.

- *Financial Fraud.* Instances of fraud and other deceptive practices committed by senior management of certain companies in which we invest may undermine our due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of our clients' investments. In addition, when discovered, financial fraud may contribute to overall market volatility which can negatively impact our investment program.

- *Debt Securities.* Debt securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). With respect to bonds and other fixed income securities, a rise in interest rates typically causes a fall in values, while a fall in interest rates typically causes a rise in values. Debt securities generally involve less market risk than stocks. However, the risk of debt securities can vary significantly depending upon factors such as the issuer and maturity. For example, the issuer of a security or the counterparty to a contract may default or otherwise become unable to honor a financial obligation. The debt securities of some companies may be riskier than the stocks of others.

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

- *Lack of Diversification.* Our clients' investments will not be widely diversified. Accordingly, our clients may be subject to more rapid changes in

value than would be the case if our clients were required to maintain a wide diversification among types of investments.

- *General Credit Risks.* Our clients may be exposed to losses resulting from default and foreclosure. The value of the underlying collateral, if any, the creditworthiness of the borrower and the priority of the lien are each of great importance (although we may invest in subordinate or second priority liens). There is no assurance that we will correctly evaluate the value of the assets collateralizing the loans or the prospects for a successful restructuring or similar action. In any restructuring or liquidation proceeding relating to a particular investment, our clients may lose all or part of the amounts invested. We cannot guarantee the adequacy of the protection of our clients' interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, we cannot assure that claims may not be asserted that might interfere with enforcement of our clients' rights. In the event of a foreclosure, our clients or their affiliates may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not exceed the amount invested by our clients, resulting in a loss to our clients. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.
- *Lower Credit Quality Loans.* There are no restrictions on the credit quality of the loans we purchase. Loans we purchase may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans which we may acquire have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.
- *Liquidity.* Loans and interests in loans have significant liquidity risks and market value risks since they are not generally traded in organized exchange markets but are traded by banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly-traded securities.
- *Special Risks.* Special risks associated with investments in loans and participations include (1) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (2) so-called lender-liability claims by the issuer of the obligations, (3) environmental liabilities that may arise with respect to collateral securing the obligations, and (4) limitations on our ability to directly enforce our clients' rights with respect to participations. Successful claims by third parties arising from these and other risks, absent bad faith, will be borne by our clients.

- *Risks Associated with Residential Mortgages.* We intend to invest in the residential mortgage market, including in subprime mortgages. The value of our investment in such assets will be influenced by the rate of delinquencies and defaults experienced on the residential mortgage loans and by the severity of loss incurred as a result of such defaults. The factors influencing delinquencies, defaults and loss severity include (1) the economic conditions of the residential mortgage market, (2) the terms and structure of the residential mortgage loans and (3) any specific limits to legal and financial recourse upon a default under the terms of the residential mortgage loans.

Borrowers with adjustable payment mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with adjustable-rate mortgage loans. Investors in residential mortgage loans and securities backed by such loans bear the risk that the borrower will be unable to make monthly payments or to refinance such loans. We may invest in mortgage loans that are secured by multifamily properties or held by borrowers for investment, or by second homes. These mortgage loans may present a greater risk of delinquency, foreclosure or repossession than mortgage loans secured by single-family residential property or on properties used as a primary residence. Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

- *Interest-Only Mortgage Loans.* We may invest in interest-only mortgage loans. Interest-only mortgage loans permit borrowers to make monthly payments of only accrued interest for a certain period following origination. After such interest-only period, the borrower's monthly payment will be recalculated to cover both interest and principal so that the mortgage loan will amortize fully prior to its final payment date. Interest-only loans are relatively new to the non-prime mortgage sector. As a result, the long-term performance characteristics of these loans are largely unknown. If the monthly payment increases, the related borrower may not be able to pay the increased amount and may default or may refinance the related mortgage loan to avoid the higher payment. Interest-only mortgage loans reduce the monthly payment required by borrowers during the interest-only period and consequently the monthly housing expense used to qualify borrowers. As a result, the interest-only mortgage loans may allow some borrowers to qualify for a mortgage loan who would not otherwise qualify for a fully amortizing mortgage loan or may allow them to qualify for a larger mortgage loan than otherwise would be the case.

- *Geographic Concentration of Mortgage Loans.* The mortgage loans in which we invest may be concentrated in a specific state or states. Weak economic

conditions in these locations or any other location (which may or may not affect real property values), may affect the ability of borrowers to repay their mortgage loans on time. Properties in certain jurisdictions may be more susceptible than homes located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, as well as floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the residential real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in the loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the mortgage loans and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of the mortgage loans. Natural disasters, such as wildfires, severe storms and flooding affecting regions of the United States from time to time may result in prepayments of mortgage loans. Properties located in certain parts of the southern and eastern United States may have been damaged by the hurricanes and tropical storms that recently affected those areas. In addition, certain areas in the United States, including, without limitation, New York City, Washington D.C. and Los Angeles and their surroundings and near energy and military infrastructure, may be considered at risk with respect to terrorist attacks, which could affect property values and rates of loan default and delinquency.

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

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

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

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

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

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

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

- *Direct Holdings of Real Estate.* We may, directly or indirectly, hold real property due to the foreclosure of a mortgage loan we purchase. Special risks associated with such investments include changes in the general economic climate or local conditions (such as an oversupply of space or a reduction in demand for space), competition based on rental rates, attractiveness and location of the properties, changes in the financial condition of tenants, and changes in operating costs. Real estate values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of financing and potential liability under changing environmental and other laws.
- *Investments in Mortgage-Backed Securities.* To the extent we invest in mortgage-backed securities, such investments may have characteristics that differ from traditional debt securities. Among the major differences are that interest and principal payments may be made more frequently, often monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time. Mortgage-backed securities may be adversely affected by changes in prepayments in any interest rate environment, leading to outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments, or underperformance relative to hedges that we may have constructed for these investments. Prepayments (at par) may limit the potential upside of many mortgage-backed securities to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. In addition, the amount, type and nature of insurance policies, subordination, letters of credit and other credit support, if any, with respect to certain mortgage-backed securities are based upon actuarial analysis and therefore are inherently limited in their ability to predict events to take place in the future. There can also be no assurance that data derived from a large pool of mortgage loans accurately predicts the delinquency, foreclosure or loss experience of any particular pool of loans.
- *High Yield Securities.* “High yield” bonds and preferred securities that are rated in the lower rating categories by the various credit rating agencies (or comparable non-rated securities) are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinly traded and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities,

whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

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

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

6. Disciplinary Information

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

7. Other Financial Industry Activities and Affiliates

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

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

Relationship with Client Funds

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

The principal commingled funds include:

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

Tourmalet also provides investment advisory services to five dedicated funds and separately managed accounts for four institutional investors.

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

The potential to earn performance-based compensation in certain funds could also give us an incentive to invest client assets in an aggressive or speculative manner. We seek to minimize this conflict by taking a disciplined approach to portfolio risk management.

Despite the presence of these conflicts of interest, we seek to act fairly when we allocate investment opportunities and value client assets. Our firm has adopted written policies and procedures that are designed to ensure fair allocations and valuations over time. In particular, our policy prevents us from taking into account fee or other compensatory differences in allocating an investment opportunity.

Relationship with Servicers

Some of our closed ended private investment fund clients have made an equity and/or debt investment in Kondaur Capital Corporation, which sources, manages, services and provides consulting services relating to mortgage investments (referred to herein as the Servicer). An affiliate of Tourmalet with individual members of the Tourmalet management team also owns equity in the Servicer. Tourmalet and/or individual members of the Tourmalet management team each may, in the future own equity and/or debt interests in one or more other entities engaged in servicing mortgage loans held by a client fund. Our closed ended private investment fund clients co-invest in mortgage loans sourced by the Servicer and will usually also retain the Servicer to perform ongoing servicing and consulting services with respect to such mortgage loans. In connection with our equity interest in the Servicer, our employees may sit on the board of directors of the Servicer. Tourmalet's employees may have a conflict of interest with respect to decisions made by the board of directors of the Servicer as the interests of our clients. In addition, Michael Corasaniti, our Chief Executive Officer, also serves as the Chief Executive Officer of the Servicer.

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

- A. Principals and employees of our firm are permitted to purchase securities for themselves but are required to pre-clear mortgage investments which may pose a conflict to the fund(s)' investments in mortgage investments.
- B. We have adopted a Code of Ethics in accordance with the U.S. Securities and Exchange Commission requirements. This Code of Ethics is designed to ensure, among other things, that employees conduct their investing activities in accordance with applicable law and in a manner where clients' interests are placed first and foremost. All employees are responsible for upholding our firm's fundamental principles of openness, integrity, honesty and trust. The Code of Ethics focuses on specific areas where employee conduct has the potential to affect clients' or investors' interests adversely.

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

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

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

Employees must obtain prior written approval before either they or a related person places an order to sell or otherwise dispose of a security that is being offered as part of an initial public offering or investing in a private placement. Prior to placing an order for such a securities transaction, a pre-trade request via email must be sent. The submitted request will be reviewed and, as soon as practicable, a determination will be made as to whether the proposed securities transaction(s) can be authorized. If the securities transaction(s) is denied, no explanation will be provided.

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

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

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

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

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

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

9. Brokerage Practices

- A. The assets in which we invest for our clients are purchased and sold directly on a principal-to-principal basis, and, therefore, we do not engage brokers to effect transactions on behalf of our clients.
- B. We may have conflicts of interest in allocating investments among our various clients. We will act in a manner that we consider fair, reasonable and equitable in allocating investment opportunities among our clients' accounts, taking into consideration available capital, allocation caps, diversification considerations, any other anticipated opportunities and other relevant factors. Under certain circumstances several existing client accounts may become entitled to disproportionate allocations.

10. Review of Accounts

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

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

11. Client Referrals and Other Compensation

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

12. Custody

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

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

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

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

13. Investment Discretion

Scope of Authority

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

Procedures for Assuming Authority

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

14. Voting Client Securities

We have adopted and implemented written policies and procedures governing the voting of client securities in accordance with our fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act. Our clients are invested in assets that do not issue proxies. Therefore, we do not vote proxies on behalf of any of our clients.

15. Financial Information

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