

Item 1 - Cover Page

Form ADV, Part 2: Brochure

ARMOUR CAPITAL MANAGEMENT LP

3001 Ocean Drive, Suite 201
Vero Beach, Florida 32963
(772) 617-4340

March 28, 2019

This Form ADV, Part 2 (the "Brochure") provides information about the investment advisory and business practices of ARMOUR Capital Management LP ("ACM," "us," or "we"). If you have any questions about the contents of this Brochure, please contact us by telephone at (772) 617-4340 and/or by email to: info@armourcap.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

From time to time, ACM refers to itself as a "registered investment advisor" or describes itself as "registered." Registration does not include or imply a certain level of skill or training. Neither the SEC, the securities regulatory authority of any state, nor the securities regulatory authority of any other jurisdiction has approved or disapproved ACM's regulatory status, or passed upon the adequacy or accuracy of this Brochure.

Additional information about ACM is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 - Material Changes

This Brochure is being filed with our required Form ADV filing. Changes to this disclosure statement reflect updates to ACM's custody of client assets and updates to various items with the removal of separately managed accounts as the firm is no longer engaged in this business.

This Brochure uses certain capitalized terms in the disclosures with respect to its clients. When used this way, such capitalized terms should be read to relate to the specific client in the context in which they appear.

Item 3 - Table of Contents

<u>Item 1 - Cover Page</u>	<u>1</u>
<u>Form ADV, Part 2, Brochure</u>	<u>1</u>
<u>Item 2 - Material Changes</u>	<u>2</u>
<u>Item 4 - Advisory Business</u>	<u>4</u>
<u>Item 5 - Fees and Compensation</u>	<u>6</u>
<u>Item 6 - Performance-Based Fees and Side-By-Side Management</u>	<u>11</u>
<u>Item 7 - Types of Clients</u>	<u>12</u>
<u>Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss</u>	<u>13</u>
<u>Item 9 - Disciplinary Information</u>	<u>21</u>
<u>Item 10 - Other Financial Industry Activities and Affiliations</u>	<u>22</u>
<u>Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</u>	<u>23</u>
<u>Item 12 - Brokerage Practices</u>	<u>24</u>
<u>Item 13 - Review of Accounts</u>	<u>25</u>
<u>Item 14 - Client Referrals and Other Compensation</u>	<u>26</u>
<u>Item 15 - Custody</u>	<u>27</u>
<u>Item 16 - Investment Discretion</u>	<u>28</u>
<u>Item 17 - Voting Client Securities</u>	<u>29</u>
<u>Item 18 - Financial Information</u>	<u>30</u>

Item 4 - Advisory Business

ACM is a Delaware limited partnership that commenced its management business on November 6, 2009. ACM's general partners are Remmiz LLC and Stacumny LLC, which are Florida limited liability companies controlled by two of its limited partners, Jeffrey J. Zimmer and Scott J. Ulm, respectively.

ACM manages the assets and certain business functions of its advisory client ARMOUR Residential REIT, Inc., a publicly-traded real estate investment trust ("ARMOUR"). ACM invests, on behalf of ARMOUR, in residential mortgage backed securities issued or guaranteed by a United States ("U.S.") Government Sponsored Enterprises ("GSEs"), such as the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), or a government agency such as Government National Mortgage Administration (Ginnie Mae) (collectively, "Agency Securities"). The Agency Securities in the securities portfolio consist primarily of fixed rate home loans, the remaining are either backed by hybrid adjustable rate or adjustable rate home loans. Other securities in the portfolio may include other securities backed by residential mortgages for which the payment of principal and interest is not guaranteed by a GSE or government agency, may benefit from credit enhancement derived from structural elements such as subordination, over collateralization or insurance (collectively, "Credit Risk and Non-Agency Securities"). ACM also invests in Interest-Only Securities and from time to time may also invest in U.S. Treasury Securities and money market instruments.

Under the operative Investment Management Agreement (a "Management Agreement" or "IMA") entered into between ACM and ARMOUR, ACM is responsible for (i) advising ARMOUR with respect to arranging for and managing the acquisition, financing, management, and disposition of its investments, (ii) evaluating the duration risk and prepayment risk of its investments and arranging borrowing and interest rate risk mitigation strategies, and (iii) coordinating its capital raising activities. In conducting these activities, ACM also advises ARMOUR on formulating and implementing its operating strategies and policies, arranging for their acquisition of assets, monitoring the performance of their assets, arranging for various types of financing and interest rate risk mitigation strategies, and providing administrative and managerial services in connection with their day-to-day operations, as may be required from time to time for their management and assets.

We manage the assets of ARMOUR in conformity with certain restrictions, including contractual restrictions, investment guidelines, and any other adopted material operating policies. Our role as the manager of ARMOUR is ultimately subject to the direction and oversight of its board of directors. ARMOUR is able to limit our management, services, and other activities performed by us pursuant to the IMA.

This limitation of duties at ARMOUR's discretion is to "mortgage assets." Pursuant to the IMA, "mortgage assets" means the following asset types of ARMOUR, which shall be solely managed by us:

- mortgage securities (or interests therein), including (a) adjustable-rate, hybrid adjustable-rate, and pass-through certificates (including GNMA certificates, FNMA certificates and FHLMC certificates), (b) other securities backed by residential mortgages, in which payment of principal and interest is not guaranteed by a government agency, (c) collateralized mortgage obligations, (d) securities representing interests in, or secured by, agency wrapped mortgages on real property other than pass-through certificates and CMOs, (e) agency mortgage derivative securities and other agency mortgage-backed and mortgage collateralized obligations, and (f) mortgage derivative securities;
- U.S. government issued bills, notes and bonds including general obligations of the agencies

of the U.S. government (including, but not limited to GNMA, FNMA and FHLMC); and,

- short-term investments, including short-term bank certificates of deposit, short-term U.S. Treasury securities, short-term U.S. government agency securities, commercial paper, repurchase agreements, short-term CMOs, short-term asset backed securities, and other similar types of short-term investment instruments, all of which will have maturities or average lives of less than one (1) year.

ARMOUR's board of directors is able to direct us to perform similar management and services for any of ARMOUR's subsidiaries; provided, however, that we neither have the right nor the obligation to supervise any other manager, or to manage or otherwise participate in any way in any securitization transaction undertaken by ARMOUR.

As of December 31, 2018, ACM managed approximately \$8,464,609,865 in client assets on a discretionary basis. ACM does not manage client assets on a non-discretionary basis.

Item 5 - Fees and Compensation

ARMOUR

Base Management Fee

For the services we render under ARMOUR's IMA, ARMOUR pays ACM each month, in arrears, compensation equal to 1/12th of the sum of (a) 1.5% of the "Gross Equity Raised" up to \$1 billion plus (b) 0.75% of the "Gross Equity Raised" in excess of \$1.0 billion (the "Base Management Fee") within one (1) Business Day after the end of such month. Pursuant to ARMOUR's IMA, the Base Management Fee shall not ever be less than 1/12th of the "Annual Minimum Fee," defined as \$900,000 for each fiscal year under the IMA. In the event of a termination of the IMA, the Base Management Fee shall be pro-rated based upon the number of days elapsed in such calendar month of termination prior to the effective date of such termination. Under the IMA, "Gross Equity Raised" means an amount in dollars calculated as of the date of determination that is equal to (a) the initial equity capital that ARMOUR raised following the consummation of its merger on November 6, 2009, plus (b) equity capital raised in public or private issuances of ARMOUR's equity securities (calculated before underwriting fees and distribution expenses, if any), less (c) capital returned to the stockholders of ARMOUR which shall include (i) the purchase price of equity securities repurchased by ARMOUR, and (ii) capital returned to stockholders shall include liquidating distributions as approved and so designated by a majority of the board of directors of ARMOUR, as adjusted to exclude (d) one-time charges pursuant to changes in GAAP and certain non-cash charges after discussion between ACM and ARMOUR's board of directors and approval by a majority of ARMOUR's board of directors.

We use the proceeds from the Base Management Fee in part to pay compensation to our officers and personnel who, notwithstanding that certain of them also are officers of ARMOUR, receive no compensation directly from ARMOUR.

Equity Compensation

ACM, from time to time and at its discretion, may receive equity incentive-based compensation grants from ARMOUR for the benefit of those of our officers and personnel who provide substantial services for the benefit of ARMOUR.

Termination Fee

Under the operative IMA, ARMOUR is obligated to pay us a termination fee equal to four (4) times the Base Management Fee paid to ACM in the preceding full twelve (12) months, calculated as of the effective date of the termination of the IMA, only if ARMOUR terminates the IMA without "Cause" (as defined in the IMA). During the current term, ARMOUR may only terminate the IMA for Cause, or in connection with a Corporate Event.

Reimbursement of Expenses

ARMOUR pays all of its costs and expenses, including ACM's costs and expenses (including for goods and services obtained from third parties) incurred solely on behalf of ARMOUR or any subsidiary thereof or in connection with the IMA, except for the cost and expenses not reimbursable under the IMA, which are costs and expenses specifically required to be borne by ACM. The expenses required to be paid by us are described later in this Item 5. The expenses required to be paid by ARMOUR include:

- all costs and expenses associated with ARMOUR's formation and capital raising activities, including, without limitation, the costs and expenses of the preparation of its registration statements, and any and all costs and expenses of any public offering of ARMOUR, any subsequent offerings and any filing fees and costs of ARMOUR being a public company, including, without limitation, filings with the SEC, the Financial Industry Regulatory Authority (“FINRA”), and any exchange or over the counter market, among other such entities;
- all of ARMOUR's costs and expenses of ARMOUR in connection with the acquisition, disposition, financing, interest rate risk mitigation, administration, and ownership of its or any of its subsidiary's investment assets (including, without limitation, the assets in which ARMOUR invests) and including, without limitation, costs and expenses incurred in contracting with third parties, including any person controlling, controlled by, or under common control with us (as may be approved by ARMOUR pursuant to the terms of the IMA), to provide such services, such as legal fees, accounting fees, consulting fees, trustee fees, appraisal fees, insurance premiums, commitment fees, brokerage fees, guaranty fees, ad valorem taxes, costs of foreclosure, maintenance, repair, and improvement of property, and premiums for insurance on property owned by ARMOUR or any subsidiary of it;
- all costs and expenses relating to the acquisition of, and maintenance and upgrades to, ARMOUR's portfolio analytics and accounting systems (including, but not limited to Bloomberg);
- all costs and expenses of money ARMOUR or its subsidiaries borrow, including, without limitation, principal, interest, and the costs associated with the establishment and maintenance of any credit facilities, warehouse loans, and other indebtedness of ARMOUR and its subsidiaries (including commitment fees, legal fees, closing, and other costs);
- all taxes and license fees applicable to ARMOUR or any subsidiary of it, including interest and penalties thereon;
- all legal, audit, accounting, underwriting, brokerage, listing, filing, rating agency, registration, and other fees, printing, engraving, clerical, personnel, and other expenses, and taxes of ARMOUR incurred in connection with the issuance, distribution, transfer, registration, and stock exchange listing of ARMOUR's or any of its subsidiary's equity securities or debt securities;
- other than our obligations, all fees paid to and expenses of third party advisors and independent contractors, consultants, managers, and other agents (other than us) engaged by ARMOUR or any subsidiary of it or by us for ARMOUR's account or any subsidiary of it (other than us) and all employment expenses of the personnel employed by ARMOUR or any subsidiary of ARMOUR, including, without limitation, the salaries (base and bonuses alike), wages, equity based compensation of such personnel, and payroll taxes;
- all insurance costs incurred by ARMOUR or any subsidiary of it and including, but not limited to, insurance paid for by ARMOUR to insure us for liabilities as a result of being the manager for ARMOUR;
- all custodian, transfer agent, and registrar fees and charges incurred by ARMOUR;

- all compensation and fees paid to directors of ARMOUR or any subsidiary of it, all expenses of directors of ARMOUR or any subsidiary of it (including those directors who are also employees of ours), the cost of directors and officer's liability insurance and premiums for errors and omissions insurance, and any other insurance deemed necessary or advisable by ARMOUR's board of directors for the benefit of ARMOUR and its directors and officers (including those directors who are also employees of ours), the cost of all meetings of ARMOUR's board of directors, and the cost of travel, hotel accommodations, food, and entertainment for all participants in meetings of ARMOUR's board of directors;
- all third party legal, accounting, and auditing fees and expenses and other similar services relating to ARMOUR or any of its subsidiary's operations (including, without limitation, all quarterly and annual audit or tax fees and expenses);
- all legal, expert, and other fees and expenses relating to any actions, proceedings, lawsuits, demands, causes of action, and claims, whether actual or threatened, made by or against ARMOUR, or which ARMOUR is authorized or obligated to pay under applicable law or its "governing instruments" (as defined in the IMA) or by its board of directors;
- any judgment or settlement of pending or threatened proceedings (whether civil, criminal, or otherwise) against ARMOUR or any subsidiary of ARMOUR, or against any trustee, director, or officer of ARMOUR or any subsidiary of ARMOUR in his capacity as such for which ARMOUR or any subsidiary of it is required to indemnify such trustee, director, or officer by any court or governmental agency, or settlement of pending or threatened proceedings;
- at all times all travel and related expenses of directors, officers, and employees of ARMOUR and ACM incurred in connection with meetings related to ARMOUR's business, attending meetings of its board of directors or its holders of securities or any subsidiary of it or performing other business activities that relate to ARMOUR or any subsidiary of it, including, without limitation, travel and expenses incurred in connection with the purchase, financing, refinancing, sale, or other disposition of the assets in which ARMOUR invests or other investments of ARMOUR's; provided, however, that ARMOUR shall only be responsible for a proportionate share of such expenses, as reasonably determined by us in good faith after full disclosure to ARMOUR, in instances in which such expenses were not incurred solely for the benefit of ARMOUR;
- all expenses of organizing, modifying, or dissolving ARMOUR or any subsidiary of it, costs preparatory to entering into a business or activity, and costs of winding up or disposing of a business or activity of ARMOUR or its subsidiaries;
- all expenses relating to payments of dividends or interest or distributions in cash or any other form made or caused to be made by ARMOUR's board of directors to or on account of holders of ARMOUR's securities or any subsidiary of it, including, without limitation, in connection with any dividend reinvestment plan;
- all expenses of third parties relating to communications to holders of equity securities or debt securities issued by ARMOUR or any of its subsidiaries and the other bookkeeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of governmental bodies or agencies, including any costs of computer services in connection with this function, the cost of printing and mailing

certificates for such securities and proxy solicitation materials and reports to holders of ARMOUR or any of its subsidiary's securities and reports to third parties required under any indenture to which ARMOUR or any of its subsidiaries is a party;

- all expenses relating to any office or office facilities maintained by ARMOUR or any of its subsidiaries (other than any office of ours and/or any person controlling, controlled by, or under common control with us, which are our obligations), including, without limitation, rent, telephone, utilities, office furniture, equipment, machinery, and other office expenses for any other persons ARMOUR's board of directors authorizes ARMOUR to hire;
- all costs and expenses related to the design and maintenance of ARMOUR's web site or sites and associated with any computer software or hardware that is used solely for ARMOUR;
- other than our obligations, all other costs and expenses relating to ARMOUR's business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing, and disposing of the assets in which ARMOUR invests, including, without limitation, appraisal, reporting, audit, and legal fees;
- other than our obligations below, and subject to a line item budget approved in advance by ARMOUR's board of directors, all other expenses actually incurred by us, any person controlling, controlled by, or under common control with us (as may be approved by ARMOUR pursuant to the terms of the IMA) or his or her respective officers, employees, representatives or agents, or any person controlling, controlled by, or under common control with such respective officers, employees, representatives or agents (as may be approved by ARMOUR pursuant to the terms of the IMA) which are reasonably necessary for the performance of our duties and functions under the IMA, including, without limitation, any fees or expenses relating to our compliance with all governmental and regulatory matters).

ACM is responsible for the following obligations that are not eligible to be reimbursed by ARMOUR:

- employment expenses of the personnel employed by us, including, without limitation, salaries (base and bonuses alike), wages, payroll taxes, and the cost of employee benefit plans of such personnel (but excluding any stock of ARMOUR that its board of directors may determine to grant to such personnel, which stock shall not reduce employment expenses otherwise payable by us or cause us or ARMOUR to pay any payroll taxes in respect thereof); and,
- rent, telephone, utilities, office furniture, equipment, machinery, and other office, internal, and overhead expenses of us required for ARMOUR's day to day operations, including, bookkeeping, clerical and back office services provided by us (except that ARMOUR shall pay for supplies applicable to operations, such as paper, software, presentation materials, etc.).

Moreover, subject to ARMOUR's right to retain other managers and its right to limit our authorizations, we are authorized, for and on behalf, and at ARMOUR's sole cost and expense, to employ such securities dealers for the purchase and sale of ARMOUR's mortgage assets managed by ACM as may, in our reasonable judgment, be necessary to obtain the best commercially available net results taking into account such factors as ARMOUR's policies, price, dealer spread, the size, type, and difficulty of the transaction involved, the firm's general execution and operational facilities, and the firm's risk in positioning the securities involved. Consistent with this policy, and subject to the foregoing caveats with respect to ARMOUR's rights, we are authorized to direct the execution of ARMOUR's portfolio transactions to dealers

and brokers furnishing statistical information or research deemed by ACM to be reasonably necessary to the performance of our investment advisory functions for ARMOUR.

In addition, ACM may retain the services of third parties (including affiliates of us), for and on ARMOUR's behalf, including, without limitation, accountants, legal counsel, appraisers, insurers, brokers, dealers, transfer agents, registrars, developers, investment banks, financial advisor's, banks, and other lenders and others as we may deem reasonably necessary or advisable in connection with ARMOUR's management and operations.

ARMOUR will be responsible for the costs and expenses related to the retention of such third parties except that (a) it is not responsible for costs and expenses that are our obligations described above and (b) we are responsible for such costs and expenses (unless otherwise approved by ARMOUR's board of directors) if a third party is retained to (i) make decisions to invest in and dispose of the assets in which ARMOUR invests, (ii) provide administrative, data processing, or clerical services, or prepare ARMOUR's financial records, or (iii) prepare a report summarizing ARMOUR's acquisitions of the assets in which it invests, portfolio compensation and characteristics, credit quality (if applicable), or performance of the portfolio, with respect to assets that ARMOUR has determined shall be managed by us.

ACM reserves the right to cause any of our services under the IMA to be rendered by our employees or any person controlling, controlled by, or under common control with us. In that case, ARMOUR is responsible to pay or reimburse ACM or such person controlling, controlled by, or under common control with ACM for the reasonable and actually incurred cost and expense of performing such services by such person, including, without limitation, administrative support services specifically requested by ARMOUR if the costs and expenses of such person would have been reimbursable under the IMA if such person were an unaffiliated third party, or if such service had been performed by us.

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

ACM does not accept performance-based fees based, for example, on a share of capital gains on or capital appreciation of, the assets of any client. To the extent that multiple accounts advised by ACM invest in the same investment opportunity, side-by-side, the investment opportunity will be allocated pursuant to investment guidelines established by ACM and agreed to by its client. Under such limited circumstances, each entity will pay its proportionate share of expenses and shall continue to pay management fees in accordance with the terms of its respective IMA.

ACM may in the future adopt additional conflicts of interest resolution policies and procedures designed to protect the business interests of our client.

Item 7 - Types of Clients

ACM provides investment and portfolio management services to real estate investment trusts (or REITs) (please refer to Item 4 for further details). Our clients who are REITs generally invest in MBS, subject to certain investment guidelines and regulatory income tests.

At present, ARMOUR is ACM's only client.

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

ACM's Investment Strategy

ACM's clients rely on our expertise to construct selectively and manage actively a diversified mortgage investment portfolio and to identify asset classes that, when properly financed and hedged, are designed to produce attractive risk-adjusted returns across a variety of market conditions and economic cycles. We focus on asset selection and the relative value of various sectors within the mortgage market. We believe that the residential mortgage market will undergo dramatic changes in the coming years as the role of GSEs are diminished, which we expect to create attractive investment opportunities for clients. Therefore, we change the composition of our clients' investment portfolios as we believe changes to market conditions, risks and valuations warrant. Consequently, clients may experience investment gains or losses when they sell instruments we believe no longer provide attractive risk-adjusted returns relative to other sectors of the mortgage market.

Through our rigorous research, stringent investment underwriting analysis and disciplined security selection, we invest in and manage a portfolio of mortgage investments with attractive risk-adjusted yields. In general, we evaluate investment opportunities by reviewing: cash flow characteristics of underlying mortgages and properties; borrower credit quality; regional economic factors, including the potential for growth or contraction, future demand for residential and commercial properties and the potential for home price appreciation or depreciation; and potential drivers of defaults and loss characteristics of underlying collateral.

Our goal is for clients to profit not only from current earnings generated by its investment portfolio, but also from the identification of investment opportunities whose relative value, arising from current or expected market trends and dislocations, has diverged from other investment opportunities. Specifically, we evaluate the risk/return characteristics of individual investment opportunities against other mortgage investment opportunities as well as opportunities in other investment sectors. Our selection of assets focuses on investments that are expected to generate attractive returns relative to other investments with similar levels of risk and are expected to benefit from expected trends within the mortgage market.

The factors we consider in selecting mortgage-related securities include, but are not limited to, items such as interest rates, property prices, other economic indicators and loan level and borrower characteristics. These factors drive our projections of prepayments, loan modifications, defaults and loss severities. In addition, these loan cash flow projections, which may be adjusted to reflect servicer specific behavior, in combination with the deal structure, allow us to project security returns under a variety of scenarios and to select securities that provide attractive returns given the specific level of risk.

We employ our expertise and experience in financing selected assets within our clients' investment portfolios, when appropriate and prudent, and to hedge its investment portfolio to manage prepayment, credit and interest rate risks as applicable.

Our active management strategy involves buying and selling securities in all sectors of the mortgage market.

ACM expects target asset allocations to evolve over time as opportunities emerge and, as we currently believe will occur, as the government, through the Federal Housing Administration ("FHA") and GSEs, reduces its involvement in the U.S. housing finance market.

Investment Methods

ACM assists its clients in carefully selecting and purchasing primarily MBS, either in initial offerings or on the secondary market through broker-dealers or similar entities. We may also assist our clients in identifying originators and intermediaries with which to enter into arrangements to source collateral for these securities.

We also assist clients in utilizing to-be-announced forward contracts ("TBAs") in order to invest in mortgage-related securities or to hedge its investments. Pursuant to these TBAs, a client would agree to purchase, for future delivery, mortgage-related securities with certain principal and interest terms and certain types of underlying collateral, but the particular securities to be delivered would not be identified until shortly before the TBA settlement date. With respect to ARMOUR, its ability to purchase Agency Securities through TBAs may be limited by certain tests applicable to REITs.

We may assist clients in carefully selecting and investing directly in residential mortgage loans (prime mortgage loans and non-prime mortgage loans) through direct purchases of loans from mortgage originators and through purchases of loans on the secondary market. A client may also enter into purchase agreements with a number of loan originators and intermediaries, including mortgage bankers, commercial banks, savings and loan associates, home builders, credit unions and other mortgage conduits. We advise clients regarding investing primarily in mortgage loans secured by properties within the United States.

Investment Guidelines

We provide investment advisory services to our clients generally subject to the following investment guidelines:

- to not make investments that would cause a client to fail to qualify as a REIT for federal income tax purposes;
- to not make investments that would cause a client, to be regulated as an investment company under the 1940 Act; and
- to invest in a client's target assets, which consist primarily of mortgage-related securities.

Borrowing Strategy

We advise and assist clients in borrowing against investments in their target assets primarily using repurchase agreements. These borrowings generally have maturities that range from one month or less up to one year, although occasionally a client may enter into longer dated borrowing agreements to more closely match the rate adjustment period of the securities it owns. Depending on market conditions, clients may enter into additional repurchase arrangements with similar longer-term maturities or a committed borrowing facility. In order to finance their portfolio securities, we advise our clients to borrow between six and ten times the amount of its stockholders' equity with respect to Agency Securities and between one and three times the amount of its stockholders' equity with respect to Non-Agency Securities, but clients are generally not limited to those ranges. The level of a client's borrowings may vary periodically depending on market conditions.

Hedging Strategy

We may use a variety of strategies to hedge a portion of each client's exposure to interest rate, prepayment and credit risk to the extent that we believe is prudent, taking into account our investment

strategy, the cost of the hedging transactions and, any regulatory restrictions on a client's operations and management. As a result, and particularly with respect to REITs, we may advise a client not to hedge certain interest rate, prepayment or credit risks if we believe that bearing such risks enhances a client's return relative to its risk/return profile.

Interest Rate Risk

We assist clients in hedging some of their exposure to potential interest rate mismatches between the interest a client earns on its longer term investments and the borrowing costs on its shorter term borrowings. Because all of our clients' leverage is primarily in the form of repurchase agreements, financing costs will fluctuate based on short-term interest rate indices, such as LIBOR. Because some of our clients' investments are in assets that have fixed rates of interest and mature in up to 30 years, the interest it earns on those assets will generally not move in tandem with the interest rates that it pays on its repurchase agreements, which generally have a maturity of less than one year. As a result, our clients may experience reduced income or losses based on these rate movements. In order to mitigate such risk, we may assist clients in utilizing certain hedging techniques as discussed below.

We design interest rate risk mitigation strategies to reduce the impact on our clients' investment portfolios' income caused by the potential adverse effects of changes in interest rates on its assets and liabilities. We use derivative instruments to mitigate the risk of adverse changes in interest rates on the value of its assets, as well as the differences between the interest rate adjustments on its assets and borrowings. These strategies consist primarily of clients' purchasing or selling futures contracts and may also include entering into interest rate swap, interest rate cap or interest rate floor agreements, purchasing put and call options on securities or securities underlying futures contracts, or entering into forward rate agreements. Although we generally advise our clients that they are not limited in their use of interest rate risk mitigation strategies, we generally advise clients to limit their use of derivative instruments to only those techniques described above and to enter into derivative transactions only with counterparties we believe have a strong credit rating to help mitigate the risk of counterparty default or insolvency. These transactions are entered into solely for the purpose of mitigating interest rate risk.

Please note that since ARMOUR does not elect hedge accounting treatment as prescribed by GAAP, its operating results may reflect greater volatility than otherwise would be the case, because gains or losses on the derivative instruments may not be offset by changes in the fair values or cash flows of the related investment or borrowing transactions within the same accounting period, or ever.

We assess a client's interest rate risk by estimating the effective duration of its portfolio's assets and the effective duration of its liabilities and by estimating the time difference between the interest rate adjustment of its assets and the interest rate adjustment of its liabilities. Effective duration essentially measures the market price volatility of financial instruments as interest rates change. We estimate effective duration using various financial models and empirical data. Different models and methodologies can produce different effective duration estimates for the same securities.

Prepayment Risk

Because residential borrowers may be able to prepay their mortgage loans (which underlie Agency Securities, for example), at par, at any time, clients face the risk that they will experience a return of principal on their investments earlier than anticipated, and it may have to invest that principal at potentially lower yields. Because prepayments on residential mortgages generally accelerate when interest rates decrease and slow when interest rates increase, mortgage securities typically have "negative convexity." Convexity

exposure relates to the way the duration of a mortgage security changes when the interest rate and prepayment environment changes. In other words, certain mortgage securities in which a client invests may increase in price more slowly than most bonds, or even fall in value, as interest rates decline. Conversely, certain mortgage securities in which the client invests may decrease in value more quickly than similar duration bonds as interest rates increase. In order to manage a client's prepayment and interest rate risks, we monitor, among other things, its "duration gap" and convexity exposure. Duration is the relative expected percentage change in market value of its assets that would be caused by a parallel change in short and long-term interest rates.

Credit Risk

We advise clients to accept mortgage credit exposure at levels we deem prudent, which is an integral part of our diversified investment strategy. Therefore, a client may retain all or a portion of the credit risk on its investments in residential and commercial mortgage-related securities. We seek to manage this risk through prudent asset selection, pre-acquisition due diligence, post-acquisition performance monitoring, sale of assets where we identify negative credit trends, the use of various types of credit enhancements and by using non-recourse financing, which limits a client's exposure to credit losses to the specific pool of mortgages subject to the non-recourse financing. Our overall management of credit exposure may also include credit default swaps or other financial derivatives that we believe are appropriate.

We follow a disciplined security selection process in order to facilitate our clients to be, in essence, relative value investors in their target assets. We vary the percentage mix of our Agency and Non-Agency mortgage investments in an effort to actively adjust our clients' credit exposure and to improve the risk/return profile of our investment portfolio. We have also conducted top-down and bottom-down market assessments of the various segments of the mortgage-related investments market in order to identify the most attractive segments and investment opportunities consistent with our clients' portfolio objectives and risk management strategy. In employing this detailed analysis, we seek to identify the best values available in mortgage-related investments. We select mortgage-related investments based on extensive bottom-up analysis including, among other factors, financial structure, prepayment trends, average remaining life and expected duration, amortization schedules, fixed versus floating interest rates, geographic concentration, property type, loan-to-value ratios, origination characteristics and credit scores. Considering the large size of the mortgage-related investments market, we believe we can be very selective with our clients' investments and buy only the securities we deem to be the most attractive.

Portfolio Construction

We help our clients realize returns by constructing well-balanced portfolios consisting primarily of mortgage-related securities with a focus on managing various associated risks, including credit, interest rate, prepayment, and financing risk. We use our fixed income expertise across the range of asset classes within the mortgage-related investments markets to build portfolios reasonably constructed to balance income, cash, capital, leverage and the aforementioned risks. Through the careful and disciplined selection of assets, and continual portfolio monitoring, we believe we can build and maintain investment portfolios that provide value to our clients over time, both in absolute terms and relative to other mortgage-related investment portfolios.

Analytical Tools, Infrastructure and Expertise

Our experienced investment team constructs and manages mortgage-related investment portfolios through the use of focused qualitative and quantitative analysis, which helps to manage risk on a security-

by-security and portfolio basis. We rely on a variety of analytical tools and models to assess investments and risk management. We focus on in-depth analysis of the numerous factors that influence a client's target assets, including:

- fundamental market and sector review;
- cash flow analysis;
- controlled risk exposure; and
- prudent balance sheet management.

We also use these tools to guide the interest rate risk mitigation strategies we have developed to the extent consistent with each client's investment guidelines and regulatory requirements, if any.

No Performance Fee or Incentive Allocation

As a result of a fee structure that is based on Gross Equity Raised and not tied to performance, we may not be sufficiently incentivized to pursue business that maximizes risk-adjusted returns on clients' investment portfolios. Instead, we are incentivized to increase Gross Equity Raised (for example, by recommending follow-on stock offerings), which may not necessarily be in line with the interests of either our clients or ARMOUR's stockholders. We make a determination, exercising our judgment in good faith, as to whether an investment opportunity is appropriate for our clients. Factors in making such a determination may include a client's liquidity, its overall investment strategy and objectives, the composition of its existing portfolio, the size or amount of the available investment opportunity, the characteristics of the securities involved, the liquidity of the markets in which the securities trade, the risks involved, and other factors relating to a client and the investment opportunity.

Strategic Relationships and Experience

We maintain relationships with financial intermediaries including prime brokers, investment banks, broker-dealers and asset custodians. We believe these relationships enhance our ability to source, finance, protect and mitigate the interest rate risk on ARMOUR's investments and, thus, enable it to succeed in various credit and interest rate environments. Our management has many years of experience and well-established contacts within the mortgage-backed securities markets and the capital and financing markets generally, and is able to bring our personal relationships to bear for ARMOUR's benefit and the benefit of its stockholders.

Risk Factors

Clients and prospective clients should consider carefully the material risks described below. If any of the following events occur in the course of our providing management and investment and services, a client's investments asset portfolio may be materially adversely affected and the client could lose all or part of its investments and the value of its assets.

Risks Related to Our Management and Conflicts of Interest

- *Our clients depend on ACM and particularly key personnel including Mr. Ulm and Mr. Zimmer. The loss of those key personnel could severely and detrimentally affect our operations;*
- *There are conflicts of interest in our client's relationship with us and our affiliates, which could result in decisions that are not in their best interests;*

- *The manner of determining the Base Management Fee may not provide sufficient incentive to us to maximize risk adjusted returns on a client's investment portfolio since it is based on Gross Equity Raised and not on the performance of its investment portfolio;*
- *ACM has competing duties to other entities, which could result in decisions that are not in the best interests of stockholders of REIT clients of ACM; and,*
- *The current IMA to which ACM is a party were not negotiated on an arm's-length basis and the terms, including Base Management Fees payable, may not be as favorable to our clients as if they were negotiated with an unaffiliated third party.*

Risks Related to Financing Strategies, Guidelines and Policies

- *Our failure to make investments on favorable terms that satisfy our clients' investment strategies and otherwise generate attractive risk adjusted returns initially and consistently from time to time in the future would materially and adversely affect investment performance; and ACM leverages a portion of clients' portfolio investments in mortgage-backed securities (MBS) which may adversely affect its return on its investments and may reduce cash available for distribution.*

Risks Related to Structural and Market Conditions for Our Client's Investments

- *Market conditions may upset the historical relationship between interest rate changes and prepayment trends, which would make it more difficult for us to analyze a client's investment portfolio;*
- *The residential mortgage loans in which we invest and that underlie the MBS in which we invest on our client's behalf may be subject to delinquency, foreclosure and loss, which could result in significant losses;*
- *Neither ACM nor its clients will control the special servicing of mortgage loans included in the MBS in which ACM may invest and, in such cases, the special servicer may take actions that could adversely affect a client's interests;*
- *A client's investment portfolio may include subordinated tranches of MBS which are subordinate in right of payment to more senior securities;*
- *Investments in non-investment grade MBS may be illiquid, may have a higher risk of default and may not produce current returns;*
- *Our due diligence of potential investments may not reveal all of the potential liabilities associated with such investments and may not reveal other weaknesses in such investments, which could lead to investment losses;*
- *A client may be adversely affected by risks affecting borrowers or the asset or property types in which its investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions;*
- *ACM may invest on behalf of our clients in non-prime mortgage loans or investments*

collateralized by non-prime mortgage loans, which are subject to increased risks;

- Interest rate mismatches between a client's MBS and its borrowings used to fund its purchases of these securities may reduce the client's income during periods of changing interest rates;*
- Interest rate caps on adjustable rate MBS held in a client's investment portfolio may reduce its income or cause it to suffer a loss during periods of rising interest rates;*
- Mitigating against interest rate exposure may adversely affect an investment portfolio's earnings and our interest rate risk mitigation transactions on behalf of that account may fail to protect it from the losses that they were designed to offset;*
- We may not be able to execute desired interest risk mitigation transactions at favorable prices;*
- Our use of derivative instruments on a client's behalf may expose the client to counterparty and termination risks;*
- Our investments are generally recorded at fair value, and quoted prices or observable inputs may not be available to determine such value, resulting in the use of significant unobservable inputs to determine value;*
- Competition may prevent us from acquiring MBS at favorable yields;*
- We may not be able to help our clients acquire investments at favorable prices; and,*
- The adoption of derivatives legislation by Congress could have an adverse impact on our ability to hedge risks;*
- Interest rate mismatches between the acquisition of MBS and borrowings used to fund purchases of these securities may reduce a client's income during periods of changing interest rates;*
- Interest rate caps on adjustable rate MBS may reduce its income or cause it to suffer a loss during periods of rising interest rates; and*
- Mitigating against interest rate exposure may adversely affect our clients' earnings and our interest rate risk mitigation transactions on behalf of our clients may fail to protect our clients from the losses that they were designed to offset.*

Risks Related to Our Client's Corporate Structure

- We are guided by contractually mandated investment guidelines and discretionary authority and as such, clients will not approve each and every investment and financing decision we make on their behalf;*
- Maintenance of REIT clients' exclusion under the 1940 Act will impose limits on its business;*
- Although ACM does not generally do so, it may use proceeds from equity and debt offerings and other financings to fund distributions, which will decrease the amount of capital available for purchasing target assets;*

- *We may assist REIT clients in changing target assets, financing and investment strategies, and operational policies without the consent of the REIT's stockholders, which may adversely affect the market price of the REIT's common stock and its ability to make distributions to stockholders; and,*
- *We are highly dependent on information and communication systems. System failures, security breaches or cyber-attacks of networks or systems could significantly disrupt our business and negatively affect the provision of our investment advisory services.*

Risks Related to Federal Income Tax

- *Rapid changes in the values of a REIT client's target assets may make it more difficult for it to maintain its qualification as a REIT or its exclusion under the 1940 Act;*
- *A client's intended qualification as a REIT subjects it to a broad array of financial and operating parameters that may influence its business and investment decisions and limit its flexibility in reacting to market developments;*
- *REIT distribution requirements could adversely affect a REIT client's ability to execute its business plan;*
- *Complying with REIT requirements may cause a REIT client to forgo certain investment opportunities;*
- *Complying with REIT requirements may force us to liquidate certain investments for a client subject to such requirements;*
- *The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect a REIT client's ability to qualify as a REIT;*
- *A REIT client may be required to report taxable income for certain investments in excess of the economic income it ultimately realizes from them;*
- *To the extent we invest in construction loans on behalf of a REIT client, the client may fail to qualify as a REIT if the IRS successfully challenges our estimates of the fair market value of land improvements that will secure those loans;*
- *Even if a REIT client qualifies and remains qualified as a REIT, it may face other tax liabilities that reduce its cash flow and it may be required to report taxable income for certain investments in excess of the economic income ultimately realized from them;*
- *Liquidation of assets may jeopardize a REIT client's qualification or create additional tax liabilities; and,*
- *The tax on prohibited transactions limits our ability to engage in transactions on a REIT client's behalf, including certain methods of securitizing mortgage loans, which would be treated as prohibited transactions for federal income tax purposes.*

Item 9 - Disciplinary Information

Investment advisors registered with the SEC are required to disclose all material facts regarding any legal or disciplinary events that could be important to a client's evaluation of ACM or the integrity of ACM's management.

Nine putative class action lawsuits have been filed against ARMOUR in connection with the tender offer for and merger with JAVELIN Mortgage Investment Corp., a real-estate investment trust and wholly-owned subsidiary of ARMOUR, of which four plaintiffs also named ACM as an additional defendant. Those cases are:

1. Timothy Lenell v. ARMOUR Residential REIT, Inc., et al., (Case No. 2016 CA 000164), filed March 8, 2016 in the Circuit Court for the Nineteenth Judicial Circuit for Indian River County, Florida;
2. Robert Curley v. ARMOUR Residential REIT, Inc., et al. (Case No. 24-C-16-001659, filed March 14, 2016 in the Circuit Court for Baltimore City, Maryland;
3. Curtis Heid v. ARMOUR Residential REIT, Inc., et al. (Case No. 24-C-16-001706), filed March 16, 2016 in the Circuit Court for Baltimore City, Maryland; and
4. Neil Harmon v. ARMOUR Residential REIT, Inc., et al. (Case No. 24-C-16-001812), filed March 22, 2016 in the Circuit Court for Baltimore City, Maryland.

The lawsuits were brought by purported holders of JAVELIN's common stock, both individually and on behalf of a putative class of JAVELIN's stockholders, alleging primarily that the board members of JAVELIN and ARMOUR breached their fiduciary duties owed to the plaintiffs. The suits also allege that ARMOUR, JAVELIN, ACM and related parties aided and abetted the alleged breaches of fiduciary duties by the board members. On April 25, 2016, the Maryland court issued an order consolidating the eight Maryland cases into one action, captioned In re JAVELIN Mortgage Investment Corp. Shareholder Litigation (Case No. 24-C-16-001542), and designated counsel for one of the Maryland cases as interim lead co-counsel. On May 26, 2016, interim lead counsel filed the Consolidated Amended Class Action Complaint for Breach of Fiduciary Duty asserting consolidated claims of breach of fiduciary duty, aiding and abetting the breaches of fiduciary duty, and waste. On June 27, 2016, defendants filed a Motion to Dismiss the Consolidated Amended Class Action Complaint for failing to state a claim upon which relief can be granted. A hearing on the Motion to Dismiss was held on March 3, 2017 and the parties await the Court's ruling.

The Florida action was never served on the defendants including ACM. The docket reflects that the Florida litigation technically remains open, but there has been no activity other than the filing of the Complaint in March 2016 and the Court issuing an order to show cause on January 12, 2017.

Each of ARMOUR, JAVELIN, ACM and the individual board members intend to defend the claims made in these lawsuits vigorously.

Item 10 - Other Financial Industry Activities and Affiliations

ACM does not engage in other financial activities beyond that described in Item 4 hereof. ACM does maintain arrangements that are material to its advisory business with certain affiliates, and ARMOUR.

BUCKLER Securities LLC

BUCKLER Securities LLC (“BUCKLER”) is an affiliate of ACM that operates as a FINRA-registered broker-dealer and provides trading and investment banking services to other financial institutions. These services focus primarily on repurchase and reverse-repurchase transactions, as well as trading in mortgage-backed, government and corporate securities. BUCKLER also is approved to engage in underwriting public offerings and private placements. As an affiliate of ACM, BUCKLER is uniquely positioned to leverage ACM and its principals’ expertise and existing relationships with institutional clients, and by independently developing new prospective institutional client relationships. BUCKLER is a member of the Fixed Income Clearing Corporation (“FICC”) and The Depository Trust Company (“DTC”), subsidiaries of The Depository Trust & Clearing Corporation (“DTCC”). Additional information regarding the ownership structure of BUCKLER and ACM is available at <https://brokercheck.finra.org>, and by contacting ACM via telephone at (772) 617-4340 and/or by email at: info@armourcap.com.

Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We have adopted a code of ethics for avoiding prohibited acts and eliminating potential conflicts of interests. Policies against over-reaching, self-dealing, insider trading, and conflicts of interest are set forth in ACM's code of ethics. Among other matters, the code of ethics forbids any partner, officer, affiliate or employee of ACM from trading, either personally or on behalf of others on material non-public information or communicating material non-public information to others in violation of the law.

In addition, the code of ethics set forth restrictions on the receipt of gifts, outside employment and other matters. ACM believes that its code of ethics is appropriate to prevent or eliminate potential conflicts of interest between ACM and its employees, general partners and ARMOUR. However, no set of rules can anticipate or avoid all potential conflicts of interest.

We do not and will not purchase portfolio assets from, or sell them to, ARMOUR or their directors or officers, or any of our or their affiliates, or engage in any transaction in which they have a direct or indirect pecuniary interest (other than their respective IMA) under any circumstance.

We do not have a policy that expressly prohibits our officers, partners or any of our affiliates from engaging for their own account in business activities of the types conducted by us. However, our code of conduct contains a conflicts of interest policy that prohibits our officers and employees from engaging in any transaction that involves an actual conflict of interest with our clients.

We may in the future adopt additional conflicts of interest resolution policies and procedures designed to support the equitable allocation and to prevent the preferential allocation of investment opportunities among entities with overlapping investment objectives.

To receive a copy of ACM's code of ethics, contact ACM by telephone at (772) 617-4340 or submit a written request to: 3001 Ocean Drive, Suite 201, Vero Beach, Florida 32963.

Item 12 - Brokerage Practices

We consider a number of factors in selecting broker-dealers for client transactions, including:

- Demonstrated expertise in the type of transaction;
- Proposed fees and execution levels; and
- Market share, execution, sales, and trading capabilities.

We compare proposed fees to other comparable executed transactions as well as competing offers depending on the nature of the transaction. In addition to fees, estimated execution levels are considered carefully against comparable transactions.

AVM, L.P.

We have a relationship with AVM, L.P., a securities broker-dealer and unaffiliated third party, which ARMOUR contracts for clearing and settlement services for its securities and derivative transactions, as well as assistance with financing transaction services such as repurchase financing and management of margin arrangements between our clients and their lenders for each of its repurchase agreements, which is beneficial to our clients in addressing the potential scarcity of repurchase funding.

BUCKLER Securities LLC

ACM directs a portion of ARMOUR's trading business to BUCKLER, ACM's affiliated FINRA-registered broker-dealer that focuses primarily on facilitating trading in fixed income securities, including repurchase and reverse-repurchase transactions. BUCKLER matches the maturities of these repurchase transactions, and participates in trading in over-the-counter fixed income markets for its institutional clients, including ARMOUR, on both an agency and principal basis.

Item 13 - Review of Accounts

We review the performance of our client accounts on a daily basis, monitoring changes in price levels, financing, and hedging costs. On a monthly basis, we review the prepayment performance of all mortgage-backed securities, which data is updated monthly. The review is conducted daily by our Chief Investment Officer and our Chief Analyst. They are supervised by senior management of ACM.

ARMOUR periodically files with the SEC and posts on its website, www.armourreit.com, a report containing detail on portfolio composition, prepayment performance, hedging, and financing. On a quarterly basis, ARMOUR files a Form 10-Q, and annually it files a Form 10-K with the SEC.

Item 14 - Client Referrals and Other Compensation

ACM is not a party to any third-party solicitation agreements and does not receive compensation for referring clients to other service providers.

Item 15 - Custody

ACM does not take physical possession of client assets. All client assets are custodied at qualified custodians, and our clients receive statements concerning their portfolios from their custodians. We encourage clients to carefully review those statements.

Item 16 - Investment Discretion

As described above in Item 4 and Item 8, we have discretionary authority to determine the type and amount of securities to be bought and sold for our clients' accounts, subject to certain limitations.

We manage the business affairs of ARMOUR in conformity with certain restrictions, including contractual restrictions, investment guidelines and any other material operating policies adopted. Our role as the manager of and investment advisor to ARMOUR is subject to the direction and oversight of ARMOUR's board of directors. Under the IMA, ARMOUR, in its discretion, is able to limit our management, services, and other activities performed by us. Additionally, under the IMA, ARMOUR has the right to limit our duties, at ARMOUR's discretion, to "mortgage assets."

Under the IMA, ARMOUR's board of directors is able to direct us to perform similar management and services for any of ARMOUR's subsidiaries; provided, however, that we neither have the right nor the obligation to supervise any other manager, or to manage or otherwise participate in any way in any securitization transaction undertaken by ARMOUR.

We provide investment advisory services to ARMOUR with the following investment guidelines in mind:

- to not make investments that would cause ARMOUR to fail to qualify as a REIT for federal income tax purposes;
- to not make investments that would cause ARMOUR to be regulated as an investment company under the 1940 Act; and
- to invest in ARMOUR's target assets, which consist primarily of mortgage-related securities.

Item 17 - Voting Client Securities

ACM has not accepted and will not accept authority to vote proxies for securities that our clients beneficially own. Therefore, we are not required to adopt proxy voting guidelines and procedures in accordance with Rule 206(4)-6 of the Advisers Act.

Item 18 - Financial Information

ACM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. In addition, ACM has no financial commitment that impairs its ability to meet contractual commitments to its clients, and ACM has not been the subject of a bankruptcy proceeding.