

## SYSTIMA CAPITAL MANAGEMENT LLC

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Part 2A of Form ADV: Firm Brochure  
March 31, 2022

This brochure provides information about the qualifications and business practices of Systima Capital Management LLC (“Systima”). If you have any questions about the contents of this brochure, please contact us at (312) 481-7229. 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.

Additional information about Systima Capital Management LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Systima Capital Management LLC is a registered investment adviser. An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

## ITEM 2. MATERIAL CHANGES

This Brochure is Systima's annual updating amendment. The last annual amendment was filed March 31, 2021. There were no material changes made to this brochure since the Firm's last annual amendment.

### ITEM 3. TABLE OF CONTENTS

ITEM 2. MATERIAL CHANGES .....	2
ITEM 3. TABLE OF CONTENTS .....	3
ITEM 4. ADVISORY BUSINESS .....	4
ITEM 5. FEES AND COMPENSATION .....	4
ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	6
ITEM 7. TYPES OF CLIENTS .....	6
ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	7
ITEM 9. DISCIPLINARY INFORMATION .....	13
ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	13
ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	14
ITEM 12. BROKERAGE PRACTICES.....	19
ITEM 13. REVIEW OF ACCOUNTS .....	20
ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION .....	20
ITEM 15. CUSTODY .....	20
ITEM 16. INVESTMENT DISCRETION .....	20
ITEM 17. VOTING CLIENT SECURITIES .....	21
ITEM 18. FINANCIAL INFORMATION.....	22
ITEM 19. REQUIREMENTS FOR STATE-REGISTERED ADVISERS.....	22

## ITEM 4. ADVISORY BUSINESS

### The Adviser

Systema Capital Management LLC is an investment adviser organized as a Delaware limited liability company on January 26, 2011. Systema Capital Management, LLC is owned by Mr. John Varones, its founder and CEO, and its principal office is in Chicago, IL.

### Advisory Services

The Adviser, together with its relying advisers (the “Adviser” or “Systema”), provides discretionary investment advisory services to separately managed account clients and organizes and manages pooled private investment funds (each, a “Client”). The private investment funds are exempt from registration under the Investment Company Act of 1940, as amended and the offer and sale of interests in the private investment funds are made in reliance on an exemption from registration under the Securities Act of 1933.

The Adviser may in the future organize additional investment funds or manage investment funds or separately managed accounts that may either co-invest with the Clients or follow an investment program similar to or different from that of the Clients. To that effect, the Adviser currently offers municipal advisory and other finance consulting services.

Client investment programs generally pursue a variety of opportunities in certain housing-related securities and securitizations, mortgage-backed debt instruments, or other real estate-related investments, as may be determined from time to time. Services are provided to the Clients in accordance with investment management agreements, engagement letters, confidential offering, private placement memoranda, limited partnership or limited liability company agreements, operating agreements and other governing documents (collectively the “Governing Documents”) with the Clients. All discussions of the Clients in this brochure, including but not limited to their investments, the strategies used in managing the funds, associated fees and costs and the conflicts of interest faced by Systema and its affiliates in connection with the management of the Client funds are qualified in their entirety by the respective Governing Documents or management agreements. Investment restrictions for Clients, if any, are generally established in the Governing Documents for Clients.

The Adviser does not participate in wrap fee programs.

### Assets Under Management

As of December 31, 2021, the Adviser manages approximately \$376.7 million on a discretionary basis and \$131.6 million on a non-discretionary basis.

## ITEM 5. FEES AND COMPENSATION

Systema receives compensation in several forms. Its primary source of fees is from its Clients according to the Governing Documents. As provided under the Governing Documents of each Client, the Adviser will receive from such Client (1) a quarterly or monthly management fee (the “Management Fee”) at a fixed rate and/or (2) a portion of the profits of such Client (a “Performance Fee”), as described further below and/or (3) an acquisition fee at a fixed rate. Systema may also receive consulting and advisory services, as well other fees, described below.

The Adviser may negotiate Management Fees or a Performance Fee or an acquisition fee on a client-by-client basis with other separately managed account clients or funds that it manages in the future. Different

Client facts and circumstances will be considered in determining such Management Fees or Performance Fee or acquisition fees, including the Client's investment strategy, assets under management, account composition, reporting requirements, economies of scale, if any, and any other factors the Adviser deems relevant. All such fees will be set forth in agreements with such clients, and may not conform to the descriptions below. Investors in Clients should review all Governing Documents to understand the fees charged by Systima to fully understand the amount of fees paid by a Client and, indirectly, but its investors.

### Management Fee

As of the end of each calendar month or quarter, the Management Fee, an aggregate fixed fee calculated and payable in arrears and calculated on invested capital of each pooled investment fund Client shall be paid to the Adviser for its services, pursuant to the terms of the applicable Governing Documents. The Management Fee on the separately managed account Client is an aggregate fixed fee calculated and payable quarterly in arrears and is calculated on the month end market value of the investments, and shall be paid to the Adviser for its services, pursuant to the terms of the applicable Governing Documents. If the Adviser does not provide services for the full calendar month or quarter, the Management Fee will be pro-rated.

Certain Governing Documents allow for reductions or offsets to the Management Fee for Other Fees, described below, received by Systima or its affiliates. The Investment Manager, in its sole discretion, may waive or modify the Management Fee for any Investor.

### Performance-Based Fees or Profit Allocations

The Adviser receives performance-based fees or investment profit allocations in the form of a Performance Fee with respect to certain Clients.

### Acquisition Fees

The Adviser receives acquisition fees calculated as a one-time fixed percentage of certain Clients' capital contributions with respect to certain Clients.

### Other Fees

Systima, and its affiliates charge and/or collect from the structured deals or other investments of the Clients a variety of fees such as: advisory fees, structuring fees, origination fees, administrator fees, servicing fees, or other similar fees (collectively, "Other Fees"). In accordance with the terms and conditions of the Governing Documents, certain Other Fees generated in connection with a given investment may not fully reduce the Management Fee payable by the Funds or otherwise be fully shared with the Clients. The reduction of Management Fees in full or in part by some, but not all, Clients of these Other Fees may create an incentive for the Adviser to disproportionately allocate time, services or functions to Clients not reducing Management Fees or to Clients reducing Management Fees at lower percentages based on Governing Documents.

### Organizational Expenses

Each Client will bear all reasonable legal and other organizational and offering expenses incurred in connection with the formation of each Client fund and its related entities ("Organizational Expenses"). All organization expenses will be charged and disclosed according to the Governing Documents.

### Other Expenses

The Adviser will be responsible for all of its overhead expenses of an ordinarily recurring nature, including, without limitation, rent, utilities, supplies, secretarial expenses, stationery, charges for furniture, fixtures and equipment, employee benefits including insurance, payroll and other taxes, and compensation (and

related costs) of all personnel of the Adviser. Except as noted below or defined in the Governing Documents, a Client will generally pay for all other expenses, including, but not limited to, professional due diligence fees, custodial and brokerage fees and expenses.

With respect to securitization transactions in which a Client may invest, expenses that include underwriting fees, legal fees, due diligence fees, origination fees of the securitization issuer and other similar fees incurred in connection with such investments will be paid through transaction proceeds generated at the asset and securitization level when possible. Although such expenses will often be paid out of the transaction proceeds, such expenses, shall be directly borne by the applicable Client when required for the specific securitization. Such expenses not paid from transaction proceeds will be borne on a pro-rata basis by multiple Clients or Co-Investors, if more than one Client is participating. Regardless of whether the expenses are paid from transaction proceeds or directly borne by Clients, such expenses shall be indirectly borne by the applicable Clients through a reduction in overall return.

## ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As discussed above, according to the Governing Documents, certain Clients pay the Adviser performance-based fees or investment profit allocations in the form of a Performance Fee. The payment by some, but not all, Clients of performance-based fees or investment profit allocations in the form of a Performance Fee may create an incentive for the Adviser to disproportionately allocate time, services or functions to Clients paying such fees or profit allocations or to Clients paying such fees or profit allocations at higher rates, or to Clients paying such fees or profit allocations earlier according to the Governing Documents. The fact that a significant portion of the Adviser's compensation is directly computed on the basis of profits earned by the Clients or generated by the sale or disposition of Client assets may create an incentive for the Adviser to make investments on behalf of the Clients that are riskier or more speculative than would be the case in the absence of such compensation. Please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" for a discussion of how the Adviser addresses these matters and other conflicts of interests.

## ITEM 7. TYPES OF CLIENTS

The Adviser currently provides investment advisory services to a separately managed account of a pension plan, as well as, pooled investment funds. Interests in the Clients are not registered under the U.S. Securities Act of 1933, as amended, and the investment funds are not registered under the U.S. Investment Company Act of 1940, as amended. Generally, investors are required to meet certain suitability and net worth qualifications, such as (i) an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act, (ii) a "Qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act, and/or (iii) a "knowledgeable employee" within the meaning of Rule 3c-5 of the Investment Company Act, depending on the applicable eligibility requirements of the respective Client.

The Adviser does not have a minimum size for a Client account.

The Adviser may in the future provide advisory services to additional pooled investment vehicles and other separately managed accounts for United States and/or foreign high net worth individuals, trusts, estates, charitable organizations, pension plans, corporations, superannuation funds, insurance companies, defined benefit plans, foundations, limited partnerships, limited liability companies, and similar entities.

The Adviser on its own behalf and/or on behalf of the Client without the approval of any investor or any other person may enter into a side letter or similar agreement (an "Other Agreement") to or with an investor in a Client which has the effect of establishing rights under, or altering or supplementing the terms of, the Governing Documents. Investors should further recognize that any terms contained in an Other Agreement

with an investor shall govern with respect to such investor notwithstanding the provisions of the Governing Documents. Other Agreements may grant certain investors additional reporting and informational rights, as well as address other matters. The Adviser will not enter into an Other Agreement if it believes the terms thereof would have a material adverse impact on the other investors.

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

Below is a summary of the material risks associated with the significant strategies and significant methods of analysis used by the Adviser. Investing in securities involves risk of loss that Clients should be prepared to bear; however, Clients should be aware that not all of the risks listed below will pertain to every Client as certain risks may only apply to certain strategies.

### Investment Strategy

The Adviser's business model capitalizes on the limited competition for the investment in certain housing and mortgage markets that are specialized and technical in nature to strive to produce attractive returns for institutional investors on a risk-adjusted basis. The Adviser's competitive advantage in this space comes from its ability to source, evaluate and price these technical and non-standard investments.

### Methods of Analysis

To capture value in these housing, mortgage and securitization markets, the Adviser pursues investment strategies based on the following principles:

- Empirical and historical analysis: The Adviser is guided by current market data and research in pricing, structuring and managing investments or financing instruments. The Adviser strives to be close to its respective markets, analyzing and synthesizing information pertaining to supply/demand, valuation, liquidity and other factors. While current market dynamics guide the Adviser's investment strategies, the Adviser also seeks perspective by viewing the markets through a historical lens.
- Multi-disciplinary approach: The interrelatedness and complexity of the modern financial system require a diverse knowledge base, including an understanding of specific industries, technology, capital markets, accounting, tax, and legal/regulatory dynamics. The Adviser attempts to manage this complexity by employing models and insight from a variety of disciplines.
- Creative structuring: Structured investing maximizes value based on a series of constraints. The Adviser seeks to create value through creative and even novel structures. The Adviser borrows and adapts these approaches from different, yet related disciplines.
- Hands-on asset management: Using an in-house asset manager, The Adviser seeks to closely monitor assets through development, lease-up and ongoing operations to ensure strong property performance and identify issues before they impair property value. When available, the Advisor seeks to have regular discussions about asset performance with the operating partners.

The Adviser relies on third-party data sources and proprietary analysis to evaluate investment opportunities and for monitoring of Client holdings. The proprietary model includes due diligence on every asset in the transaction. The Adviser will conduct its own analysis of the property cash flows, stress testing the revenue, vacancy, expenses, and ultimately net cash flow. With the Adviser's stress tested net cash flow, a stressed value is determined when evaluating potential impairments. The Adviser will have mitigated some of the risk associated with assets through various means, such as price concessions, funding of internal reserves, or removing the loan from the pooled security. The maintenance of the assumptions and proprietary model

are updated with the ongoing collection of performance data from the Adviser's internal portfolio and third-party data sources. The models and data employed provide the foundation for bottom-up analysis when evaluating investments or monitoring portfolio holdings.

## **Material Risks**

### **Risks of Loss**

**General Investment and Trading Risks.** All financial instrument investments present a risk of loss of capital. Such investments are subject to investment-specific price fluctuations as well as macro-economic, market and geographic or industry-specific conditions. Systima may only have limited ability to vary Client investment portfolios in response to changing economic, financial and investment conditions. Moreover, Systima, depending on the Client Governing Documents, may utilize a wide variety of techniques including options, futures, and other derivative transactions which, in certain circumstances, substantially increase the adverse impact to which the Client may be subject.

**Market Dislocation, Illiquidity and Volatility.** Significant dislocations, illiquidity and volatility in the global financial markets occur with and without warning. Market shocks effect market liquidity and cause significant market disruption across the board, but particularly in niche and unique investments strategies which are the Advisors focus. An economic downturn could adversely affect the Clients' investments to greater or lesser extent than the larger market. Such marketplace events also may restrict the ability of the Clients to sell or liquidate investments at favorable times or for favorable prices

**Non-Performance Based Fees.** The Management Fee and acquisition fee set forth in each Client's Governing Documents, unlike a performance-based fee, is payable to the Adviser regardless of the performance of the investments.

**Reliance on Management Team and Limited Management Rights.** The success of each Client depends, to a significant extent, upon the continued services of the Adviser's management team and other key employees. Any of these individuals could be difficult to replace and the loss of any one of them could have a material adverse effect on the performance of each Client's portfolio. The Adviser has management responsibility for the investments made by Clients. The Clients will not have any right to manage the day-to-day investments proposed to be made by the Adviser.

**Disaster Recovery and Data Security Measures.** The Clients rely on the information technology and data management systems of Systima and those of its service providers (collectively, "Service Providers"). These systems can fail or be subject to interruption, damage, or destruction caused by natural or man-made occurrences such as extreme weather, fires, or earthquakes; quarantines and other mobility and/or access restrictions; widespread or prolonged loss of access to key personnel; power loss or computer, network, or telecommunications failures; usage errors by personnel; infiltration by unauthorized persons, including through malware, ransomware, hacking, and other forms of cyber-attacks, some of which may not be detected for an extended period of time ("Cyber Attacks"); terrorist attacks; vandalism or other intentional acts of destruction; or similar events or malfeasance (collectively referred to hereafter as "Disaster/Security Events"). With the increasing interconnectedness of our global economy, a massive Cyber Attack aimed at a country's critical infrastructure and economic systems may create chaos more catastrophic than a terrorist attack, natural disaster, or pandemic. Any failure, interruption, damage, or destruction of a Service Provider's information technology and/or data management systems could have a material adverse impact on the operations of the Clients, including impairing their financial performance. In addition, a breach in the security of a Service Provider's systems could result in the theft, disclosure, or loss of proprietary, confidential, and other sensitive information relating to the Clients, such as, depending on the Service Provider affected, personal information relating to investors in the Clients or information about the Clients'



financial condition, investment positions, or the Clients' pending legal or audit matters. This could adversely affect the Client and could result in, among other things, reputational harm. Any of the foregoing could also lead to litigation in which the Clients could incur liability.

Systema and/or its affiliates, has in place information security, incident response, backup, and disaster recovery procedures intended to prevent or mitigate damage if a Disaster/Security Event occurs. Other Service Providers are believed to have in place systems and procedures with respect to Disaster/Security Events, but the Clients and Systema and its affiliates do not control or supervise such systems and procedures and cannot provide assurance of their efficacy.

A breach caused by a Disaster/Security Event could nevertheless occur despite procedures and systems designed to prevent such breaches, and any procedures or systems could fail or be insufficient to avoid, mitigate, or remedy any resulting interruption or failure. In particular, Cyber Attacks continue to evolve over time, and their ever-changing methods and technologies often are not known until used against a potential target. Therefore, a Service Provider may be unable to anticipate the forms of Cyber Attacks that could be used against its systems or to implement adequate protections against them.

### Risks Associated with Investment Assets and Investment Structure

**Mortgage-Related Securities.** Mortgage-related and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. Payment of interest and repayment of principal on mortgage-related securities largely depends on the cash flow generated by the underlying assets backing the securities. The amount of market risk associated with investments in mortgage-related securities depends on many factors, including the investment structure (i.e., determinations as to the required amount of underlying assets or other support needed to produce the cash flows necessary to service interest and principal payments), the quality of the underlying assets, and the reliability of various other service providers with access to the payment stream. A problem in any one of these areas can lead to a reduction in the payment stream the Adviser expected the Client to receive at the time the Client purchased the mortgage-related security. Mortgage-related securities involve risk of loss of principal if obligors of the underlying obligations default and the defaulted amounts exceed the securities' credit support.

Generally, rising interest rates tend to extend the duration of fixed rate mortgage-related securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, fixed rate mortgage-related securities may exhibit additional price and yield volatility. This is known as extension risk. In addition, both adjustable and fixed rate mortgage-related securities are subject to prepayment risk. Many factors affect the rate of mortgage loan prepayments, including changes in interest rates, general economic conditions, including further deterioration of worldwide economic and liquidity conditions, the location of the property underlying the mortgage, the age of the mortgage, governmental action, including legal impairment of underlying loans, changes in demand for products financed by those loans, the inability of borrowers to refinance existing loans, and social and demographic conditions. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce a Client's returns because the Client may have to reinvest prepayments at the lower prevailing interest rates.

In addition, the creditworthiness, servicing practices, and financial viability of the servicers of the underlying mortgage pools present significant risks. For instance, a servicer may be required to make advances in respect of delinquent loans underlying the mortgage-related securities; however, servicers experiencing financial difficulties may not be able to perform these obligations. Additionally, both mortgage-related securities and asset-backed securities are subject to risks associated with fraud or negligence by, or defalcation of, their servicers. These securities are also subject to the risks of the underlying loans. In addition, the underlying loans may have been extended pursuant to inappropriate underwriting guidelines, to no underwriting guidelines at all, or to fraudulent origination practices. The

owner of a mortgage-backed security's ability to recover against the sponsor, servicer or originator is uncertain and is often limited.

**Real Estate-Related Securities.** A Client that invests in real estate, real estate-related securities or real estate-linked derivative instruments is subject to risks directly or indirectly associated with ownership of real estate generally. The real estate industry is extensively regulated and subject to frequent regulatory change. In addition, real estate investments are subject to a variety of inherent risks that may have an adverse impact on the values of, and returns (if any) from, such investments, including risks related to: changes in local, national and international economic conditions; supply and demand; interest rate fluctuations; tax, legal or regulatory changes; actions taken by the government branches or courts; changes to the Government Sponsored Enterprises (GSEs); changes to housing programs; zoning laws; regulatory overlays; environmental liabilities; energy prices; title risks; the ongoing need for capital improvements; patent or latent defect in improvements; the ongoing need for capital improvements; availability of financing; bankruptcy and other credit risks of tenants, operating partners or other relevant parties; natural catastrophes, war, terrorism, and vandalism; risk of uninsurable losses; breach of contract relating to real estate; and the quality and strategy of third party operators, managers or controlling parties. A Client's investments in other asset-backed securities are subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with the nature of the assets and the servicing of those assets.

**B Notes or Investments in Securitization Vehicles.** The Adviser may invest Client assets in "B Notes." A "B Note" is a mortgage loan that is typically secured by a first mortgage on a single large commercial property or group of related properties and subordinated to an "A Note" secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B Note holders after payment to the A Note holders. B Notes reflect similar credit risks to comparably rated commercial mortgage backed securities. Since each transaction is privately negotiated, however, B Notes can vary in their structural characteristics and risks. For example, the rights of holders of B Notes to control the process following a borrower default may be limited in certain investments. Prior to negotiating or structuring a deal, the Adviser cannot predict the terms of each B Note investment. B Notes are also less liquid than Commercial Mortgage-Backed Securities, and, as a result, a Client may be unable to dispose of performing, underperforming or non-performing B Notes. The higher risk, less control in workouts, and less liquidity associated with a subordinate position in the B Note investments could subject Clients to increased risk of losses.

**Subordinated Tranches.** A securitization may issue securities subject to various levels of subordination; the risk of non-payment affects securities at each level, although the risk is greater in the case of more highly subordinated securities. Clients may make investments in subordinated mortgage-backed securities, including, but not limited to, "B" or "first loss" pieces, which could subject Clients to increased risk of losses. For example, if a Client purchases mortgage-related securities that are 'subordinated' to other interests in the same securitization, the Client as a holder of those securities may only receive payments after the pool's obligations to other more senior holders have been satisfied. In general, losses on an asset securing a loan included in a securitization will be borne first by the equity holder of the asset, then by a cash reserve fund or letter of credit provided by the borrower, if any, and then by the "first loss" subordinated security holder.

In the event of default and the exhaustion of any equity support, reserve fund, letter of credit and any classes of securities junior to those in which a Client invests, the Client may not be able to recover all of its investment in the securities it has purchased. In addition, if the underlying portfolio of assets has been overvalued by the originator, or if the values subsequently decline and, as a result, recovered loan proceeds are unavailable to fully satisfy interest and principal payments due on the related mortgage-backed securities, the securities in which the Client invests may effectively become the "first loss" position behind

the more senior securities, which may result in significant losses.

Defaults on the mortgages held by a securitization may limit substantially the vehicle's ability to make payments of principal or interest to the Client as a holder of such subordinated securities, reducing the market values of those securities or in some cases rendering them worthless.

**Construction Related Loans.** Construction projects are complex and pose various internal and external risks. A strict set of federal and statutory codes, laws and regulations must be followed, and diligent monitoring is required to prevent, minimize, and mitigate construction risks. There are a number of risks related to construction or residential and commercial properties that can be technical, logistical, political, environmental, developer related, as well as financial in nature. Delays in construction or inability to complete construction can materially impact returns and the timing or ability to receive expected interest or even to return capital. If construction is not completed, or costs to complete are more than initially budgeted, it may cause the Advisor to foreclose on the incomplete property and attempt to sell it, or finance additional capital into the property either as equity or a taxable loan. The overall return to the Client from its investment in such property is likely to be less than if the construction had been completed on time or within budget.

**Risks Related to Leverage.** The Adviser may utilize borrowed funds, entering total return swaps and other derivatives for certain Clients. In such strategies, the Adviser expects Clients to initially acquire exposure to bonds or loans (the "Reference Obligation") synthetically by entering into a total return swap or other similar instrument (each, a "TRS") directly with a TRS counterparty. Exposure to such Reference Obligations through a TRS presents risks in addition to, and different from, those resulting from direct purchases of the same obligations. Leverage magnifies gains and losses. Additionally, the use of leverage by Clients creates certain additional risks.

In the event of the insolvency of the TRS counterparty, the Client will be treated as a general creditor of such counterparty and will not have any claim of title with respect to the Reference Obligation. Consequently, the Client will be subject to the credit risk of the TRS counterparty, as well as that of the Reference Obligation entity. This exposes the Client to the risk that a TRS counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Client to suffer a loss. Such "counterparty risk" may be accentuated by the fact that each Client is expected to concentrate its transactions with a single counterparty. In addition, in the case of a default, the Client could become subject to adverse market movements while it tries to enter into replacement TRS transactions. Concentrations of TRSs entered into with any one TRS counterparty, as contemplated for the Client's interest in the anticipated total return swap, will subject such TRSs to an additional degree of risk with respect to defaults by such TRS counterparty.

While the Client expects that payments received from a TRS may reflect those of each related Reference Obligation, as a result of the terms of the TRS and the assumption of the credit risk of the TRS counterparty, a TRS may have a different expected return, more sensitive loss triggers, a different (and potentially greater) probability of default and different expected loss and recovery characteristics, from those associated with a direct holding in the Reference Obligation. Further, while the returns on a TRS may reflect those of each related Reference Obligation, said returns are taxable, not federally tax-exempt.

A TRS may also expose the Client to liquidity risk. Although the Client will generally have the ability to terminate a TRS transaction or program at any time, doing so may subject the Client to certain early termination charges. In addition, there may not be a liquid market within which to arrange for alternative financing for the Reference Obligations upon termination even if a permitted financing might avoid an early termination charge. "Over-the-counter" TRSs generally are not assignable except by agreement between

the parties concerned, and no party or TRS counterparty has any obligation to permit such assignments.

**Hedging Transactions.** When appropriate and allowed by Client Governing Documents, the Adviser may, but is not obligated to, use available financial instruments to hedge certain risks, including to hedge interest rate, protection on credit, and duration risk of its Clients investments. The hedging transaction will attempt to reduce some of the potential risks associated with investments or in connection with the financing of certain investments. The success of a Client's hedging strategy will be subject to the Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a Client's hedging strategy will also be subject to the Adviser's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. Hedging transactions also involve certain risks such as the legal enforceability of hedging contracts. Risks of hedging transactions include (i) the legal enforceability of hedging contracts, (ii) the possibility that the market will move in a manner or direction that would have resulted in gain for the Fund had an interest rate hedging transaction not been utilized, (iii) the risk of imperfect correlation between the risk sought to be hedged and the interest rate hedging transaction utilized, (iv) potential illiquidity for the hedging instrument utilized, which may make it difficult for the Fund to close-out or unwind an interest rate hedging transaction, (v) credit risk with respect to the counterparty to the interest rate hedging transaction and (vi) the possibility of margin calls.

While Clients may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Client than if it had not engaged in any such hedging transactions. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of those portfolio positions or prevent losses if the values of those positions decline. Rather, it establishes other positions designed to gain from those same declines, thus seeking to moderate the decline in the portfolio position's value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase. For a variety of reasons, the Adviser may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Client from achieving the intended hedge or expose the Client to risk of loss. In addition, it is not possible to hedge fully or perfectly against any risk, and hedging entails its own costs. The Adviser may determine, in its sole discretion, not to hedge against certain risks and certain risks may exist that cannot be hedged. Furthermore, the Adviser may not anticipate a particular risk so as to hedge against it effectively. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Client's portfolio holdings.

**Limited Investment Opportunities.** There are a limited number of possible investment opportunities in the specialized housing and mortgage markets available for investment. Clients rely upon the ability of the Adviser to source, select, price and acquire investments that meet the Client's investment mandate, and the Adviser may not be able to identify and obtain a sufficient number of investment opportunities for its Clients. In particular, the Clients will compete with a broad spectrum of investors for portfolio investments. Increased competition for, or a diminishment in the available supply of, portfolio investments could result in lower returns on such portfolio investments.

**Diversification.** Due to the limited number of opportunities discussed above and the specific focus of each Client's mandate or strategy, each Client portfolio will usually have a limited number of investments. This puts a high dependence on the performance of each investment and each Client will not represent a highly diversified portfolio on its own. As a consequence, returns of the Clients may be adversely affected by the unfavorable performance of any single investment or even any underlying reference loan within one securitization which the Client holds a B Note interest.

**Adviser's Assumptions.** The Adviser may be wrong about its assumptions and projections. The Adviser's projected and targeted returns are based upon certain assumptions with respect to the specialized housing

and mortgage markets. Some of these assumptions are based on historical trends. There can be no assurances that such assumptions will hold true or that current and future market trends will be consistent with history. Any inaccuracy in such assumptions may materially and adversely impact the performance of each Client's portfolio. For example, values of assets may also decline because of the perceptions of their relative value by other financial market participants.

**Expedited Transactions and Reliance on Third Party Professionals.** The Adviser may frequently be required to undertake investment analyses and decisions on an expedited basis for Clients to take advantage of investment opportunities. In such cases, the information available to the Adviser at the time of an investment decision may be limited and the Adviser may not have access to detailed information regarding the investment opportunity, such as physical characteristics, structural or environmental matters, zoning regulations or other local conditions affecting an asset. Therefore, the Adviser may not have access to the detailed information necessary for a full analysis and evaluation of the investment opportunity. In these cases and as determined to be necessary or appropriate by the Adviser to delegate, the Adviser may rely upon independent consultants in connection with its evaluation of proposed investments and monitoring of on-going investments; however, no assurance can be given that these consultants will accurately evaluate such investments. The Adviser will periodically review and evaluate these consultants for performance.

**Reliance on Asset Servicers.** Certain Client investments may comprise securities collateralized by pools of loans or receivables for which certain management functions (e.g., payment collection and deposit, record-keeping or reporting with respect to payment collections and deposits) are performed by asset servicers. In the event that a servicer for one of the assets experiences operational or financial difficulties, the investment could experience asset deterioration or payment delay, reduction or suspension, thereby compromising the asset's value. The Adviser keeps relationships with multiple servicers to mitigate asset servicer risks.

**Information May Be Limited.** Before selecting an investment, the Adviser assesses the strength and quality of the assets and other factors that it believes are material to the investment's performance. In making this assessment and otherwise conducting due diligence, the Adviser relies on the resources available to it and, in some cases, investigation by third parties. This process is particularly important and subjective because there may be little or no information publicly available about the potential investments. There can be no assurance that the Adviser's due diligence processes will uncover all relevant facts or that any asset will perform as anticipated.

## ITEM 9. DISCIPLINARY INFORMATION

There are no events to disclose regarding legal or disciplinary events for Item 9.

## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

In addition to the investment advisory services the Adviser provides to its Clients, the Adviser also provides non-investment advisory real estate consulting services to other clients, primarily institutional investors and borrowers in specialized housing markets in the United States, predominantly multi-family housing. These consulting services include the analysis of critical aspects of multi-family real estate, such as review of development teams, review of property and cash flow assumptions, analysis of housing supply and demand, and financial modeling. The Adviser is also an Independent Registered Municipal Advisor ("IRMA") and provides advisory services to borrowers or issuers of municipal securities. As an IRMA, the Adviser is regulated by the Securities and Exchange Commission ("SEC") and the Municipal Securities Rulemaking Board ("MSRB").

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

### Code of Ethics

The Adviser has adopted a written Code of Ethics that is applicable to all of its officers and employees, as well as officers and employees of its affiliates and certain independent contractors (collectively, “Adviser Personnel”). The Code of Ethics, which is designed to comply with Rule 204A-1 under the Investment Advisers Act of 1940, as amended, and Rules G-3, G-17, G-20, G-27, G-32 G-37, and G-44 as established by the Municipal Securities Rulemaking Board, establishes guidelines for professional conduct and personal trading procedures, including certain pre-clearance and reporting obligations. Adviser Personnel and their families and households may purchase investments for their own accounts, subject to the terms of the Code of Ethics. Under the Code of Ethics, Adviser Personnel are also required to file certain periodic reports with the Adviser’s Chief Compliance Officer as required by Rule 204A-1 under the Advisers Act. The Code of Ethics helps the Adviser detect and prevent potential conflicts of interest.

Adviser Personnel who violate the Code of Ethics may be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, demotion, suspension, or dismissal. Adviser Personnel are also required to promptly report any violation of the Code of Ethics of which they become aware. Adviser Personnel are required to annually certify compliance with the Code of Ethics.

A copy of the Code of Ethics is available to any client or prospective client upon written request.

### Participation or Interest in Client Transactions

The Adviser and certain employees and affiliates of the Adviser may invest alongside Clients with respect to certain investment opportunities. For further details regarding these arrangements, as well as conflicts of interest presented by them, please see “Conflicts of Interest” immediately below.

### Conflicts of Interest

The Adviser and its related persons engage in a broad range of activities, including investment activities for their own account and for the account of other clients, and providing transaction-related, investment advisory, consulting, and other services to other clients. In the ordinary course of conducting its activities, the interests of a Client may conflict with the interests of the Adviser, other Clients or their respective affiliates. Certain of these conflicts of interest, as well a description of how the Adviser addresses such conflicts of interest, can be found below.

Certain employees of the Adviser, certain business associates, other “friends of the firm,” or other persons, from time to time, may directly invest alongside one or more Clients in particular transactions entered into by such Clients. It is the Adviser’s intent that the purchase and sale of each such investment opportunity will be made at substantially the same time and on substantially the same terms as the applicable Client that is invested in that investment opportunity.

The results of our investment activities for a Client may differ significantly from the results achieved by us for other current or future Clients. We will manage the assets of a Client in accordance with the investment mandate selected by such Client. However, we may give advice, and take action, with respect to a Client that may compete or conflict with the advice we may give to, or an investment action we may take on behalf of, other Clients. We may buy or sell positions for one Client while we are undertaking for another Client the same or a differing, including potentially opposite, strategy. Similarly, our management of Clients may benefit us or our affiliates. For example, and as discussed further below, Clients may, to the extent permitted by applicable law, invest directly or indirectly in the securities of companies in which the Adviser or an

affiliate, on behalf of its clients, has an equity, debt, or other interest. In addition, to the extent permitted by applicable law, Clients may engage in investment transactions which may result in other Clients being relieved of obligations, or which may cause other Clients to divest certain investments. Under certain circumstances, collateral in a securitized vehicle in which one Client has invested may need to be sold, and the purchaser may be another Client. The purchase, holding, and sale of investments by Clients may enhance or reduce the profitability or increase or decrease the value of other Clients' investments.

In addition, because certain of our Clients may be affiliates, we may have incentives to resolve conflicts of interest in favor of certain Clients over others. This gives rise to certain potential conflicts of interest, as discussed in more detail below. We have established a compliance manual to address these conflicts of interest and elaborate other related procedures and our code of ethics that seek to identify, manage and/or mitigate such potential conflicts of interest.

### Allocation of Investment Opportunities

In connection with its investment activities, the Adviser may encounter situations in which it must determine how to allocate investment opportunities among various clients and other persons, which may include, but are not limited to, current and future clients. In recognition of its fiduciary duties, it is the policy of the Adviser to treat its clients fairly and equitably in the allocation of investment opportunities and transactions more generally. The Adviser has adopted written policies and procedures relating to the allocation of investment opportunities and will make allocation determinations consistently therewith.

The Adviser must first determine which Clients could participate in an investment opportunity. The Adviser assesses whether an investment opportunity is appropriate for a particular Client(s), based on the Client's investment objectives, strategies, and structure. A Client's investment objectives, strategies and structure typically are reflected in the Client's offering memoranda and organizational documents. Prior to making any allocation to a Client of an investment opportunity, the Adviser determines what additional factors may restrict or limit the offering of an investment opportunity to the Client.

Once the Clients that will participate in a particular investment have been identified, the Adviser, in its discretion, decides how to allocate such investment opportunity among the identified Clients. In allocating such investment opportunity, the Adviser may consider some or all of a wide range of factors, which may include, but are not necessarily limited to, the following: each Client's investment objectives and investment focus; transaction sourcing; each Client's liquidity and reserves; each Client's diversification; lender covenants and other limitations; amount of capital available for investment by each Client as well as each Client's projected future capacity for investment; each Client's targeted rate of return; composition of each Client's portfolio; the availability of other suitable investments for each Client; risk considerations; cash flow considerations; asset class restrictions; industry and other allocation targets; minimum and maximum investment size requirements; tax implications; legal, contractual or regulatory constraints; and any other relevant limitations imposed by or conditions set forth in the applicable organizational documents of each Client.

The Adviser will seek to make all allocations of investment opportunities among the Clients in a fair and equitable manner, and will not favor or disfavor, consistently or consciously, any Client in relation to any other Clients. Further, the Adviser will not allocate investment opportunities based, in whole or in part, on the relative fee structure or amount of fees paid by any Client or the profitability of any Client.

The Adviser will determine if the amount of an investment opportunity exceeds the amount the Adviser determines would be appropriate for the Clients (after taking into account any portion of the opportunity allocated to certain strategic investors and other investors whose allocation is determined by the Adviser to be in the best interests of the applicable Client), then any such excess may be offered to one or more co-investors. Such co-investors may include the Adviser, certain of its affiliates or employees or other "friends

and family” of the Adviser or its personnel. Additionally, in cases where the amount of an investment opportunity does not exceed the amount the Adviser determines would be appropriate for the Clients, then such co-investors occasionally, with the applicable Client’s consent, may invest alongside Clients with respect to certain investment, which would reduce the amount of the investment opportunity available for the Client.

The Adviser’s exercise of its discretion in allocating investment opportunities with respect to a particular investment among such Clients and in the manner discussed above may not, and often will not, result in proportional allocations among such Clients, and such allocations may be more or less advantageous to some such Clients relative to other such Clients. While the Adviser will determine how to allocate investment opportunities using its best judgment, considering such factors as it deems relevant, but in its sole discretion, there can be no assurance that a Client’s actual allocation of an investment opportunity, if any, or the terms on which that allocation is made will be as favorable as they would be if the conflicts of interest to which the Adviser may be subject, discussed herein, did not exist.

#### Inconsistent Investment Positions, Timing of Competing Transactions and Other Conflicts.

From time to time, we may take an investment position or action for one or more Clients that may be different from, or inconsistent with, an action or position taken for one or more other Clients having similar or differing investment objectives. These positions and actions may adversely impact, or in some instances may benefit, one or more affected Clients, including Clients that are our affiliates or in which we have an interest. Similarly, transactions in investments by one or more Clients may have the effect of diluting or otherwise disadvantaging the values, prices or investment strategies of another Client.

When we implement for one Client a portfolio decision or strategy ahead of, or contemporaneously with, similar portfolio decisions or strategies of another Client, market impact, liquidity constraints or other factors could result in one or more Clients receiving less favorable trading results, the costs of implementing such portfolio decisions or strategies could be increased or such Clients could otherwise be disadvantaged. On the other hand, potential conflicts may also arise because portfolio decisions regarding a Client may benefit other Clients.

Under certain circumstances, a Client may invest in a transaction in which one or more other Clients are expected to participate, or already have made or will seek to make, an investment. Such Clients (or groups of Clients) may have conflicting interests and objectives in connection with such investments, including with respect to views on the operations or activities of the issuer involved, the targeted returns from the investment and the timeframe for, and method of, exiting the investment.

Further, potential conflicts may be inherent in our use of multiple strategies. For example, conflicts will arise in cases where Clients with different strategies invest in different parts of an issuer’s capital structure, including circumstances in which one or more Clients may own private securities or obligations of an issuer and other Clients may own public securities of the same issuer. For example, a Client may acquire a loan, loan participation or a loan assignment of a particular borrower in which one or more other Clients have an equity investment, or may invest in senior debt obligations of an issuer for one Client and junior debt obligations of the same issuer for another Client.

We may also, for example, direct a Client to invest in a tranche of a structured finance vehicle, such as a collateralized loan or debt obligation, where we are also, at the same or different time, directing another Client to make investments in a different tranche of the same vehicle, which tranche’s interests may be adverse to other tranches. We may also cause a Client to purchase from, or sell assets to, an entity, such as a structured finance vehicle, in which other Clients may have an interest, potentially in a manner that will have an adverse effect on one of the Clients. There may also be conflicts where, for example, a Client holds certain loans of an issuer, and that same issuer has issued other loans or instruments that are owned by other



Clients or by an entity, such as a structured finance vehicle, in which other Clients have an interest: in this situation, we may take actions with respect to the assets held by one Client that are adverse to the other Clients, for example, by foreclosing on loans or by putting an issuer into default. In negotiating the terms and conditions of any such investments, or any subsequent amendments or waivers, we may find that the interests of a Client and the interests of one or more other Clients could conflict. In these situations, decisions over items such as whether to make the investment, proxy voting, corporate reorganization, how to exit an investment, or bankruptcy matters (including, for example, whether to trigger an event of default or the terms of any workout) may result in conflicts of interest. Similarly, if an issuer in which a Client and one or more other Clients directly or indirectly hold different classes of securities (or other assets, instruments or obligations issued by such issuer or underlying investments of such issuer) encounters financial problems, decisions over the terms of any workout will raise conflicts of interests (including, for example, conflicts over proposed waivers and amendments to debt covenants). For example, a debt holder may be better served by a liquidation of the issuer in which it may be paid in full, whereas an equity or junior bond holder might prefer a reorganization that holds the potential to create value for the equity holders. Although in some cases the Adviser may refrain from taking certain actions or making investments on behalf of Clients because of conflicts (potentially disadvantaging the Clients on whose behalf the actions are not taken or investments not made), in other cases the Adviser will not refrain from taking actions or making investments on behalf of some Clients that have the potential to disadvantage other Clients.

In addition, the Adviser's non-investment advisory consulting engagements may constrain the Adviser's ability to pursue certain investment opportunities on behalf of its Clients. For example, the Adviser may be engaged by a consulting client to conduct real estate analysis and due diligence on a mortgage asset for a potential investment by that consulting client, which could preclude the Adviser from participating in an otherwise suitable investment opportunity on behalf of the Adviser's investment advisory Client. Such constraints on the Adviser's ability to pursue certain investment opportunities may diminish the number of potential investment opportunities in the specialized housing and mortgage markets. In some cases, the Adviser may request a Client's consent to pursue an investment on that Client's behalf in a transaction in which the Adviser was previously engaged by a real estate consulting client. In such circumstances, the Adviser may face a potential conflict between the interests of such Client and those of the real estate consulting client involved in the same transaction.

Potential conflicts of interest could also arise because the types of investments the Adviser will make on behalf of Clients are not publicly traded and independent valuations of such assets are generally not available. The Adviser is therefore responsible for determining the fair market value of the assets held by the Clients, and because the Adviser's compensation is based on the value of the Clients' underlying investments, it has an incentive to assign them a higher value.

Any of the foregoing conflicts of interest will be reviewed on a case-by-case basis. Any review will take into consideration the interests of the relevant Clients, the circumstances giving rise to the conflict and applicable laws. Clients should be aware that conflicts will not necessarily be resolved in favor of their interests, and the Adviser will attempt to resolve such matters fairly, but even fair resolution may be resolved in favor of other Clients which pay the Adviser higher fees or performance fees or in which the Adviser or its affiliates have a significant proprietary interest. There can be no assurance that any actual or potential conflicts of interest will not result in a particular Client or group of Clients receiving less favorable investment terms in or returns from certain investments than if such conflicts of interest did not exist.

**Performance-Based Fees and Side-By-Side Management.** As discussed under Item 6, "Performance-Based Fees and Side-by-Side Management," the Adviser may manage different types of accounts having different fee arrangements. Side-by-side management of different types of accounts may raise potential conflicts of interest. Where (i) the actions taken on behalf of one account may affect other similar or different accounts (e.g., because such accounts have the same or similar investment styles or otherwise compete for investment opportunities, have potentially conflicting investments or investment styles, or have differing ability to engage in short sales and economically similar transactions) and (ii) the Adviser and its personnel have different interests in such accounts (e.g., the Adviser or its related persons are exposed to

differing potential for gain or loss through different compensation structures – including circumstances where some accounts pay only asset-based fees while others are subject to performance-based or incentive fees or allocations), the Adviser may have an incentive to favor certain accounts over others that may be less lucrative, or to favor accounts in which it or its affiliates have a significant proprietary interest. Similarly, when the Adviser receives performance-based fees or allocations, or Adviser Personnel have a financial incentive to achieve gains in excess of the disincentive to suffer losses, the Adviser and/or such personnel may have an incentive to choose investments that are riskier or more speculative than might otherwise be chosen. To mitigate these conflicts, the Adviser’s policies and procedures seek to provide that investment decisions are made based on the best interests of Clients and without consideration of the Adviser’s (or such personnel’s) pecuniary, investment or other financial interests.

**Conflicts Relating to Investments by the Adviser.** The Adviser and officers, principals and employees of the Adviser may buy or sell securities or other instruments that the Adviser has recommended to Clients. In addition, officers, principals and employees may buy securities in transactions offered to but rejected by Clients. Such transactions are subject to the policies and procedures set forth in the Adviser’s Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments may vary from those of the Clients. If officers, principals and employees of the Adviser have made large capital investments alongside the Clients, they may have conflicting interests with respect to these investments.

#### Potential Restrictions and Conflicts Relating to Information Possessed or Provided By the Adviser

**Availability of Proprietary Information.** In connection with its activities, certain persons within the Adviser may receive information regarding proposed investment activities for the Adviser and Clients that is not generally available to the public. There will be no obligation on the part of the Adviser to make available for use by a Client, or to effect transactions on behalf of a Client on the basis of, any such information. In many cases, such persons will be prohibited from disclosing or using such information for their own benefit or for the benefit of any other person, including Clients. Similarly, one or more Clients may have, as a result of receiving client reports or otherwise, access to information regarding the Adviser’s transactions or views that are not available to other Clients, and may act on such information through accounts managed by persons other than the Adviser. Such transactions may negatively impact Clients through market movements or by decreasing the pool of available securities or liquidity. Clients may also be adversely affected by cash flows and market movements arising from purchase and sale transactions, as well as increases of capital in, and withdrawals of capital from, accounts of other Clients. These effects can be more pronounced in thinly traded securities and less liquid markets.

**Material Non-Public Information/ Insider Trading.** From time to time, Adviser Personnel may come into possession of material, non-public information (“MNPI”) which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, Adviser Personnel may be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, regardless of whether that person is a Client. Accordingly, should the Adviser employee come into possession of MNPI with respect to an issuer, it may be prohibited from communicating such information to, or using such information for the benefit of, Clients, which could limit the ability of Clients to buy, sell or hold certain investments. The Adviser shall have no obligation or responsibility to disclose such information to, or use such information for the benefit of, any person (including Clients). We have implemented procedures that prohibit the misuse of such information (e.g., illegal securities trading based on the information) by the Adviser, our employees and on behalf of our Clients. Similarly, no employee who is aware of MNPI which relates to any other company or entity in circumstances in which such person is deemed to be an insider or is otherwise subject to restrictions under federal securities laws may buy or sell securities of that company or otherwise take advantage of, or pass on to others, such MNPI.

**Other Trading Restrictions.** In addition, the Adviser maintains one or more restricted lists of companies whose securities are subject to certain trading prohibitions due to the Adviser’s business activities. The

Adviser may restrict trading in an issuer's securities if the issuer is on a restricted list or if the Adviser otherwise has MNPI about that issuer. A Client's account may be unable to buy or sell certain securities until the restriction is lifted, which could disadvantage the Client's account. In some cases, the Adviser may not initiate or recommend certain types of transactions or may otherwise restrict or limit its advice relating to certain securities if a security is restricted due to MNPI or if the Adviser seeking to limit receipt of MNPI.

## ITEM 12. BROKERAGE PRACTICES

As Clients invest primarily in debt investments in mortgage securities, the Adviser anticipates that investments in publicly traded securities will be infrequent occurrences (e.g., money market instruments pending investment, etc.). However, to meet its fiduciary duties to Clients, the Adviser has adopted written policies to address issues that might arise with respect to purchasing, holding, and selling publicly traded securities.

### Selection of Brokers and Dealers

For each of the Clients, the Adviser has sole discretion over the purchase and sale of investments (including the size of such transactions) and the broker or dealer, if any, to be used to effect transactions. In placing each transaction for a Client involving a broker-dealer, the Adviser will seek "best execution" of the transaction except to the extent it may be permitted to pay higher brokerage commissions in exchange for brokerage and research services (as discussed below). "Best execution" means obtaining for a Client account the lowest total cost (in purchasing a security) or highest total proceeds (in selling a security), taking into account the circumstances of the transaction and the reputability and reliability of the executing broker or dealer. In order to monitor best execution, the Adviser will periodically monitor broker-dealers to assess the quality of execution of brokerage transactions effected on behalf of the Adviser and each Client.

### Directed Brokerage

The Adviser generally does not have client directed brokerage arrangements, although it has policies and procedures in the case of such arrangements. Use of directed brokerage arrangements may deprive a client of benefits that might otherwise be obtained by "bunching" the client's order with orders for other Client accounts and may result in the Client's paying a higher commission rate, receiving less favorable execution than if the Adviser had discretion to select the broker or negotiate the commission rate, or orders being placed at different times and potentially after orders are placed for Clients that have not implemented directed brokerage arrangements.

### Aggregation of Trades

The Adviser and its affiliates may aggregate (or bunch) the orders of more than one Client for the purchase or sale of the same publicly traded security. Portfolio managers and traders often employ this practice because larger transactions may enable them to obtain better overall prices, including lower commission costs or mark-ups or mark-downs. The Adviser and its affiliates may combine orders on behalf of Clients with orders for other Clients for which it or its affiliates have trading authority, or in which it or its affiliates have an economic interest. In such cases, the Adviser and its affiliates generally aggregate trade orders for publicly traded securities so that each participating Client will receive the average price for each execution of a transaction. If an order for more than one Client for a publicly traded security cannot be fully executed, allocation shall be made based upon the Adviser's procedures for allocation of investment opportunities, as described in Item 11 above.

## ITEM 13. REVIEW OF ACCOUNTS

### Oversight and Monitoring

The Adviser provides continuous advisory services for Clients. The investments of each Client are primarily reviewed by the investment team and Portfolio Manager on an ongoing basis. During the quarterly valuation meeting, each investment in Client accounts are discussed, highlighting underlying credit quality, changes in property performance expectations and market events. More frequent reviews are performed as necessary due to developments in the underlying investments. The Adviser may determine that such other-than-quarterly reviews are appropriate because of credit or investment deterioration, unusual market events or changes in the Client's investment mandate.

### Reporting

We perform various periodic reviews of each Client's portfolio, and credit surveillance of the underlying loans and properties.

We will distribute an audited financial report with respect to the previous fiscal year to all Investors within 120 days of fiscal year end, and tax information necessary for the completion of income tax returns. We may also distribute quarterly unaudited net asset value statements, quarter-end performance reports, and a quarterly investor letter to all Investors.

## ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION

The Adviser does not currently engage in any client solicitation arrangements. Although the Adviser does not intend to enter into such arrangements as a general practice, the Adviser may, from time to time, pay compensation for investor referrals. To the extent required by law, the Adviser will require that any person referring a client or investors to the Adviser enter into a written agreement. The fees and expenses of any third-party placement agents are paid by Systema and not by the Clients or its investors.

## ITEM 15. CUSTODY

Outside of separately managed accounts, the Clients that are pooled investment funds managed by the Adviser are and will be subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The Client audited financial statements are distributed to each investor in the Client. The audited financial statements will be prepared in accordance with generally accepted accounting principles in the United States. The Adviser does not act as custodian for Client assets in separately managed accounts. In the case of separately managed accounts, appointment of a custodian is a prerequisite to the Adviser's management of Client assets. Separately managed account Clients must select and appoint their own custodians, whose services and fees will be separate from the Adviser's fees. Separately managed account Clients are responsible for independently arranging for all custodial services, including negotiating custody agreements and fees and opening custodial accounts. In the case of investment funds that are managed by the Adviser, the Adviser appoints a custodian for the fund assets on behalf of the managed funds. The custodian's services and fees are separate from the Adviser's fees.

## ITEM 16. INVESTMENT DISCRETION

The Adviser provides investment advice directly to its Clients pursuant to a written investment management agreement and the terms of the Governing Documents with each Client. Powers of attorney and any

restrictions on the Adviser's authority are set forth in the Governing Documents. The Governing Documents may impose investment limitations on a Client, including restrictions on the amount of capital that can be invested in a specific type of security, any single investment, or particular geographic regions.

#### ITEM 17. VOTING CLIENT SECURITIES

Depending on the arrangements negotiated with a particular Client, the Adviser may vote securities on behalf of its Clients. The Adviser has established written policies and procedures setting forth the principles and procedures by which the Adviser votes or gives consent with respect to securities owned by the Clients ("Votes"). The guiding principle by which the Adviser votes all Votes is to vote in the best interests of each Client by maximizing the economic value of the relevant Client's holdings, taking into account the relevant Client's investment horizon, the contractual obligations under the relevant investment management agreements or comparable documents, and all other relevant facts and circumstances at the time of the Vote. The Adviser does not permit Voting decisions to be influenced in any manner that is contrary to, or dilutive of, this guiding principle.

It is the Adviser's general policy to vote or give consent on all matters presented to security holders in any Vote. However, the Adviser reserves the right to abstain on any particular Vote or otherwise withhold its vote or consent on any matter if, in the judgment of the Adviser's CEO, CCO or the relevant Adviser investment professional, the costs associated with voting such Vote outweigh the benefits to the relevant Clients or if the circumstances make such an abstention or withholding otherwise advisable and in the best interests of the relevant Clients.

Clients generally cannot direct the Adviser's Vote.

All Voting decisions initially are referred to the Adviser's CEO, CCO or appropriate investment professional for a voting decision. In most cases, the Adviser's CEO, CCO or appropriate investment professional will make the decision as to the appropriate vote for any particular Vote. In making such decision, he or she may rely on any of the information and/or research available to him or her. If the investment professional is making the Voting decision, the investment professional will inform the CCO of any such Voting decision, and if the CCO does not object to such decision as a result of his or her conflict of interest review, the Vote will be voted in such manner. If the investment professional and the CCO are unable to arrive at an agreement as to how to vote, then the CCO may consult with the Adviser's CEO as to the appropriate vote, who will then review the issues and arrive at a decision based on the overriding principle of seeking the maximization of the economic value of the relevant Clients' holdings.

The Adviser's CCO has the responsibility to monitor Votes for any conflicts of interest, regardless of whether they are actual or perceived. All Voting decisions will require a mandatory conflicts of interest review by the Adviser's CCO in accordance with these policies and procedures, which will include consideration of whether the Adviser or any investment professional or other person recommending how to vote has an interest in how the Vote is voted that may present a conflict of interest. In addition, all Adviser investment professionals are expected to perform their tasks relating to the voting of Votes in accordance with the principles set forth above, according the first priority to the best interest of the relevant Clients. The Adviser's CCO will use his or her best judgment to address any such conflict of interest and ensure that it is resolved in accordance with his or her independent assessment of the best interests of the Clients.

Where the Adviser's CCO deems appropriate in his or her sole discretion, unaffiliated third parties may be used to help resolve conflicts. In this regard, the Adviser's CCO shall have the power to retain independent fiduciaries, consultants, or professionals to assist with Voting decisions and/or to delegate voting or consent powers to such fiduciaries, consultants or professionals.

Copies of relevant proxy logs, identifying how proxies were voted in connection with a Client and copies

of proxy voting policies are available to any Client or prospective client upon written request.

#### ITEM 18. FINANCIAL INFORMATION

Item 18.A is not applicable to the Adviser, as it does not require or solicit prepayment of fees six months or more in advance.

In response to Item 18.B, the Adviser is not currently aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Clients or Other Advisory Clients.

Item 18.C is not applicable to the Adviser, as it has not been subject to a bankruptcy petition.

#### ITEM 19. REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Item 19 is not applicable to the Adviser as it is not registered with any State securities authority.