

# KALAMATA ASSET MANAGEMENT



KALAMATA ASSET MANAGEMENT, LLC  
7315 Wisconsin Avenue, Suite 950  
Bethesda, MD 20814  
443.367.9095

## Brochure

April 1, 2019

*This Brochure provides information about the qualifications and business practices of Kalamata Asset Management, LLC. If you have any questions about the contents of this Brochure, please contact us at the address or telephone number shown above. 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. Kalamata Asset Management, LLC, is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.*

*Additional information about Kalamata Asset Management, LLC, also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

## **Item 2 – Material Changes**

This Section addresses only the material changes that have been made to this Brochure since it was last updated in July 2018. Since the last ADV filing, Kalamata Asset Management, LLC (“KAM”) has moved its principal office to Maryland. We have also updated the value of the assets under KAM’s management. We have updated Item 4 (description of our advisory business) and Item 8 (methods of analysis, investment strategies and risk of loss). We have revised language throughout to clarify the types, amounts, and timing (in advance vs. in arrears) of certain fees charged to the Funds. We have also revised language throughout the document; although we do not believe these individual edits are material, we nonetheless urge all clients and potential clients to read this updated Brochure in its entirety.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. To request a Brochure, please contact KAM's Chief Compliance Officer at [compliance@kalamataassetmanagement.com](mailto:compliance@kalamataassetmanagement.com).

Additional information about KAM is also available via the SEC's website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with KAM who are registered, or are required to be registered, as investment adviser representatives of KAM.

### Item 3 – Table of Contents

Item 2 – Material Changes.....	ii
Item 3 – Table of Contents.....	iii
Item 4 – Advisory Business.....	2
Item 5 – Fees and Compensation .....	2
Item 6 – Performance-Based Fees and Side-By-Side Management.....	4
Item 7 – Types of Clients .....	4
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Item 9 – Disciplinary Information .....	13
Item 10 – Other Financial Industry Activities and Affiliations.....	13
Item 11 – Code of Ethics .....	15
Item 12 – Brokerage Practices .....	17
Item 13 – Review of Accounts .....	17
Item 15 – Custody .....	17
Item 16 – Investment Discretion .....	18
Item 17 – Voting Client Securities .....	18
Item 18 – Financial Information .....	18

## Item 4 – Advisory Business

KAM is an investment advisory firm that is registered with the U.S. Securities and Exchange Commission. KAM is owned by Kalamata Intermediate Holdings, LLC, which is owned by a family trust that is controlled by Steven G. Mandis. KAM has been in business since 2016.

KAM provides portfolio management for private Funds. KAM's private Fund clients invest in short-term small business financings, lines of credit, asset-based financings (as defined below), future credit card and other receivables or other financings issued by, or originated through, one or more Origination and Servicing Platforms (defined below), among other alternative credit or fixed income type investments (collectively, the "Acquired Receivables").

### ASSETS UNDER MANAGEMENT

As of December 31, 2018, the value of the Funds under KAM's management was \$106,614,484.

As discussed in more detail below, KAM has discretionary authority over all Fund investments, but as a matter of practice, it obtains the approval of the Investment Committee (as defined herein) for all Fund investments.

## Item 5 – Fees and Compensation

### FEES FOR INVESTMENT ADVICE

KAM provides investment management services for a fee based on a percentage of the purchase price of a private Fund's Acquired Receivables. KAM charges up to 2% of the purchase price of the Acquired Receivables, depending on the type of Acquired Receivable.

The fees are negotiable at the sole discretion of KAM. The fee to be charged each Fund is stipulated in the Fund's offering memorandum or subscription booklet. Pursuant to the offering memorandum and subscription booklet, fees passed through to individual investors are permitted to differ; the fee charged to each investor is set forth in a specific written agreement with that investor. As a result, some investors could pay fees that are higher or lower than the fees charged to other investors.

Advisory fees are charged at the closing of each purchase of Acquired Receivables. The Fund remits payment to KAM after receipt of the closing documents evidencing the purchase. Typically, the Fund remits payment at the end of each month in which a purchase has closed.

### GENERAL INFORMATION ON ADVISORY SERVICES AND FEES

**Fee Differentials.** KAM may price its services based upon assets under management or other subjective factors, and fees are typically set or negotiated by each Fund and/or investor. As a result, any Fund advised by KAM could pay fees that are higher or lower than the fees charged to other Funds, based upon the market value of their assets, the complexity of the engagement, and the level and scope of the overall investment advisory services to be rendered.

Advisory fees are charged to client Funds on all purchases of Acquired Receivables made during an applicable investment period (generally twelve months). All advisory agreements may be terminated upon written notification by the general partner of the applicable Fund.

### **Other fees or expenses.**

Funds advised by KAM also pay servicing and/or management fees to the funder, or Origination and Servicing Platforms (as defined herein), which originate and/or service the financing. Funds also pay commissions, volume bonuses, syndication fees, origination fees, transaction fees, representative fees, and/or other charges in connection with the acquisition and holding of Acquired Receivables. A “volume bonus” is an amount paid to an independent sales organization (“ISO”) as an incentive to the ISOs to find pre-determined levels of investments for the Fund within a specified time period; it is in the nature of additional commission. A “representative fee” is an amount paid to a relationship manager who refers third party ISOs and assists in maintaining relationships with those third party ISOs; it is in the nature of additional commission. The representative to whom the representative fee is paid may be an independent third party or may be a person employed by an affiliate of KAM. All of these fees, commissions, volume bonuses, representative fees, and other third party costs are passed through to the Fund and are an expense of the Fund.

Any charges levied by the funders, or Origination and Servicing Platforms after the termination of KAM’s advisory agreement will remain the Fund’s responsibility and not the responsibility of KAM. KAM has no obligation to refund these fees to its clients.

### **Additional compensation.**

Employees of KAM do not receive additional compensation from the purchase of Acquired Receivables by the private Funds that KAM advises. However, KAM is an affiliate of Kalamata Capital LLC, Kalamata Capital Group LLC, KC Select, LLC, Payment Servicing Solutions LLC and Kalamata Advisors LLC, all or some of which may receive financial compensation as a result of the purchase of Acquired Receivables by any third party, including a client Fund. KAM’s affiliates do not charge any markup/markdown on any investments placed with any Fund advised by KAM. These affiliates generally charge commission, syndication and/or other fees in connection with the transaction, and those charges are passed through to the Fund(s).

Kalamata Capital LLC, Kalamata Capital Group LLC, and KC Select, LLC, each serve as servicing funders of Acquired Receivables. When it is the servicing funder of Acquired Receivables, the affiliate charges the Fund a servicing fee; in those instances, the affiliated servicing funder pays any syndication fee that may be due to any third party or affiliate. The servicing fee is generally up to 5.8% of the amount of principal collected or originated, but in certain circumstances, the Fund may negotiate a lower fee. Sometimes, the fee is paid at the closing of the purchase of the Acquired Receivable. If the Acquired Receivable does not generate the expected contract receivable, the affiliated servicing funder will refund the portion of the servicing fee that was prepaid and unearned (equal to the pro rata percentage of the Right To Receive (“RTR”) that is not collected), to each Fund/ series that participated in the transaction. Other times, the fee is paid out of the cash received on the Acquired Receivable; in this instance, there is no clawback right, as the fee is never assessed if the cash is not received.

If Kalamata Advisors, LLC, is the “broker of record” on the transaction, it will be paid commission at market rate, which generally amounts to 5% to 15% of the principal amount of the transaction. Although Kalamata Advisors, LLC, is an ISO, it will not be eligible for a volume bonus in addition to commission.

Payment Servicing Solutions, LLC, provides back-end servicing and accounting services for third party funding companies. When Payment Servicing Solutions, LLC, is providing these services to a third party that has successfully sent a financing to a Fund, Payment Servicing Solutions, LLC, is indirectly providing these services to the Fund. Payment Servicing Solutions, LLC, is compensated by the third party that is its client. Depending on the terms of its payment arrangement with its client, Payment Servicing Solutions, LLC, sometimes receives a portion of fees owed from the Fund to the third party. The total amount paid by the Fund is not increased as a result of the third party’s use of services provided by Payment Servicing Solutions, LLC.

This compensation structure among affiliates presents a conflict of interest, as it gives KAM an incentive to acquire investment products based on the compensation to be received by its affiliates rather than on the Fund’s needs. KAM manages this conflict by ensuring that KAM acts in the best interest of its clients, ensuring that the fees charged by affiliates are no greater than the equivalent fees charged by unaffiliated third parties, ensuring that each asset to be acquired is evaluated with reference to the client Fund(s)’ investment guidelines, and by disclosure to and review by the Investment Committee. Given the nature of the assets that the Firm manages and the associated counter party risks of transactions of this nature, client Funds generally purchase those specific assets only through sources affiliated with the Firm.

Further, Kalamata Capital LLC and/or Kalamata Capital Group LLC provides accounting, processing, cash management and other services to other, unaffiliated Origination and Servicing Platforms. Some or all of these services will relate to financings which will ultimately be purchased by KAM client Funds. The other Origination and Servicing Platforms pay Kalamata Capital LLC, and/or Kalamata Capital Group LLC, a share of the servicing fees that would otherwise have been paid to the other Origination and Servicing Platform. The total service fee paid by the Fund is not increased as a result of Kalamata Capital LLC, and/or Kalamata Capital Group LLC, undertaking to perform these services.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

KAM does not charge performance-based fees.

Fund Investors should note, however, that pursuant to the limited partnership agreements establishing each of the Funds, the General Partner is entitled to receive a performance fee. If a Fund achieves a preferred return of 8% on invested capital, the General Partner will receive 20% of the net profit of the Fund. To date, the General Partner has not received any performance fees.

## **Item 7 – Types of Clients**

KAM offers its advisory services only to private Funds.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

### **Investing in securities involves risk of loss that clients should be prepared to bear.**

KAM analyzes, recommends and manages investments in Acquired Receivables on behalf of its private Fund clients.

Small business financings:

Upon receipt of a deal submission, representatives of KAM or its affiliates review the details of a recently funded small business financing or a soon to be funded small business financing by a lead funder. Lead funders can be either affiliated entities (i.e. Kalamata Capital, LLC, or Kalamata Capital Group, LLC) or an unrelated third party. Once a submission is sent to KAM, KAM collects and analyzes key information, metrics and statistics on the small business financing submission, and computes certain other factors, depending on the relevance, which may include (a) cash flow and coverage ratios, (b) business attributes and trade information, (c) payment history, (d) financial information and ratios, (e) credit insurance (if applicable), and (f) online footprint.

The investment team ensures the potential financing meets the Fund(s)' investment guidelines or is otherwise appropriate for the Fund(s).

Lines of credit:

Upon receipt of a request by a syndication participant with whom KAM or its affiliates has a business relationship (a "Participant"), KAM examines the Participant's portfolio of Acquired Receivables, equity balance and other information it deems relevant to evaluate the creditworthiness of the Participant. KAM ensures that the proposed line of credit meets the Fund's applicable investment guidelines or is otherwise appropriate for the Fund(s). Because the Participants may use the proceeds of the line of credit to purchase interests in small business financings, there is a potential conflict because the Participants could use the money borrowed from the Funds to compete with the Funds to purchase the same Acquired Receivables that KAM may be eligible to purchase, and Acquired Receivables generally bear higher rates of interest than the lines of credit. Nonetheless, KAM believes that providing the lines of credit is in the best interest of the Funds because: (a) the Funds generally purchase all Acquired Receivables meeting the Fund's guidelines that are offered to them and so, to the extent the Participants use proceeds of a line of credit provided by the Funds to purchase Acquired Receivables, they are purchasing interests that were not offered to the Funds or did not meet (or in a quantity greater than that permitted by) the Fund's investment guidelines; (b) to the extent the Participants use the proceeds to purchase interests in Acquired Receivables that the Fund declined, for whatever reason, the Fund is essentially benefitting indirectly from income derived from those Acquired Receivables, but without bearing direct risk on those investments; and (c) investors should realize greater returns from providing the lines of credit than they would if the cash were undeployed.

All:

All potential investments are sent to the Chairman of the client Fund's independent investment committee -- an independent person, who is not an employee of KAM or any of its affiliates, but who works for the Fund (the "Investment Committee") -- for approval. If the potential

investment does not meet the Fund(s)' investment guidelines, the investment team provides the Investment Committee with a summary of the basis for the recommendation. The Investment Committee currently consists of a sole member. The composition of the Investment Committee is ultimately determined by the Fund's investors, as they may replace its member(s) at their collective discretion.

### **Risks Inherent in Investing in the Acquired Receivables**

Investments In Acquired Receivables. The Acquired Receivables are generally short-term financings, which may pose greater risks than longer term financings. In addition, as the Funds' portfolios are not generally diversified among types of financings, investments in Acquired Receivables may be subject to more risk than would be the case if investments maintained a wider diversification among types of investments, financings, promissory notes or other financing obligations with greater variation in maturities.

Limited Number Of Acquired Receivables To Purchase. At times there may be a limited number of Acquired Receivables available for purchase, which could impair KAM's ability to deploy the Funds' capital in Acquired Receivables. To the extent KAM is unable to invest the Funds' capital in Acquired Receivables, the capital will be held in bank deposits or money market accounts that generate far lower rates of return than Acquired Receivables, which will reduce the investment return. In addition, the greater demand for merchants may enable qualified merchants to shop around and reduce overall interest rates paid on high-quality Acquired Receivables, which could hurt investment returns.

Financing Or Receivable Participations. Investments in Acquired Receivables may include investments in financing participations. Investment in financing participations involves certain risks in addition to those associated with the purchase of entire financings. A financing participant has no contractual relationship with the merchant of the underlying financing. As a result, the participant is generally dependent upon the financing provider to enforce its rights and obligations under the financing agreement in the event of a default and may not have the right to object to amendments or modifications of the terms of such financing agreement. A participant in a syndicated financing generally does not have voting rights, which are retained by the financing provider. In addition, a financing participant is subject to the credit risk of the financing provider as well as the credit risk of the merchant, since a financing participant is dependent upon the financing provider to pay its percentage of payments of principal and interest received on the underlying financing. Further, there is the risk that a participation interest could be recharacterized as an unsecured loan to a financing provider in the financing provider's bankruptcy, and the assets of the financing provider may not be sufficient to satisfy the terms of such loan participation interest. Accordingly, we may face greater risks from participation interests than if we had accepted an assignment of the underlying financing or entered into a transaction directly with the borrower or merchant. In addition, KAM must rely on the financing provider in syndicated financings for information, which could turn out to be inaccurate or misleading.

Dependence On Certain Origination And Servicing Platforms. KAM is dependent on certain third parties and affiliates (including Kalamata Capital LLC, and/or Kalamata Capital Group LLC, and their affiliates) (collectively "Origination and Servicing Platforms") to source Acquired Receivables, conduct appropriate due diligence and service the Acquired Receivables. KAM may be unable to



fulfill its investment strategy if the Origination and Servicing Platforms with which KAM has relationships were to dissolve, liquidate, become bankrupt or otherwise cease operations or change their businesses and cease originating new Acquired Receivables. Furthermore, the Origination and Servicing Platforms do not have a legal obligation to offer or sell Acquired Receivables to KAM. As a result, KAM's ability to source investments in quality Acquired Receivables is not guaranteed.

Investment In Aggregated Pool Of Acquired Receivables; Exposure To Wide Variance In Risk Environments. KAM selects investments based on prevailing market conditions at the time. Market conditions may change, which means that a Fund may hold investments that are more or less risky, or present a higher or lower potential return, than could be acquired in the then-current market.

Prepayment Risk. Merchants may decide to prepay all or a portion of the remaining principal amount at any time. Depending on the terms of the specific financing arrangement, the remaining interest or fees may be discounted or eliminated. In addition, KAM may not be able to find a similar rate of return on another investment at the time at which a financing is prepaid in part or in full.

Interest Rate Risk. In instances when a financing is a loan, it bears a fixed, not floating, rate of interest. If prevailing interest rates increase, the interest rates on these financings might be less than the rate of return that could be attained by investment in similar instruments. The interest rate risk is partially mitigated by the short-term nature of the Acquired Receivables.

Illiquidity Of Acquired Receivables. The Acquired Receivables will not be listed on any securities exchange or traded on the over-the-counter market. There will not likely be an available secondary market for the Acquired Receivables. Therefore, client Funds must hold the Acquired Receivables to maturity.

### **Risks Related to Merchant Default.**

Speculative Nature of Acquired Receivables. The Acquired Receivables offered through Origination and Servicing Platforms are risky and speculative investments. KAM may recommend investment in high risk/high return Acquired Receivables to attempt to improve investment performance. The Acquired Receivables are obligations of small business owners (and may not be personally guaranteed). There is no assurance that the collateral and any guarantees that secure the Acquired Receivables (if any) will be sufficient to obtain full payment of any financing in the event the merchant fails to meet its obligations. Accordingly, client Funds may lose the entire amount of their investment in the Acquired Receivables they purchase.

Dependence on Payments by Merchants. Origination and Servicing Platforms only act as a servicer of the Acquired Receivables, and do not have any obligation to pay the Acquired Receivables. Origination and Servicing Platforms will only forward payments on an Acquired Receivable after they actually receive a merchant's payment on the corresponding financing note, net of its servicing fees and net of any collection fees and costs it incurs. If merchants fail to pay, or their payments are not credited due to insufficient funds, the Origination and Servicing Platform will not remit payment to the client Fund.

Risk Of False Or Incomplete Information Supplied By Merchants. Merchants supply a variety of information regarding the purpose of the financing, income, occupation, and employment status, in

the form of a standard application. Origination and Servicing Platforms report that they utilize various automated and manual methods to attempt to verify some of the information included in the application, but there is a risk that this information may be inaccurate or false. An Origination and Servicing Platform's merchants may misrepresent their intentions for the use of financing proceeds. Origination and Servicing Platforms cannot necessarily verify, and do not guarantee, any statements by the merchants as to how proceeds are to be used. An Origination and Servicing Platform's merchants may supply inaccurate or intentionally false documents and statements in association with the application they submit to the Origination and Servicing Platform, and the nature of the merchant's misrepresentations may be difficult or impossible for the Origination and Servicing Platform or KAM to detect prior to a default by the merchant. KAM does not generally take any steps to verify any of the financing information provided by a merchant, and relies on the steps, if any, taken by the Origination and Servicing Platform. The Origination and Servicing Platforms may be unable to determine if a financing to a particular merchant causes a breach or default under any agreements or restrictions to which the merchant may be subject. To the extent KAM relies on false, misleading or unverified information supplied by merchants in deciding to purchase Acquired Receivables, the client Fund may lose all or part of the purchase price it pays for a financing.

Inaccurate Credit Information. An Origination and Servicing Platform generally will obtain business and personal credit information about the merchant and any personal guarantors from reporting agencies, and will assign merchant listings a rating based in part on the merchant's and any guarantor's credit score. A credit score that forms a part of the Origination and Servicing Platform's rating assigned to a merchant listing may not reflect that merchant's or any guarantor's actual creditworthiness because the credit score may be based on outdated, incomplete or inaccurate consumer reporting data. Therefore, there is a risk that a merchant or any guarantor may have become delinquent in a payment, defaulted on a financing obligation, taken on more personal or business financing, or sustained other adverse financial events after the date the Origination and Servicing Platform's rating assigned to the merchant, so that it may not accurately reflect the merchant's, or a guarantor's, actual, current creditworthiness when Acquired Receivables are purchased.

Credit Scores Do Not Predict Future Write-Offs. All Acquired Receivables purchased are subject to risk of non-payment. Credit scores of business owners will generally (but not always) be obtained. Credit scores are heavily dependent on the historical default or delinquency rate of the person rated. However, there can be no assurance that historical default or delinquency rates of a particular business will be indicative of future loss rates.

Limits of an Origination and Servicing Platform's Ratings; Underwriting Process. Origination and Servicing Platforms may use proprietary methodologies to assign a rating to a potential merchant, but there is no assurance the rating will actually reflect the ability of the merchant to pay off the financing. These methodologies are inherently subjective and may vary significantly between Origination and Servicing Platforms. An Origination and Servicing Platform's rating is not a recommendation by the Origination and Servicing Platform to buy, sell or hold the Acquired Receivables. An Origination and Servicing Platform's underwriting processes are likely to be highly automated. During the underwriting process, it is possible that an Origination and Servicing Platform may be required to make an investment decision based on incomplete information, due to merchant needs or competitive market pressures. In addition, Origination and Servicing Platforms may vary from their standard automated underwriting processes in certain circumstances. The Funds' investment criteria do not change to accommodate changes in underwriting processes.

Collection Efforts. If a merchant fails to make a required payment on a financing, the Origination and Servicing Platform as servicer of the financing is only required to pursue “reasonable collection efforts” in respect of the financing. An Origination and Servicing Platform may handle collection efforts in respect of a delinquent financing directly, or an Origination and Servicing Platform may refer the financing to a collection agency or a law firm. If a delinquent financing is referred to a collection agency or law firm, that collection agency or law firm will retain a percentage of any funds recovered before any amount is payable to the investor; these fees generally range from 15% to 50% of recovered amounts. Although efforts will be made during the collections process to recover any collection costs including legal fees, in many cases state law will not allow the recovery amounts to be increased beyond a specific fixed or percentage premium over the principal, fees and interest due. Therefore, the client Fund will most likely suffer a loss on any financing that is referred to an outside collection agency or law firm, even if the principal, fees and interest owing on the financing is collected in full, after taking into account unrecovered costs of collection on the financing. It may not be possible for the Origination and Servicing Platform or collection agency to recover any or all of the unpaid balance of a non-performing financing.

No Restriction On Incurrence Of Additional Financing. If a merchant incurs additional financing after the date of a financing, the additional financing may impair the merchant’s ability to make payments on his or her financing. That, in turn, will affect the client Fund’s ability to receive the principal and interest payments as provided by the amortization schedule. In addition, the additional financing may adversely affect the merchant’s creditworthiness generally, and could result in the financial distress, insolvency or bankruptcy of the merchant. To the extent that the merchant has or incurs other indebtedness and cannot pay all of his or her indebtedness, the merchant may choose to make payments to other funders rather than the Origination and Servicing Platform. To the extent merchants incur other indebtedness that is secured, such as a mortgage, home equity or auto loans, the ability of the secured creditors to exercise remedies against the assets of the merchant may impair merchants’ ability to repay the indebtedness evidenced by the Acquired Receivables. Merchants may also choose to repay obligations under other secured indebtedness before repaying Acquired Receivables originated through an Origination and Servicing Platform. Investors will not be made aware of any additional financing incurred by a merchant which may impair its ability to pay. Certain Origination and Servicing Platforms may include covenants prohibiting “stacking” of additional financing by merchants, but not all Acquired Receivables will include such covenants. KAM may recommend the purchase of Acquired Receivables where the merchant has stacked financing obligations, either inadvertently (for example, because KAM was unaware of the stacking, was not informed about the stacking, or was unable to easily ascertain whether the Acquired Receivables included stacking of financing obligations), or on the basis of KAM’s understanding or information that the stacking is not prohibited and is unlikely to impair the merchant’s ability to pay. Nonetheless, investors should be aware that any stacking could put the merchant into default or litigation may occur as a result of the stacking.

Lack Of Cross-Default Provisions. The Acquired Receivables typically do not contain cross-default provisions. If a merchant defaults on financing obligations owed to a third party and continues to satisfy the payment obligations under a financing, the third party may seize the merchant’s assets or pursue other legal action against the merchant, which could render the merchant unable to satisfy the balance of a financing. Payments on Acquired Receivables may be substantially reduced or eliminated if a merchant subsequently defaults on a separate obligation, and an Origination and

Servicing Platform may be unable to recoup any or all of the expected principal and interest payments on these Acquired Receivables.

Debtor Relief Under Bankruptcy Laws. Merchants on Acquired Receivables may seek protection under federal bankruptcy law or similar laws. If a merchant files for bankruptcy (or becomes the subject of an involuntary petition), a stay will go into effect that will automatically put any pending collection actions on hold and prevent further collection action absent bankruptcy court approval. Judicial proceedings related to recovery of amounts due to the investors can take long periods of time. Whether any payment will ultimately be made or received from a merchant after a bankruptcy is declared, depends on the merchant's particular financial situation. It is possible that the merchant's liability will be discharged in bankruptcy. In most cases, unsecured or undersecured creditors, including an Origination and Servicing Platform as the owner of the Acquired Receivables, will receive nothing, or only a fraction of any amount outstanding on their financings.

Absence Of Collateral. Acquired Receivables may not be secured by collateral and may be based on cash flow of the merchant. Acquired Receivables may not be personally guaranteed and may be subordinated to other financings or recorded liens. Some Origination and Servicing Platforms require that merchants grant a general security interest in all of their business assets (other than real estate) to secure the Acquired Receivables. Some Origination and Servicing Platforms take steps to perfect the security interests by filing a UCC-1 financing statement, while other Origination and Servicing Platforms do not take any steps to perfect their security interests or only do so where the financed amount exceeds a certain amount. In those cases where an Origination and Servicing Platform does not take steps to perfect its security interests, the Acquired Receivables issued by the Origination and Servicing Platform are subject to intervening liens and transfers of the collateral. Origination and Servicing Platforms typically do not take any steps to verify that any collateral exists or that no prior liens exist against the collateral beyond the representations that a merchant makes in its application. As a result, there is a possibility that collateral for a financing is found not to exist or that it has been pledged to third parties, and therefore it may not be seized and sold to pay the financing.

Asset Based Financings. Some Acquired Receivables may be in the form of small business financings that are "asset-based" and not necessarily supported by the cash flow of the business. The assets securing these Acquired Receivables may be small business receivables, inventory and equipment leases, or luxury assets such as fine art as part of a small business financing. In these situations, there may be a lien against the merchant's assets and/or the financing provider may take physical possession of such assets as collateral. Sale of this collateral in the event of a merchant's failure to meet payment obligations will result in additional lead times and costs related to collection.

Certain Credit Card And Other Future Obligation Receivable Arrangements. In certain cases, Acquired Receivables are secured by future credit card and other future obligation receivables, including by arrangements that require the merchant to repay the financing as a percentage of future credit card and other future obligation receivables. Payments under these arrangements may be delayed due to fluctuations in the merchant's business. In addition, merchants may attempt to prevent collection of financing payments by switching credit card processors, performing transactions in cash, or opening duplicate credit card accounts. These actions will delay payments and may require enforcement action. These transactions are typically not personally guaranteed by

the business owners nor are any security arrangements typically the subject of UCC-1 or other financing statement filings.

### **Risks Relating to Compliance and Regulation.**

Extensive Regulations. An Origination and Servicing Platform must comply with regulatory regimes applicable to credit transactions. Certain state laws generally regulate interest rates and other charges and require certain disclosures and also require licensing for certain activities. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of Acquired Receivables on an Origination and Servicing Platform. During its collection process, an Origination and Servicing Platform may also be subject to other laws, such as:

- the Federal Fair Credit Reporting Act, which regulates the use and reporting of information related to each merchant member's credit history;
- the Federal Fair Debt Collection Practices Act, which regulate debt collection practices by "debt collectors" and prohibit debt collectors from engaging in certain practices in collecting, and attempting to collect, outstanding consumer loans; or
- state counterparts to the above consumer protection laws.

An Origination and Servicing Platform may not always have been, and may not always be, in compliance with these laws. An Origination and Servicing Platform's merchants may make counterclaims regarding the enforceability of their obligations under merchant or consumer protection laws after collection actions have commenced, or otherwise seek damages under these laws. An Origination and Servicing Platform's failure to comply with such laws could also result in civil or criminal liability. Compliance with these requirements is also costly, time-consuming and limits an Origination and Servicing Platform's operational flexibility.

Actions By State Regulators. A state regulator could pursue legal and regulatory action against an Origination and Servicing Platform or financing provider. In addition, state regulators could pursue claims against an Origination and Servicing Platform or financing providers for violations of state usury laws based on the terms of the underlying financings to merchants, which, in some cases, can result in treble damages and criminal liability. If a state regulator were to pursue action against a private Fund as an unlicensed financing provider, the private Fund could incur significant monetary liability, be subject to extensive claims and litigation and investors could lose their entire investment in the private Fund.

Non-Compliance With Laws And Regulations. Generally, failure to comply with the laws and regulatory requirements applicable to an Origination and Servicing Platform's business may, among other things, limit an Origination and Servicing Platform's, or a collection agency's, ability to collect all or part of the principal amount of or interest on the Acquired Receivables on which the Acquired Receivables are dependent for payment. In addition, an Origination and Servicing Platform's non-compliance could subject an Origination and Servicing Platform to damages, revocation of required licenses, class action lawsuits, administrative enforcement actions, and civil and criminal liability, which may harm an Origination and Servicing Platform's business and ability to be maintained and may result in merchants rescinding their Acquired Receivables. Where applicable, an Origination and Servicing Platform will generally seek to comply with state lending, servicing and similar statutes.

Nevertheless, if an Origination and Servicing Platform is found to not comply with applicable laws, an Origination and Servicing Platform could lose one or more of its licenses or face other sanctions, which may have an adverse effect on its ability to continue to facilitate the origination of Acquired Receivables, perform its servicing obligations or make itself available to merchants in particular states, which may impair the investor's ability to receive the payments of principal and interest on KAM's Acquired Receivables that the investor expects to receive.

**Business Risks.** The Funds' investment success depends on the ability of KAM, its personnel, its affiliates, and its vendors and service providers, to implement and perform necessary tasks. The Fund's business depends on employees of KAM and Origination and Servicing Platforms (including Kalamata Capital Group, LLC, and its affiliates) to process a large number of increasingly complex transactions, including payment processing transactions that involve significant amounts and transactions that involve the processing, use, disclosure and evaluation of personal and business information and data, among other things. The Fund(s) are subject to the risk of errors and fraudulent activity associated with KAM, the Funds' administrator (the "Administrator") or Origination and Servicing Platforms (including Kalamata Capital Group, LLC, and its affiliates) or their respective employees, officers, affiliates, contractors, and third-party service providers. It is not always possible to identify and deter misconduct or errors and the precautions the Funds take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses. Moreover, arrangements for back-up servicing are limited; if KAM needs to engage third parties to perform services, there is risk that the back-up provider may not be as effective, or may charge higher fees, than the original provider. If an Origination and Servicing Platform were to become subject to a bankruptcy or similar proceeding or be unable to obtain necessary services from depository institutions or credit card processors, the Funds' recovery on Acquired Receivables may be delayed and may be reduced in amount. Business could be delayed or rendered more expensive if service providers are unable to retain key personnel. Similarly, KAM relies on computer programs and systems to evaluate certain investments, to monitor the portfolio and to generate reports that are critical to the oversight of KAM's investment activities; these programs or systems may be subject to defects, failures, breaches, or interruptions, which could have a material adverse effect on the Funds.

**Conflicts of Interest.** Certain conflicts of interest arise from the fact that KAM and its affiliates are or may be involved in other investment related businesses and carry on other investment or business activities in which the Fund has no interest. In addition, the Fund(s) may engage in transactions with, loan money to, and pay fees or expenses to affiliates of the General Partner, members of the Investment Committee and the Investment Manager, including Kalamata Capital Group, LLC (which is indirectly, majority owned and controlled by Steven G. Mandis) and Kalamata Advisors LLC (which is 100% owned by Kalamata Holdings LLC). The Fund(s) may also purchase Acquired Receivables and pay fees in connection thereto to Kalamata Capital Group, LLC, Kalamata Advisors LLC, and their respective affiliates. All such transactions will be on arm's length commercially reasonable terms.

**Investment Risk.** Different types of investments involve varying degrees of risk. All investments involve the risk of a loss of capital. No one should assume that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by KAM) will be profitable or equal any specific performance level(s). There is no guarantee that investment in Acquired Receivables will be successful, and investment results may vary substantially over time. The foregoing description of risks is intended as an overview, and does not purport to be a complete enumeration or explanation of the risks involved in an investment in a private Fund. Investors should review the Subscription Booklet, especially the

section entitled, Risk Factors, for more details. Further, Clients and investors should take careful note that:

- Securities are not FDIC insured.
- Securities are not a Deposit.
- Securities may lose value.
- Securities are not bank guaranteed.
- Securities, unless issued by a governmental entity, are not insured by any governmental entity.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of KAM or the integrity of KAM's management. KAM has no information applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

KAM is owned 100% by Kalamata Intermediate Holdings, LLC. Kalamata Intermediate Holdings, LLC is owned by a family trust that is controlled by Steven G. Mandis. Mr. Mandis is also the ultimate owner, through his family trust, of the General Partner of the Funds. In addition, his family trust is an investor in the Kalamata Short Duration, High Yield Fixed Income Fund (Domestic) LP, which is advised by KAM.

Kalamata Intermediate Holdings, LLC is the majority owner of Kalamata Holdings, LLC. Kalamata Holdings, LLC, owns 100% of Payment Servicing Solutions, LLC, Kalamata Capital Group, LLC, Kalamata Select, LLC, Kalamata Advisors, LLC, and Kalamata Capital, LLC. Accordingly, each of these entities is deemed to be an affiliate of KAM, as they are under common ultimate control.

KAM does not permit its representatives to receive commissions or any other form of transaction-based compensation for transactions executed in accounts under its advisory portfolio management.

Payment Servicing Solutions, LLC provides back-end servicing and accounting services for third party funding companies. When Payment Servicing Solutions, LLC is providing these services to a third party that has successfully sent a financing to a Fund, Payment Servicing Solutions, LLC is indirectly providing these services to the Fund. Payment Servicing Solutions, LLC is compensated by the third party that is its client. Depending on the terms of its payment arrangement with its client, Payment Servicing Solutions, LLC sometimes receives a portion of fees owed from the Fund to the third party. The total amount paid by the Fund is not increased as a result of the third party's use of services provided by Payment Servicing Solutions, LLC.

Kalamata Advisors, LLC receives commissions for originating small business financings. These commissions may come from Kalamata Capital, LLC and/or Kalamata Capital Group, LLC, in its capacity as a provider of small business financings, or from another third party. The small business financing broker business is highly-competitive and rates are similar across most providers. Further, as noted above, a "volume bonus" is an amount paid to an independent sales organization ("ISO") as an incentive to the ISOs to find pre-determined levels of investments for the Fund within a

specified time period; it is in the nature of additional commission. To the extent the Funds purchase financings originated by Kalamata Advisors, LLC, the commissions and volume bonuses are passed through to the Fund and are an expense of the Fund.

If Kalamata Advisors, LLC is the “broker of record” on the transaction, it will be paid commission at a market rate, which is generally 5% to 15% of the principal amount of the transaction. Although Kalamata Advisors, LLC is an ISO, it will not be eligible for a volume bonus in addition to commission.

KAM’s affiliates, Kalamata Capital LLC and Kalamata Capital Group, LLC, provide key services for KAM, including accounting, cash management, processing, book-keeping, preparation of documents and information, and other back-office, administrative support, and Kalamata Capital, LLC and Kalamata Capital Group, LLC, are compensated for these services. This is an overhead expense of KAM and is not passed through to the Funds. In addition, like all origination sources, Kalamata Capital, LLC and Kalamata Capital Group, LLC, each provides underwriting on deals that it originates.

Each of Kalamata Capital Group, LLC and KC Select, LLC, provides small business funding investment opportunities to the Funds. Kalamata Capital, LLC, provides accounting and back-office processing services for each of these affiliated entities.

As discussed in Item 5 above, Kalamata Capital, LLC, Kalamata Capital Group, LLC, or KC Select, LLC, charges the Funds a servicing fee when it is the servicing funder of an Acquired Receivable; in those instances, the affiliated servicing funder pays any syndication fee that may be due to any third party or affiliates. The servicing fee is generally 5.8% of the amount of principal collected, but in certain circumstances, the Fund may negotiate a lower fee. Sometimes, the fee is paid at the closing of the purchase of the Acquired Receivable. If the Acquired Receivable does not generate the expected contract receivable, the affiliated servicing funder will refund the portion of the servicing fee that was prepaid and unearned (equal to the pro rata percentage of the Right To Receive (“RTR”) that is not collected), to each Fund/ series that participated in the transaction. Other times, the fee is paid out of the cash received on the Acquired Receivable; in this instance, there is no clawback right, as the fee is never assessed if the cash is not received.

Further, to the extent the Funds do not purchase 100% of a given Acquired Receivable, Kalamata Capital, LLC or Kalamata Capital Group, LLC usually purchases some or all of the remainder, which means that Kalamata Capital, LLC or Kalamata Capital Group is often a co-investor together with the Funds on those investments. Further, Kalamata Capital Group, LLC sells to third parties. This means that, in many cases, there are third parties who are investors in Acquired Receivables alongside the Fund(s).

KAM’s Chief Compliance Officer is also the General Counsel of Kalamata Holdings, LLC.

KAM recognizes that these affiliations and dual roles can create actual or potential conflicts of interest or can give rise to the appearance of conflict even where there is none. Some types of conflicts are addressed by specific rules or regulations; they are identified and covered in KAM’s Code of Ethics or Compliance Manual. KAM is engaged in a process of identifying all other relationships and situations that may create conflicts and developing policies and procedures to resolve them. It maintains a written set of Conflicts and Resolution Procedures, which it will update



as it continues to work through the identification and resolution of conflicts and potential conflicts. KAM's clients and prospective clients, as well as investors or prospective investors in any KAM-advised Fund, may request a copy of KAM's current Conflicts and Resolution Procedures by contacting Paul Breme, Chief Compliance Officer, at: [compliance@kalamataassetmanagement.com](mailto:compliance@kalamataassetmanagement.com).

## **Item 11 – Code of Ethics**

KAM has adopted a Code of Ethics pursuant to the SEC's rules. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumormongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other topics. All supervised persons at KAM must acknowledge the terms of the Code of Ethics annually, or as amended.

KAM or its related persons may recommend to clients, or buy or sell for client accounts, securities in which KAM's related persons have a material financial interest. Under certain circumstances, this may present a conflict of interest. KAM's Code of Ethics addresses this conflict; employees and associated persons are required to follow KAM's policy and applicable laws. Officers, directors and employees of KAM and its affiliates are permitted to purchase interests in Acquired Receivables for their own accounts, subject to compliance with KAM's Code of Ethics and policies and procedures. Any purchases of securities that are related to the business of KAM or its affiliates must be disclosed to management and be made in compliance with the Code of Ethics.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of KAM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of KAM's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from activity by a client in a security held by an employee. KAM regularly monitors employee trading to ensure that clients' interests are protected in the event of any conflict of interest between KAM, its representative and a Fund that it advises.

As noted above, to the extent the Funds do not purchase 100% of a given financing, Kalamata Capital Group, LLC or Kalamata Capital, LLC, sometimes purchases some or all of the remainder, which means that in those instances, Kalamata Capital Group, LLC or Kalamata Capital, LLC, is a co-investor together with the Funds on those investments. In these circumstances, Kalamata Capital Group, LLC or Kalamata Capital LLC, and KAM's client Funds will share commission costs (if any) on a *pro rata* basis and receive investments at a total average price.

KAM retains records of each transaction order (specifying each participating Fund) and its allocation. KAM allocates investment opportunities on a *pro rata* basis to the greatest extent possible after taking into account each client Fund's available cash, position limits and other pertinent factors as set forth in its written investment policy. KAM includes information about the allocation for each deal in the package sent to the Investment Committee as part of its decision process, so that the Investment Committee can ensure that each Fund is receiving appropriate allocations.

KAM's clients and prospective clients, as well as investors or prospective investors in any KAM-advised Fund, may request a copy of KAM's Code of Ethics by contacting Paul Breme, Chief Compliance Officer at [compliance@kalamataassetmanagement.com](mailto:compliance@kalamataassetmanagement.com).

It is KAM's policy that KAM will not execute any agency cross securities transactions for client accounts. KAM will also not cross trades between client accounts; in the context of KAM's business, this means that KAM does not transfer or move investments between Funds or series. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

From time to time, one of KAM's affiliates, Kalamata Capital, LLC or Kalamata Capital Group, LLC, accommodates KAM's Fund clients by purchasing investments that meet the Funds' investment criteria pending approval by the Investment Committee, and then if the Investment Committee approves the transaction, the investment is transferred at cost (with no markup, markdown, service fee or other charge) to the applicable Fund. These transactions are deemed to be "principal" transactions because the adviser's affiliate, acting as principal for its own account, buys from or sells to the client Fund. KAM specifically discloses any such transaction to the Investment Committee and receives its approval prior to the completion of the transaction/transfer between Kalamata Capital, LLC or Kalamata Capital Group, LLC, and the client Fund. Principal transactions inherently present potential conflicts of interest. KAM addresses these conflicts by, among other things, ensuring that any transfer between Kalamata Capital, LLC, or Kalamata Capital Group, LLC, and a Fund is at cost, that the security to be transferred meets the Fund's investment criteria, by disclosure to the Investment Committee, and by ensuring that KAM has obtained the approval of the Investment Committee before transferring the investment.

As discussed in Item 5, Kalamata Capital, LLC or Kalamata Capital Group, LLC charges a management service fee on financings that it originates, underwrites and services; in those instances, Kalamata Capital, LLC or Kalamata Capital Group, LLC pays any syndication fee that may be due to any third party or affiliate.

If Kalamata Advisors, LLC is the "broker of record" on the transaction, it will be paid commission at the market rate, generally 5% to 15% of the principal amount of the transaction. Further, as noted above, a "volume bonus" is an amount paid to an independent sales organization ("ISO") as an incentive to the ISOs to find pre-determined levels of investments for the Fund within a specified time period; it is in the nature of additional commission. Although Kalamata Advisors, LLC, is an ISO, it will not be eligible for a volume bonus in addition to commission.

All service fees, commissions of any kind, and volume bonuses are passed through to the Fund and are an expense of the Fund.

Kalamata Capital, LLC and Kalamata Capital Group, LLC have relationships with other, unaffiliated Origination and Servicing Platforms, whereby Kalamata Capital, LLC and/or Kalamata Capital Group, LLC provide back-office and cash management services on financings, some or all of which will ultimately be purchased by KAM client Funds. The other Origination and Servicing Platforms

pay Kalamata Capital, LLC, or Kalamata Capital Group, LLC, a share of the servicing fees that would otherwise have been paid to the other Origination and Servicing Platform.

## **Item 12 – Brokerage Practices**

KAM does not select or recommend broker-dealers for client transactions or determine the reasonableness of the compensation of any broker-dealer for its participation, if any, in client transactions.

In light of the nature of the investments it selects for its client Funds, KAM does not “aggregate” the purchase or sale of securities for different client accounts. This does not affect the price or other quality of the execution of these transactions. Information relating to KAM’s allocation policy is set forth in Item 11, above.

## **Item 13 – Review of Accounts**

Reviews are based on objectives or parameters established by the Funds, which are generally memorialized through their individual advisory agreements and/or investment policy statements.

KAM provides its client Funds with monthly summaries of transactions and holdings. The Administrator sends investors an official statement of the investor’s holdings in the Fund(s), no less than quarterly. Clients are urged to compare the summaries provided by KAM with the transaction confirmations and other documents provided by the Administrator.

KAM also provides each client Fund with an audited annual financial statement, a copy of which is distributed to all limited partners (or members or other beneficial owners) within 120 days of the end of its fiscal year.

## **Item 14 – Client Referrals and Other Compensation**

No person who is not a client provides KAM with an economic benefit for providing investment advice or other advisory services to its clients. KAM does not compensate for client referrals.

KAM has an arrangement with a third-party registered investment adviser to assist in raising capital for the Funds. The third party is paid a placement fee of up to 15% of KAM’s advisory fee charged on capital calls or rolled (reinvested) capital from the Fund’s largest investor. The placement fee is subtracted from KAM’s advisory fees; it is not charged through to the Funds. The retainer is credited against any future placement fee.

## **Item 15 – Custody**

The assets in which Firm clients invest are acquired from a funder/issuer in a transaction or chain of transactions not involving a public offering; the investments are uncertificated and ownership is recorded only on the books and records of the issuer (or lending or servicing agent) in the name of the client Fund; and to the extent the investments are securities, they are transferable only with the prior consent of the issuer or holders of the outstanding securities of the issuer.

Clients' cash is held at a bank selected by the client Fund, in accounts in the sole name of the Fund. Banks send statements directly to each client Administrator at least quarterly. The Administrator is responsible for reviewing those statements on behalf of the Fund.

All of the Funds which KAM advises are administered by a third-party administrator (the "Administrator"), which sends statements to each investor at least quarterly.

KAM is deemed to have custody of client assets because its associated person (and indirect owner), Steven Mandis, has authority, in his capacity as the General Partner of the Funds, to obtain possession of client funds and assets in connection with advisory services that KAM provides to clients.

As required by Rule 206(4)-2, the account of each pooled investment vehicle that is advised by KAM is subject to audit at least annually, and distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all limited partners (or members or other beneficial owners) within 120 days after the end of its fiscal year, by a PCAOB-regulated, independent public accountant.

KAM does not receive research or "soft dollar" benefits from any custodian.

#### **Item 16 – Investment Discretion**

KAM receives discretionary authority from the Fund at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. The discretionary authority is set forth in the advisory agreement or in another writing, such as a power of attorney. In all cases, discretion is to be exercised in a manner consistent with the stated investment objectives for the particular Fund, and Funds may impose reasonable restrictions on KAM's authority.

When selecting securities and determining amounts, KAM observes the investment policies, limitations and restrictions of the clients it advises. Notwithstanding its discretionary authority, as a matter of practice, KAM obtains approval for each investment from the Investment Committee.

Investment guidelines and restrictions, and any subsequent modifications thereto, must be provided to KAM in writing. Clients should also understand that the imposition of portfolio restrictions may affect performance of the affected portfolio(s), either positively or negatively.

#### **Item 17 – Voting Client Securities**

KAM does not invest in equity securities.

#### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about KAM's financial condition. KAM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.