

Form ADV Part 2A: Firm Brochure

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This brochure (this “Brochure”) provides information about the qualifications and business practices of Credit Bridge Advisors LLC (the “Adviser”). If you have any questions about the contents of this Brochure, please contact us at (786) 505-5753 and/or john.contino@creditbridge.com.

The Adviser is registered as an investment adviser with the United States Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

Additional information about the Adviser is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Item 2: Material Changes

The Adviser filed its initial application to register as an investment adviser with the SEC on July 31, 2024. While this Brochure contains changes and updates to certain information, including updates to the Adviser’s regulatory assets under management, there are no material changes to report. All recipients of this Brochure are encouraged to read it carefully in its entirety.

In the future, this Item will identify and discuss the material changes since the last annual update to assist investors and make them aware of certain information that has changed since the prior year’s Brochure.

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Item 4: Advisory Business

The Adviser is a Delaware limited liability company and has been in business since 2024. The Adviser is solely owned by Credit Bridge Corporation, which is itself principally owned by Choudhary Yarlagadda, Patrick Downes and John Contino.

The Adviser invests in portfolios of secured debt obligations - although such portfolios may make other investments, including but not limited to, equity positions in associated operating units and various derivative positions (primarily for hedging purposes).

The Adviser manages both customized portfolios for single investors by way of “funds-of-one” and non-customized portfolios for co-mingled private funds in which multiple investors may invest.

Investors in co-mingled private funds are not able to impose restrictions on investing in certain securities or types of securities, but fund-of-one investors do have this ability (and may reserve the right to approve certain investments) subject to agreement with the Adviser. From time to time, the Adviser may determine that it is appropriate to seek co-investors for certain investments, for example, if the size of the investment is greater than the amount of capital that the Adviser believes is prudent for applicable clients to invest. Portfolios that are created solely to make co-investments will typically only hold the co-investments for which they are created.

The Adviser does not participate in any wrap fee programs.

As of December 19, 2024, the Adviser managed \$200,000,000 of regulatory assets under management on a non-discretionary basis.

Item 5: Fees and Compensation

The Adviser charges clients a combination of management and incentive fees.

To understand how these fees will be calculated, it is first necessary to understand how the Adviser manages client portfolios. The Adviser manages each client portfolio for a fixed investment period. Over that investment period, the underlying investors in such portfolio typically agree to make available a certain amount of “committed capital” with which the Adviser can make investments. As investments are realized during the investment period, the Adviser will typically have the ability to either recycle some or all of such realized capital into new investments and/or return some or all of it to investors in the form of distributions.

Each management fee will be calculated as an agreed percentage of the client’s committed capital and will be payable quarterly in advance. Client agreements cannot typically be terminated during an investment period without incurring a penalty and this means that clients and investors will typically not have any recourse to obtain any refund of any pre-paid fee. Management fees will typically be deducted from the client’s account, although this may require calling committed capital from investors to the extent the Adviser determines this to be appropriate.

Although the precise method of calculating incentive fees may vary from client to client, the Adviser only charges incentive fees on total returns. The Adviser will typically agree or establish a preferred rate of return for each client and will only earn the incentive fee to the extent that realized gains cumulatively exceed such preferred rate of return net of all prior management fees and expense allocations. Incentive fees will be deducted from client accounts and/or withheld from investor distributions.

The exact calculation methodologies and percentages will either be set out in the governing document for co-mingled private fund clients or agreed with the underlying investor for funds-of-one. Such percentages are not set out herein as this Brochure is only delivered to qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act of 1940.

In addition to management and incentive fees, the Adviser allocates certain expenses to its clients. Allocable expenses may vary from client to client, but include:

- Fees, costs and expenses attributable to due diligence, structuring, organizing, acquiring, managing, holding, valuing, winding up, liquidating, dissolving and disposing of investments, including follow-on investments, refinancings and margin calls;
- Third-party due diligence and other out-of-pocket expenses related to unconsummated transactions – note that this could result in clients paying the entire cost of an unconsummated transaction even if the Adviser contemplated allocating part of such transaction to a third-party co-investor or co-investment vehicle;
- General portfolio expenses (such as interest, brokerage, custodian, and finder's and registration fees) and market data charges;
- Insurance premiums;
- Legal, accounting, appraisal, consulting, financing and auditing fees and expenses;
- Expenses associated with the preparation and distribution of private fund financial statements;
- Costs and expenses of any meetings of any private fund advisory committee and annual and other formal meetings of such fund's partners;
- Extraordinary expenses (such as litigation costs and indemnification obligations);
- Expenses associated with the preparation of private fund tax returns and K-1s;
- Expenses incurred by any private fund general partner or managing member in its capacity as such fund's partnership representative, within the meaning of the Internal Revenue Code or similar role under applicable state or local tax law;
- Taxes, fees and other out-of-pocket expenses levied against any private fund or on its income or assets or in connection with any tax audit, investigation, settlement or review of the fund (to the extent not indemnified for by a fund partner) or otherwise related to the fund's business or investments;
- Costs and expenses relating to establishing and maintaining credit lines and other financings;
- Costs associated with the amendment of private fund governing documents;
- Fund administration fees;
- Costs associated with the termination, liquidation, winding up or dissolution of a private fund or related vehicles; and
- Any organizational expenses, as agreed to with a fund-of-one's underlying investors, and/or as described in a private fund's governing documents.

While fees and expenses may be negotiable in the case of fund-of-one clients the Adviser does not intend for this to be the case with co-mingled private funds. However, certain accommodations may be granted for certain strategic investors by way of side letters, and certain investors affiliated with the Adviser may pay reduced or no management or incentive fees in the sole discretion of the Adviser. Further, the fees and expenses to be paid by co-investors and co-investment vehicles, will typically be negotiated on case-by-case basis, and may, depending on the facts and circumstances, result in such co-investors or co-investment vehicles paying no fees or expenses. However, except for in the case of third-party due diligence and other out-of-pocket expenses related to unconsummated transactions, the Adviser will seek to ensure that clients do not pay any part of any expense that could otherwise be deemed to be attributable to a co-investor or co-investment vehicle.

Item 6: Performance-Based Fees and Side-by-Side Management

As discussed in Item 5 above, the Adviser may receive performance-based compensation in the form of incentive fees. Because the Adviser charges incentive fees to all clients, it does not anticipate facing certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some but not other clients. However, the Adviser may receive an incentive fee from one client that is higher or lower than the incentive fee charged to another client. As a result, the Adviser could be incentivized to favor a client from which it collects higher incentive fees. With this in mind, the Adviser will not establish private fund clients with competing or overlapping mandates without first establishing investment allocations procedures designed to address such conflict.

Item 7: Types of Clients

The Adviser's clients are typically private funds, which may be, funds-of-one consisting of single investors, comingled funds in which multiple investors may invest, or co-investment vehicles. In some cases, the Adviser may enter (and has entered) into agreements with fund-of-one investors prior to the establishment of the applicable fund-of-one, pursuant to which, the Adviser agrees to source investments that will ultimately be acquired by the fund-of-one in which the investor ultimately invests. The only private fund currently in existence is Credit Bridge Fund I LLC.

The minimum commitment to invest in a co-mingled private fund or co-investment vehicle will be set out in the applicable private fund governing documents, although the Adviser will maintain discretion to accept less than the minimum investment threshold. The minimum commitment for a fund-of-one will be negotiable and considered on a case-by-case basis but is not expected to be less than \$75 million. The minimum size for each co-investment vehicle will be governed by the facts and circumstances pertaining to the underlying investment that necessitated the creation of such co-investment vehicle.

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

Methods of Analysis and Investment Strategies

The Adviser invests in portfolios of secured debt obligations - although such portfolios may make other investments, including but not limited to, equity positions in associated operating units and various derivative positions (primarily for hedging purposes).

Currently, the Adviser focuses on debt obligations that are directly or indirectly principally secured by real estate in the U.S. This will include investments in U.S. mortgage credit, including seasoned loans, distressed loans, newer origination residential mortgage loans, multifamily related mortgage assets and other mortgage credit assets. The Adviser may invest opportunistically in other assets, including mortgage related assets backed by seasoned non-RPL mortgage assets, newer origination

residential mortgages and multifamily related mortgage assets. The Adviser does not currently intend to invest in mortgage related assets outside the U.S.

Risk of Loss and Investment Risks

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

The following risk factors do not purport to be a complete list or explanation of the risks involved with the Adviser's activities. These risk factors include only risks that the Adviser believes to be material, significant or unusual based on information currently available to the Adviser.

Risks Related to Investments in the U.S. Mortgage Market

Conditions in the U.S. Residential Mortgage Market

The performance of residential mortgage loans and the performance of associated derivative securities (such as mortgage-backed securities ("MBS")) are influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner behavior.

It is possible that delinquencies, defaults and foreclosures on residential mortgage loans will increase in the future especially in light of the current higher interest rate environment. The increase in delinquencies, defaults and foreclosures may significantly affect mortgage loans reflecting the greater difficulty that these borrowers have in making down payments and the propensity of these borrowers to extract equity during refinancing. As client accounts may invest in one or more of these types of mortgage loans and securities backed by such mortgage loans, performance may be sensitive to the same economic factors that affect the mortgage loans.

Market conditions may impair borrowers' ability to refinance or sell their residential properties, which may contribute to higher delinquency and default rates. These risks could be exacerbated to the extent that prevailing mortgage interest rates increase from current levels. If there is significant home price depreciation, it may also leave borrowers with insufficient equity in their homes to enable them to refinance. Borrowers who are unable to make the minimum monthly payments on their mortgage loans and intend to sell their homes may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their mortgage loans. While some mortgage loan originators and servicers have created or otherwise are participating in modification programs in order to assist borrowers with refinancing or otherwise meeting their payment obligations, not all borrowers will qualify for or will take advantage of these opportunities. Unfavorable economic conditions could increase the likelihood of delinquencies and defaults. A general unavailability of credit also affects the overall economy in ways that could result in increased delinquencies and defaults on residential mortgage loans.

A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Many borrowers who might otherwise qualify for refinancing have been unable to obtain new loans due to conditions in the credit markets. Furthermore, borrowers who intend to sell their homes may find that they cannot sell their properties for an amount equal to or

greater than the unpaid principal balance of their loans, or that prospective buyers of their homes are unable to obtain financing. These events, alone or in combination, may contribute to higher delinquency rates or defaults.

Regulation of the Mortgage Industry and the Dodd-Frank Act

In response to the financial crisis of 2008, the United States government implemented sweeping financial and regulatory reform legislation. These reforms have created a level of uncertainty in the securitization market and the financial markets, generally, particularly with respect to mortgage-related investments. Securities, futures and credit markets, and originators and servicers of residential mortgage loans are subject to comprehensive statutes and extensive regulation by federal, state and local governmental authorities. Loans, and their related origination and servicing practices, are highly regulated consumer finance products and are subject to federal, state and local laws. Violations or alleged violations of federal, state or local laws could result in a reduction in the amount available from a mortgage loan and could otherwise affect investment performance. In addition, violations, or even alleged violations, by loan servicers of laws or regulations applicable to mortgage loan origination and servicing, could adversely affect any such entity's ability to continue its performance of its obligations with respect to the mortgage loans.

In addition, the Dodd-Frank Act includes extensive changes to the laws regulating financial services firms, which included the creation of (i) the Consumer Financial Protection Bureau (the "CFPB") within the Federal Reserve to regulate consumer financial services and products and (ii) the Financial Stability Oversight Council to identify, monitor and address emerging systemic risks posed by the activities of financial services firms and make recommendations to the Federal Reserve to alleviate those risks. The CFPB has sole rulemaking and interpretive authority under existing and future consumer financial services laws and supervisory, examination and enforcement authority over institutions subject to its jurisdiction.

The law also provides for enhanced regulation of derivatives and securitization transactions (including the addition of risk retention requirements, third-party due diligence disclosure requirements, expanded asset-level data requirements and new standards relating to eligibility of securities as "mortgage-related securities" under the Exchange Act), restrictions on executive compensation and enhanced oversight of credit rating agencies. In addition, the law provides for the elimination of prepayment penalties for mortgage loans and expanded consumer protection in respect of high-cost loans.

The CFPB, U.S. Treasury Department, several regulatory bodies and state attorneys general have increased scrutiny of mortgage servicers and have imposed, or are seeking to impose, requirements on servicers to substantially revise their servicing practices, including the establishment of national servicing standards that would be applicable to all residential mortgage servicers. For example, such regulatory action may require servicers to make several enhancements to their servicing operations, including implementation of a single point of contact model for borrowers throughout the loss mitigation and foreclosure processes; adoption of measures designed to ensure that foreclosure activity is halted once a borrower has been approved for a modification unless the borrower fails to make payments under the modified loan; implementation of enhanced controls over third-party vendors that provide default servicing support services; and retention of an independent consultant

to conduct a review of all foreclosure actions pending, or that have occurred within a specified period.

Actions that have been taken and may be taken in the future by the U.S. government or by state or municipal governments may have the effect of encouraging, or may require, that the terms of residential mortgage loans be modified in order to reduce the applicable interest rate, reduce the outstanding principal amount, extend the term to maturity or otherwise benefit the borrower to the detriment of the holder of the mortgage loan. These loan modifications may affect only residential mortgage loans that are in default or may also affect other loans as to which the borrower has negative equity in the mortgaged property or is otherwise considered to be disadvantaged or deserving of assistance. Portfolio investments could be adversely affected, resulting in decreased yield or losses to investors.

There can be no assurance that governmental actions and regulations will have a beneficial impact on the financial markets. To the extent the market does not respond favorably to these initiatives or these initiatives do not function as intended, clients may not receive a positive impact from the legislation. It is also possible that competitors may utilize the programs, which would provide them with attractive debt and equity capital funding from the U.S. government. In addition, the U.S. government, the Federal Reserve, the U.S. Treasury and other governmental and regulatory bodies may consider taking other actions to address the lingering effects of the financial crisis. The Adviser cannot predict whether or when such actions may occur, and such actions could have a dramatic impact on the business, results of operations and financial condition of client portfolios.

Risks Associated with Foreclosure and Bankruptcy

In addition to the procedural delays and uncertainties generally incident to the mortgage foreclosure process in various jurisdictions, several courts and state and local governments and their elected or appointed officials also have taken steps to slow the foreclosure process or prevent foreclosures altogether. It has been widely reported that irregularities in foreclosure processes have been discovered with respect to certain servicers of residential mortgage loans. In judicial foreclosure proceedings and in certain non-judicial foreclosure actions and proceedings, affidavits and other legal pleadings establishing the basis for the foreclosure must be submitted to the applicable court. Such filings are required to be based on the personal knowledge of the facts asserted by the person signing the filings. Many servicers attempted to streamline this process by employing individuals whose sole function is to sign such pleadings. Lawsuits have charged that these individuals signed and filed tens of thousands of foreclosure affidavits without following proper procedures, including without examining the related documentation to ensure knowledge of the facts being asserted and signing foreclosure affidavits in the presence of a notary public as required. As a result of the disclosure of these practices, several large servicers temporarily halted all foreclosures to conduct reviews of their procedures.

As a result of the review by regulators of deficiencies in servicing and foreclosure practices, certain servicers entered into a consent order with the Office of the Comptroller of the Currency (the “OCC”) and agreed to specific commitments regarding servicing and foreclosure practices for delinquent mortgage loans, which are designed to ensure timely and accurate decisions and effective quality control and risk management (the “OCC Enforcement Action”). On January 7, 2013, the

OCC and the Federal Reserve reached an \$8.5 billion settlement agreement with ten U.S. banks arising from the OCC Enforcement Action regarding alleged foreclosure abuses (the “2013 Servicing Settlement”). Part of the 2013 Servicing Settlement provides for financial relief for affected homeowners, including loan modifications and principal reductions, which could have an adverse effect on the value of a mortgage loan.

Certain members of Congress, other political leaders and consumer advocacy groups have called for government-imposed moratoria on foreclosures from time-to-time. There can be no assurance that federal or state governments will not impose such moratoria. Any of these types of laws, regulations, rules, moratoria or proceedings could result in substantial delays in, or prevention of, the foreclosure process, and may lead to reduced payments by borrowers, increased reimbursable servicing expenses, reduced proceeds from further depressed home prices, and additional defaults. In addition, the uncertainty regarding the validity of foreclosures may limit or reduce the potential number of buyers and/or the prices of property for sale after such property is acquired through foreclosure. Any of these consequences may lead to increased client losses.

In addition to the foregoing developments, the existing “right of redemption” in certain states may limit the ability of servicers to sell (or cause the sale of), or prevent a servicer from selling (or causing the sale of), an REO at what would otherwise be an appropriate time for sale. In some states, after sale pursuant to a deed of trust or foreclosure of a mortgage, the borrower and foreclosed junior lienors are given a statutory period in which to redeem the property from the foreclosure sale. In other states, including California, this right of redemption applies only to sales following judicial foreclosure, and not to sales pursuant to a non-judicial power of sale. In most states where the right of redemption is available, statutory redemption may occur upon payment of the foreclosure purchase price, accrued interest and taxes. In other states, redemption may be authorized if the prior borrower pays only a portion of the sums due. The effect of a statutory right of redemption is to diminish the ability of the lender to sell the foreclosed property. The exercise of a right of redemption would defeat the title of any purchaser from the lender subsequent to foreclosure or sale under a deed of trust. Consequently, the practical effect of the redemption right is to force the lender to retain the property and pay the expenses of ownership until the redemption period has run.

Similar to foreclosure considerations, bankruptcy proceedings that involve a mortgage loan could impede the related servicer’s ability to take actions that are necessary or appropriate to preserve the value of the mortgage loan. Although mortgage cram-down legislation was not included in the Dodd-Frank Act, no assurance can be made that future efforts by members of Congress to enact such legislation will not succeed in the future. Various proposals would have allowed a bankruptcy judge in a Chapter 13 proceeding, subject to the satisfaction of certain conditions, to modify the terms of a debtor’s mortgage loan to:

- Bifurcate the mortgage loan into secured and unsecured portions by allowing the debtor to establish a current market value for the mortgaged property and reducing the amount of the secured mortgage loan to such newly established current market value. The unsecured portion of the mortgage loan would be forgiven if the debtor satisfies the requirements of the bankruptcy plan;

- Modify the interest rate of the mortgage loan by reducing the interest rate or delaying interest rate reset dates for an adjustable-rate loan and reducing the interest rate for a fixed-rate loan; and
- Extend the amortization period of the mortgage loan for up to the longer of 40 years or the remaining term of the original loan.

If a similar legislative proposal were passed in the future, the bifurcation of mortgage loans into secured and unsecured portions and the resulting “cram-down” of secured portions of mortgage loans subject to Chapter 13 proceedings to newly established market values could have a negative impact on the value of mortgage loans if this results in losses on the related mortgage loans higher than those which would have occurred pursuant to traditional loss mitigation and loan modification procedures. Any such cram-down modification by a bankruptcy judge could have a significant impact on the principal and interest collections on the related loans, and therefore may have a significant impact on payments to the owner of the mortgage loans and client portfolios.

Risk of Future Legislative, Regulatory or Judicial Action

There can be no assurance as to what actions might be taken by any federal, state or municipal legal authority that may adversely affect investments held by client portfolios. Such actions could include, by way of example, further restrictions on the ability of the holder of a mortgage loan to foreclose upon default by the borrower or delays in the foreclosure process, encouragement of modification of the terms of mortgage loans in ways that may be adverse to the interests of the holder of the mortgage loans or of related securities, and judicial determinations as to whether particular types of mortgage loans are “unfair” under applicable law.

Lack of Information Regarding Underwriting Standards; Higher Expected Delinquencies in Payment

Clients may acquire mortgage loans or from unaffiliated institutions, finance companies and other sellers. When investing in such mortgage loans from time to time, the seller will not have information available to it as to the underwriting standards that were applied in originating the mortgage loans, and such mortgage loans may have been originated in accordance with standards less strict than those of the agencies. Similarly, when acquiring loans through third-party origination (“TPO”), clients may have limited information on the underwriting standards that were applied in originating such loan. As a result, certain mortgage loans owned by clients may experience higher than expected rates of delinquency and defaults, which could result in client losses. Changes in the values of mortgaged properties may have a greater effect on the delinquency, default and loss experience of the mortgage loans in client portfolios than on mortgage loans that were originated under stricter guidelines.

Risks Related to Investments in Mortgage Loans

Re-performing Mortgage Loans

The Adviser may invest in mortgage loans that have previously been in default or delinquent in payment and that, at the time such mortgage loans are acquired, are in compliance with the terms

of the related mortgage loan documents and are no longer delinquent. While these mortgage loans may have been acquired at a price that reflects the fact that the mortgage loans are re-performing at the time of acquisition, there can be no assurance that such mortgage loans will continue to be current and/or in compliance with the terms of the related mortgage loan document during the time period in which a client owns such mortgage loans. It is therefore possible that re-performing loans may become non-performing loans and be subject to the same related risks.

Interest-Only Mortgage Loans

The Adviser may invest in interest-only mortgage loans for pools of interest-only mortgage loans. Interest-only mortgage loans permit the borrowers to make monthly payments of only accrued interest for a period of time following origination, generally the first 60 or 120 months. After such interest-only period, the borrower's monthly payment will be recalculated to cover both interest and principal so that the mortgage loan will amortize fully prior to its final payment date. If the monthly payment increases, the related borrower may not be able to pay the increased amount and may default or may refinance the related mortgage loan to avoid the higher payment. Interest-only mortgage loans reduce the monthly payment required by borrowers during the interest-only period and consequently the monthly housing expense used to qualify borrowers. As a result, the interest-only mortgage loans may allow some borrowers to qualify for a mortgage loan that would not otherwise qualify for a fully amortizing mortgage loan or may allow them to qualify for a larger mortgage loan than otherwise would be the case.

Troubled Origination

The investments chosen by the Adviser may have been originated by financial institutions or other entities that are insolvent, in serious financial difficulty or no longer in existence. As a result, the standards by which such investments were originated, the recourse to the selling institution, or the standards by which such investments are being serviced or operated may be adversely affected.

Geographic Concentration of Mortgage Loans

The mortgage loans and securities backed by mortgage loans in which the Adviser may invest may be concentrated in a specific state or states. Weak economic conditions in these locations or any other location (which may or may not affect real property values), may affect the ability of borrowers to repay their mortgage loans on time.

Properties in certain jurisdictions may be more susceptible than properties located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the residential real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in the loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the mortgage loans and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of or losses on the mortgage loans. Natural disasters, such as wildfires, severe storms, tornadoes, hurricanes and flooding affecting regions of the United States from time to time may also result in prepayments of or losses on

mortgage loans. These factors and others may adversely affect the value of mortgage properties in some geographic regions and affect performance.

Credit Scores May Not Accurately Predict the Performance of the Mortgage Loans

The Adviser may rely on credit scores as part of its due diligence process. Credit scores are obtained by many lenders in connection with mortgage loan applications to help them assess a borrower's creditworthiness. Credit scores are generated by models developed by a third party that analyzed data on consumers in order to establish patterns that are believed to be indicative of the borrower's probability of default over a two-year period. The credit score is based on a borrower's historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit and bankruptcy experience. Credit scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a credit score purports only to be a measurement of the relative degree of risk a borrower represents to a lender (i.e., a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score). Lenders have varying ways of analyzing credit scores and, as a result, the analysis of credit scores across the industry is not consistent. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assess only the borrower's past credit history. Therefore, a credit score does not take into consideration the effect of mortgage loan characteristics (which may differ from consumer loan characteristics) on the probability of repayment by the borrower. There can be no assurance that the credit scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans.

Environmental Risks

Real property pledged as security for a mortgage loan may be subject to certain environmental risks. Under the laws of certain states, contamination of a property may give rise to a lien on the property to ensure payment of the costs of cleanup. In several states, such a lien has priority over the lien of an existing mortgage against the property. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, a lender may be liable, as an "owner" or "operator", for costs of addressing releases or threatened releases of hazardous substances that require remedy the property if agents or employees of the lender have become sufficiently involved in the operations of the borrower, regardless of whether or not the environmental damage or threat was caused by a prior owner.

A lender also risks such liability on foreclosure of the mortgage. Any such lien arising with respect to a mortgaged property would adversely affect the value of the mortgaged property and could make impracticable foreclosure on the mortgaged property in the event of a default by the related borrower. In addition, certain environmental laws impose liability for releases of asbestos into the air. Third parties may seek recovery from owners or operators of real property for personal injury associated with exposure to asbestos, lead paint, radon or other hazardous substances. Property owners in some areas have been subject to liability claims associated with mold.

Violation of Various Federal, State and Local Laws May Result in Losses on the Mortgage Loans

Violation of certain Federal, state or local laws and regulations relating to the protection of consumers, unfair and deceptive practices and debt collection practices may limit the ability of a client to collect all or part of the principal of or interest on the mortgage loans and, in addition, could subject such client to damages and administrative enforcement.

Homeowner Association Super Priority Liens

In some jurisdictions it is possible that the first lien of a mortgage may be extinguished by super priority liens of homeowners' associations ("HOAs"), potentially resulting in a loss of the outstanding principal balance of the mortgage loan. In a number of states, HOA or condominium association assessment liens can take priority over first lien mortgages in certain circumstances. The number of these so called "super lien" jurisdictions has increased in the past few decades and may increase further. Approximately 20 states, including Colorado, Massachusetts, Maryland, New Hampshire, New Jersey, Oregon, and West Virginia, have statutes that give HOA or condominium assessment liens super lien status under certain circumstances. In Colorado, Massachusetts, and New Jersey, for example, HOAs have a super lien that has priority over a first deed of trust to the extent of six months' worth of common expense assessments which would have become due before a foreclosure. In Nevada, nine months of assessments have super-lien status. In these jurisdictions, their super lien statute provides the HOA or condominium association with a true lien priority rather than a payment priority from the proceeds of the sale, creating the ability to extinguish the existing senior mortgage and greatly increasing the risk of losses on mortgage loans secured by homes whose owners fail to pay HOA or condominium fees.

There is currently no efficient mechanism available to loan servicers to track the status of payments of HOA assessments that are governed by super lien statutes. There is no unified database for HOA information nor is there a centralized place for HOAs and loan servicers to contact one another. Consequently, in some super lien jurisdictions there is often no practical, systemic method for a servicer to determine when an HOA assessment is unpaid or when the HOA initiates foreclosure of its lien. In some circumstances a servicer may make a servicing advance to pay (i) delinquent HOA fees or (ii) the costs of determining whether any mortgaged property is subject to an HOA or related lien.

If an HOA, or a purchaser of an HOA super lien, completes a foreclosure in respect of an HOA super lien on a mortgaged property, the related mortgage loan may be extinguished. In those circumstances, a client could suffer a loss of the entire principal balance of such mortgage loan. The servicer might be able to attempt to recover, on an unsecured basis, by suing the related borrower personally for the balance, but recovery in these circumstances will be problematic if the related borrower has no meaningful assets against which to recover.

Special Assessments and Energy Efficiency Liens May Take Priority Over the Mortgage Lien

Mortgaged properties securing mortgage loans may be subject to the lien of special property taxes and/or special assessments. These liens may be superior to the liens securing the related mortgage

loans, irrespective of the date of the mortgage. In some instances, individual mortgagors may be able to elect to enter into contracts with governmental agencies for Property Assessed Clean Energy (PACE) or similar assessments that are intended to secure the payment of energy and water efficiency and distributed energy generation improvements that are permanently affixed to their properties, possibly without notice to or the consent of the mortgagee. These assessments may also have lien priority over the mortgages securing the related mortgage loans. No assurance can be given that any mortgaged property so assessed will increase in value to the extent of the assessment lien. Additional indebtedness secured by the assessment lien would reduce the amount of the value of the mortgaged property available to satisfy the affected mortgage loan in the case of a sale or foreclosure of the related mortgaged property.

Foreclosure and Bankruptcy

When delinquent mortgage loans are resolved through foreclosure, the unpaid balance of such loans may cease to be a part of the aggregate unpaid principal balance. Also, delinquent mortgage loans resolved through foreclosure generally require more servicing advances over a longer time horizon prior to reimbursement as compared with servicing advances made with respect to delinquent mortgage loans that are resolved through repayment or permitted loan modifications. Accordingly, foreclosures could reduce the return to a client. Further, some legislatures have instituted stringent proof of ownership requirements that a servicer must satisfy before commencing a foreclosure action, which could increase costs or provide delays in foreclosure.

Risks Associated with Multifamily Mortgage Loans

The Adviser may invest in multifamily mortgage loans. The value of a portfolio's multifamily mortgage loans will be influenced by the rate of delinquencies and defaults experienced on the relevant multifamily mortgage loans and by the severity of loss incurred as result of such defaults. The factors influencing delinquencies, defaults and loss severity include: (i) economic and real estate market conditions; (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan. Multifamily mortgage loans are generally viewed as having a greater risk of loss through delinquency and foreclosure than lending on the security of single-family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (i.e., the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses and comply with applicable zoning and laws) rather than upon the existence of independent income or assets of the borrower. Many multifamily mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Multifamily mortgage loans generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining "balloon" amount at or prior to maturity of the mortgage loan. Accordingly, investors in multifamily mortgage loans bear the risk that the borrower will be unable to sell the property, refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation. Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially

declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

Risks Relating to the Investments

Investments in real estate related assets will expose portfolios to a high degree of risk

Real estate historically has experienced significant fluctuations and cycles in value and the Adviser may buy and/or sell investments at less-than-optimal times. The marketability and value of the investments will depend on many factors beyond the control of the Adviser. The value of each investment may be adversely affected by changes in national or international economic conditions; changes in local market conditions such as changes in general or local economic conditions and neighborhood characteristics; the financial condition of tenants, buyers and sellers of properties; competition from prospective buyers for, and sellers of, other similar properties; changes in interest rates and in the availability, cost and terms of financing; the impact of present or future environmental legislation and compliance with environmental laws; changes in tax rates and other operating expenses; adverse changes in governmental rules and fiscal policies; civil unrest; pandemics; national emergencies; catastrophes, including earthquakes, hurricanes and other natural disasters; acts of war; acts of terrorism (any of which may result in uninsured losses); adverse changes in zoning laws; and other factors that are beyond the control of the Adviser. In the event that any of the loans or properties that comprise the investments experience any of the foregoing event or occurrences, the value of and return on such investments would be negatively impacted.

Investments may have a lack of availability and high competition

It may take considerable time for the Adviser to identify and consummate appropriate investments. No assurance can be given that the Adviser will be successful in identifying and consummating investments that satisfy a client's rate of return objective or that such investments, once consummated, will perform as expected. The Adviser will be competing for attractive investments with other mortgage investors. These factors may affect a client's ability to invest all of its available capital.

Investments may be illiquid

A substantial portion of a client's assets may consist of securitized mortgage obligations, mortgage-backed loans, structured assets or other financial instruments that are not actively or widely traded, and clients may invest in illiquid securities, or securities that become illiquid after a client's investments in such securities. Mortgage-backed loans and asset-backed securities are generally less liquid than are other securities (e.g., stocks or U.S Treasury bonds). A reduction in dealer market-making capacity in the fixed income markets would have the potential to further reduce liquidity. Certain securities and other investments held by clients may also be illiquid because, for example, they are subject to legal or other restrictions on transfer. Valuation of client investments may be difficult or uncertain, including with respect to securities, because there may be limited information available about the issuer. In addition, the sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-

the-counter markets. Clients may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Even those markets which are expected to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid. Consequently, it may be relatively difficult for a client to dispose of certain investments rapidly and at favorable prices in connection with withdrawal requests, adverse market developments or other factors.

The Adviser may invest in undervalued assets

The Adviser may invest in undervalued instruments. The identification of investment opportunities in undervalued instruments is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued instruments offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from investments may not adequately compensate for the business and financial risks assumed.

Leverage

For certain clients, the Adviser intends to lever its assets through various types of financings, including seller financing, and through various securitization vehicles. The Adviser may also cause clients to leverage investment returns which would include entering into repurchase or other credit facilities, secured by client assets. While leverage presents opportunities for increasing total returns, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment would be magnified to the extent the client account is leveraged. The cumulative effect of the use of leverage in a market that moves adversely to investments could result in a substantial loss, which would be greater than if the client account was not leveraged. Leverage will increase exposure to adverse economic factors such as significantly rising interest rates, severe economic downturns or deterioration in the condition of investments or their corresponding markets.

Investments Longer than a Client's Fixed Investment Period

As stated above, the Adviser manages each client portfolio for a fixed investment period. Such clients may make investments, which may not be advantageously disposed of prior to the end of such fixed investment period. The Adviser may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. There can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to clients will occur.

General Economic and Market Conditions

The success of the Adviser's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, rules and regulations (including laws relating to taxation of a client's investments), trade barriers, currency exchange controls, national and international political circumstances (including wars,

terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity of investments.

Long-Term Nature of Investment Strategies

The success of the Adviser's long-term investment strategies depends upon the Adviser's ability to identify and purchase investments that are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, Clients may forego value in the short-term or temporary investments in order to be able to avail itself of additional and/or longer-term opportunities in the future.

Co-Investments

Clients may make direct or indirect investments in which other clients or parties co-invest. In such an event, clients may not be in a position to unilaterally control 100% of the investments or unilaterally exercise certain rights associated with such investments.

Use of Valuations

Unlike exchange-listed and other readily tradable securities, many types of real estate debt assets generally cannot be marked to an established market. Real estate debt valuations are subject to numerous assumptions and limitations and are in part based upon the value of the real estate securing or supporting such debt investment. Ultimate realization of the market value of a real estate debt asset depends to a great extent on economic and other conditions beyond the control of the Adviser. Further, appraised or otherwise determined values of a real estate debt asset do not necessarily represent the price at which such underlying real estate investment would sell since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Generally, appraisals will consider the financial aspects of a property, market transactions and the relative yield for an asset measured against alternative investments. As a result, if a client were to acquire the real estate underlying a real estate debt asset, by foreclosure or otherwise, and if such client were to liquidate such real estate, the realized value to such client may be more or less than the amount due and owing on the client's debt investment.

Necessity for Counterparty Trading Relationships; Counterparty Risk in General

The Adviser expects to establish relationships to obtain financing, derivative intermediation and brokerage services that permit clients to trade in any variety of markets or asset classes over time. There can be no assurance that the Adviser be able to establish or maintain such relationships. An inability to establish or maintain such relationships would limit a client's trading activities and could create losses, preclude such client from engaging in certain transactions, financing, brokerage services and prevent such client from trading at optimal rates and terms. Moreover, a disruption in the financing, and brokerage services provided by any such relationships before the Adviser establishes additional relationships could have a significant impact on a client's performance due to such client's reliance on such counterparties.

Some of the markets in which the Adviser may effect transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This potential occurrence exposes clients to the risk that a 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 such clients to suffer a loss. In addition, in the case of a default, a client could become subject to adverse market movements while replacement transactions are executed. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a client may have concentrated its transactions with a single counterparty or small group of counterparties.

Furthermore, there is a risk that any of a client’s counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of a client’s counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of such client’s securities and other assets from the Adviser’s broker-dealers will be delayed or be of a value less than the value of the securities or assets originally entrusted to such broker-dealer. Notwithstanding the foregoing, clients will only own fully paid securities. Clients are typically not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the Adviser’s internal credit function which evaluates the creditworthiness of a client’s counterparties may prove insufficient. The ability of the Adviser to transact business with any one or more counterparties, the lack of complete and “foolproof” evaluation of the financial capabilities of the Adviser’s counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses.

Systemic Risk

Credit risk may also arise through a default by one or more several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Adviser interacts on a daily basis.

Volatility Risk

The Adviser’s investment strategies may involve the purchase and sale of relatively volatile instruments such as derivatives, which are frequently valued based on implied volatilities of such derivatives compared to the historical volatility of underlying financial instruments. Fluctuations or prolonged changes in the volatility of such instruments, therefore, can adversely affect the value of investments held by clients.

Interest-Rate Risks

The prices of client assets may be sensitive to interest-rate fluctuations. The Adviser is not obligated to hedge exposure to interest-rate, or any other risks. The value of the fixed rate securities in which

the Adviser invests generally will have an inverse relationship with interest rates. Furthermore, the higher a fixed rate security's duration, the greater its price sensitivity to changes in interest rates. In addition, to the extent that the receivables or loans underlying specific securities are prepayable without penalty or premium, the value of such securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

Competition; Availability of Investments

The markets in which the Adviser will invest are competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Adviser will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, REITs, large financial institutions, the public equity markets and other investors may reduce the availability of investment opportunities. Competitive investment activity by other firms and institutions will reduce a client's opportunity for profit by generally increasing price pressure on desired assets, reducing mis-pricings in the market as well as the margins available on those mis-pricings that can still be identified.

Debt Instruments Generally

The Adviser may invest in private and government debt securities and instruments. It is likely that many of the debt instruments in which the Adviser invests may be unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these instruments and may have an adverse impact on the value of such instruments. It also is likely that any such economic downturn could adversely affect the ability of the issuers of such instruments to repay principal and pay interest thereon and increase the incidence of default for such instruments.

Hedging.

The Adviser may invest in various securities, derivatives, indexes and cash equivalents and related instruments both to hedge portfolio positions and to seek to meet a client's investment objectives opportunistically as more fully described above. The success of any hedging strategy is subject to the 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 portfolios being hedged. Since the characteristics of many instruments change as markets change or time passes, the success of the instances when the Adviser hedges portfolio positions is also subject to the ability for hedges to be continually recalculated, readjusted and executed in an efficient and timely manner. While the Adviser may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance than if it had not engaged in any such hedging transactions. For a variety of reasons, a perfect correlation may not be established between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the

Adviser from achieving the intended hedge or expose clients to risk of loss. Moreover, portfolios will always be exposed to certain risks that may not be hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of portfolio holdings. The Adviser will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally.

Fraud

Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Adviser to perfect or effectuate a lien on the collateral securing the loan. The Adviser will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Non-Performing Debt

It is anticipated that certain debt instruments the Adviser may purchase will be non-performing and possibly in default or may have previously been non-performing and possibly been in default. Furthermore, the obligor may also be in bankruptcy or liquidation or may have previously been in bankruptcy. There can be no assurance as to the amount and timing of payments, if any, with respect to these instruments.

Exposure to Material Non-Public Information

From time to time, the Adviser may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Adviser may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

Uncertain Exit Strategies

Due to the illiquid nature of many of the positions which the Adviser is expected to acquire, as well as the uncertainties of the active management process, the Adviser is unable to predict with confidence what the exit strategy will ultimately be for any given investment, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

Investments may not be Diversified

While the Adviser intends to diversify its investments both geographically and by property type, there is no assurance as to the degree of diversification that will actually be achieved in the

investments. Furthermore, the Adviser may make investments in contemplation of sales or refinancings that do not occur as expected, resulting in clients having an unintended long-term investment and reduced diversification. Since any given client portfolio may only make a limited number of investments and since many of the investments may involve a high degree of risk, poor performance by a few of the investments could severely affect total returns.

Investments may not Achieve their Intended Rate of Return

The Adviser will make investments based on its estimates or projections of internal rates of return and current returns, which, in turn, are based on, among other considerations, assumptions regarding the performance of assets, the amount and terms of available financing and the manner and timing of dispositions of investments, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that have not been anticipated may occur and may have a significant effect on the actual rate of return on the investments.

Additional Risks Related to Investments in Mortgage-Backed and Asset-Backed Securities

Mortgage-Backed and Asset-Backed Securities Generally

The Adviser may invest in MBS and asset-backed securities (“ABS”), including subordinated tranches of such securities. The value of MBS and ABS will be influenced by factors affecting the value of the underlying assets, and by the terms and payment histories of such MBS and ABS.

Some or all of the MBS and ABS contemplated to be acquired by the Adviser may not be rated or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated MBS and ABS, or “B-pieces”, in which the Adviser intends to invest have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than “B” by the rating organizations can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and an owner’s equity in a property may be insufficient to protect a client from loss. As an investor in subordinated MBS and ABS in particular, a client will be first in line among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral.

Clients may acquire subordinated tranches of MBS and ABS issuances. In general, subordinated tranches of MBS and ABS are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and also have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of non-payment than are senior tranches of MBS and ABS or MBS and ABS backed by third-party credit enhancement. In addition, an active secondary market for such subordinated securities is not as well developed as the market for certain other mortgage-backed securities. Accordingly, such subordinated MBS and ABS may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

Some investment characteristics of MBS and ABS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying mortgages (or other assets) generally may be prepaid at any time. The frequency with which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans and other assets underlying MBS and ABS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. Although ABS are generally less likely to experience substantial prepayments than are residential MBS, certain of the factors that affect the rate of prepayments on residential MBS also affect the rate of prepayments on ABS. Particular investments may experience outright losses, as in the case of an interest only security in an environment of accelerated actual or anticipated prepayments. Particular investments will be affected by the credit quality of their underlying loan and the creditworthiness of the borrower. Also, particular investments may underperform relative to hedges that the Adviser may have constructed in these investments, resulting in a loss.

Residential MBS

The Adviser may invest in residential MBS (“RMBS”) including subordinated tranches of RMBS. RMBS represent interests in pools of residential mortgage loans secured by one-to-four-family residential mortgage loans. The value of RMBS will therefore be influenced by factors affecting the value of the underlying portfolio or mortgage loans, as discussed below, and by the terms and payment histories of such RMBS. These risks, which are discussed below in the context of the underlying mortgage loans and the mortgage market in general, include, without limitation, default, delinquencies, prepayment and modification risks, as well as interest rate and general market risks.

In addition, residential mortgage loans underlying RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, delay foreclosures or permit or encourage modifications, which could have an adverse effect on the value of a mortgage loan and the corresponding RMBS. Violation of such laws, public policies and principles may limit the servicer’s ability to collect all or part of the principal or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

The value of RMBS and other mortgage-backed securities in which the Adviser may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities will decline. In addition, to the extent that the mortgage loans which underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline. In addition, it is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Servicing Advances

Most RMBS transactions will have provided for the servicers to make certain monthly advances (of principal and interest) and servicing advances pursuant to the applicable servicing agreements. As indicated above, the costs of servicing an increasingly delinquent mortgage loan portfolio may be rising without a corresponding increase in servicing compensation. Any regulatory oversight, proposed legislation and/or governmental intervention designed to protect consumers or otherwise may have an adverse impact on servicers and, as a result, may have an adverse impact on mortgage loans and on RMBS. These factors, among others, may have the overall effect of increasing costs and expenses of servicers while at the same time decreasing servicing cash flow. Such financial difficulties may have a negative effect on the ability of servicers to pursue collections on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on the sale of underlying properties following foreclosure. Increased levels of delinquencies and defaults on subprime, Alt-A, other non-prime and prime mortgage loans also have resulted in increases in the amounts of advances by servicers of pooled mortgage loans, which may create liquidity and capacity pressures for servicers. In addition, a servicer may generally stop advancing on a mortgage loan when, in the good faith exercise of its servicing judgment, it believes the proposed advance would not ultimately be recoverable from the related mortgagor, related liquidation proceeds or other recoveries in respect of the mortgage loan. There can be no assurance as to the current or continuing financial condition of any mortgage servicer or its ability to access markets for financing such advances.

When home values depreciate, servicers have to reconsider their assumptions regarding when to make monthly advances and servicing advances to avoid making such advances beyond the time that reimbursement for such advances would be unlikely. Falling home prices result in higher loan-to-value ratios and combined loan-to-value ratios which yield lower recoveries in foreclosure, and an increase in loss severities above those that would have been realized had property values remained the same or continued to increase. If servicers make advances that are not recoverable from the proceeds of the related foreclosure, a client's investments in RMBS could suffer losses. In addition, in the event an RMBS servicer determines not to advance, the related RMBS trust will suffer an interest rate shortfall which may result in bond interest shortfalls and may result in lower available credit protection provided that this interest serves as a form of credit enhancement ("excess interest"). This combined with the existence of modification programs, including the Home Affordable Modification Program ("HAMP"), and potentially any bankruptcy cramdown legislation or equivalent change based on industry settlements or regulatory requirements, where the servicer can recoup prior advances upon modification and reduce the mortgage interest rate or forbear principal of the underlying mortgage loans, there is the risk that the interest available to the underlying securitization will be reduced in some instances, increasing bond interest rate shortfalls and decreasing the overall credit protection of the bond. In addition, this modification of interest rates, specifically by changing adjustable rate loans into a modified loan with a fixed rate, will potentially increase the mismatch between the bond interest adjustment features and the underlying loans. This potential decline in RMBS bond interest may increase the risk of leverage and the basis mismatch between the underlying bonds and the financing.

Although RMBS transactions may provide that the loan servicer is required to make advances in respect of delinquent mortgage loans, servicers experiencing financial difficulties, including those

resulting from or exacerbated by servicing-related settlements with governmental entities, regulators or as a result of various civil lawsuits, may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee. There may be contractual differences related to the requirement of the servicer to advance delinquent principal and interest.

Additional Risks Related to Investments in Derivatives

Trading in Derivatives

The Adviser may utilize derivative instruments such as options, futures, forward contracts, total return swaps, credit default swaps, and interest rate swaps, caps and floors, to hedge against fluctuations in the relative values of its positions. These are instruments whose values are based upon underlying assets, indices or reference rates or a combination of these, and generally represent future commitments to exchange cash flows or to purchase or sell other financial instruments (or make an equivalent cash payment) at specified future dates. Certain derivatives (options and credit default swaps in particular) may have intrinsic value separate from the value of underlying assets based upon market perception of creditworthiness or expected volatility in the value of the asset. The use of derivatives involves a variety of material risks, including the possibility of counterparty non-performance as well as of deviations between the actual and theoretical value of the derivatives. Derivatives also are inherently subject to two sources of risk: risk of loss due to adverse changes in the value of the underlying asset and risk of loss due to the insolvency or creditworthiness of the counterparty. In addition, the markets for certain derivatives may be illiquid.

Derivatives are typically intrinsically leveraged investments that may entail investment exposures that are greater than the initial amount of collateral required to enter into the derivative, meaning that an investment in a derivative could ultimately incur losses many times greater than the initial collateral requirements and could therefore have a disproportionate effect on investment performance. Clients could also experience losses if the derivatives that are acquired or sold as a hedge are poorly correlated with the investment to be hedged, or if the Adviser is unable to liquidate a position because of an illiquid secondary market. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives.

Hedging with Derivative Instruments

The Adviser may use derivative financial instruments, including without limitation, futures, swaps, options, floors, total return swaps, primarily for leveraging and hedging purposes. The use of derivative instruments involves a variety of material risks, including the high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance, as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (i.e., non-conformance to anticipated or historical correlation patterns). In addition, the markets for

certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to a client to close out positions in order either to realize gains or to limit losses.

Many of the derivatives which the Adviser trades in will be principal to principal or “over the counter” contracts between a client and third parties entered into privately, rather than on an exchange. As a result, clients are not afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices. Many derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price that the same dealers would actually be willing to pay for such derivative should the Adviser wish or be forced to sell may be materially different. Such differences can result in an overstatement of a client’s net assets and could materially adversely affect a client in situations in which the Adviser is required to sell derivative instruments.

Interest-only securities (“IOS”) may be utilized by the Adviser for hedging or other investment purposes. An IOS is a synthetic total return swap index that references the interest component of various coupons of 30-year fixed rate agency pools of loans. Indices are generally categorized by net coupon and yearly vintage. IOS provide exposure to agency pool coupon cashflows via synthetic total return swap contracts. Net cashflow exchanges are a function of the change in market value of the reference pool interest component and standard monthly exchanges of coupon and financing. Corresponding POS tranches represent the principal component and corresponding MBX tranches represent the entire cashflow stream. Clients may make long or short investments in various tranches for hedging or other investment purposes.

Risks Related to Risk Retention Securities

The Adviser may from time to time purchase certain securities subject to the regulations set forth in 12 CFR Part 244, commonly referred to as Regulation RR, and other similar requirements, contractual or otherwise, of Fannie Mae or Freddie Mac (the “Risk Retention Securities”) in connection with certain co-investment opportunities with third-party co-investors. Additionally, there is no readily available public market for such Risk Retention Securities and one is not expected to develop. Accordingly, Clients may be unable to sell such Risk Retention Securities for an uncertain period of time.

Servicers and Sub-Servicers

The Adviser relies on third parties to perform certain services particularly as they relate to servicing, complying with applicable laws and regulations, and carrying out contractual covenants and terms, the failure of which by any of these third parties may adversely impact financial results.

For example, to conduct the business of acquiring loans, engaging in securitizations and structured transactions, and investing in third party issued securities and other assets, the Adviser may rely on third party service providers to perform certain services, comply with applicable laws and regulations, and carry out contractual covenants and terms. Thus, clients are subject to the risks

associated with a third party's failure to perform, including failure to perform due to reasons such as fraud, negligence, errors, miscalculations, or insolvency. In the event of an increase in mortgagors requesting relief in the form of forbearance plans and/or other loss mitigation, servicers and other parties responsible in capital markets securitization transactions for funding advances with respect to delinquent mortgagor payments of principal and interest may begin to experience financial difficulties if mortgagors do not make monthly payments. The negative impact on the business and operations of such servicers or other parties responsible for funding such advances could be significant. Sources of liquidity typically available to servicers and other relevant parties for the purpose of funding advances of monthly mortgage payments, especially entities that are not depository institutions, may not be sufficient to meet the increased need that could result from significantly higher delinquency and/or forbearance rates. The extent of such liquidity pressures in the future is not known at this time and is subject to continual change.

Additionally, the Adviser may rely on third party servicers to service and manage the mortgage loans it owns and that underlie its business. The ultimate returns generated by these investments may depend on the quality of the servicer. If a servicer is not vigilant in seeing that borrowers make their required monthly payments, borrowers may be less likely to make these payments, resulting in higher default rates. If a servicer takes longer than expected to liquidate non-performing loans, a client's losses related to those loans may be higher than originally anticipated. Any failure by servicers to service these mortgages or to competently manage and dispose of the related real properties could negatively impact the value of these investments and a client account's financial performance. In addition, while the Adviser may contract with third party servicers to carry out the actual servicing of the loans a client owns, such client is nevertheless ultimately responsible, vis-à-vis the borrowers and state and federal regulators, for ensuring that the loans are serviced in accordance with the terms of the related notes and mortgages and applicable law and regulation. Considering the current regulatory environment, such exposure could be significant even though a client might have contractual claims against its servicers for any failure to service the loans to the required standard.

Moreover, for a majority of the loans that clients may hold and securitize, the Adviser holds the right to service those loans and may retain a sub-servicer to service those loans. In these circumstances, clients are exposed to certain risks, including, without limitation, that they may not be able to enter sub-servicing agreements on favorable terms or at all, or that the sub-servicer may not properly service the loan in compliance with applicable laws and regulations or the contractual provisions governing their sub-servicing role, and that such client would be held liable for the sub-servicer's improper acts or omissions.

In its capacity as a servicer of mortgage loans, a sub-servicer will have access to borrowers' non-public personal information, and a client could incur liability for a data breach relating to a sub-servicer or misuse or mismanagement of data by a sub-servicer. Clients also relies on technology infrastructure and systems of third parties who provide services to such clients and with whom they transact business. To the extent any one sub-servicer counterparty services a significant percentage of the loans with respect to which a client owns the servicing rights, the risks associated with a client's use of that sub-servicer are concentrated around this single sub-servicer counterparty. To the extent that there are significant amounts of advances that need to be funded in respect of loans

where a client owns the servicing right, it could have a material adverse effect on such client's financial results.

An expansion of federal, state and local regulations and the investigations of servicers may increase their cost of compliance and the risks of noncompliance and may adversely affect their ability to perform their servicing obligations. Federal laws and regulations have also been proposed or adopted which, among other things, could hinder the ability of a servicer to foreclose promptly on defaulted residential loans, and which could result in assignees being held responsible for violations in the residential loan origination process. The COVID-19 pandemic expanded the relief available to borrowers under federal, state and local regulation by, among other things, encouraging loan modification programs, further restricting the ability of servicers to foreclose on defaulted residential loans, modifying credit reporting requirements associated with borrowers who received financial accommodations, and enhancing the regulatory complexity and regulatory risk of mortgage servicing. Certain mortgage lenders and third-party servicers have voluntarily, or as part of settlements with law enforcement authorities, established loan modification programs relating to loans they hold or service. These federal, state and local legislative or regulatory actions that result in modifications of a client's outstanding mortgages, or interests in mortgages acquired by the client through its investments, may adversely affect the value of, and returns on, such investments. Mortgage servicers may be incentivized by the federal government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the beneficial owners of the mortgages. The foregoing matters may cause a client's financial condition, results of operations and ability to pay distributions to be adversely affected.

Risks Related to Macroeconomic and Other Industry Factors

A Public Health Crisis may Negatively Impact the Overall Economy, in General, and Housing Markets, in Particular

A public health crisis caused by SARS, H1N1/09 flu, avian flu, Ebola, the recent COVID-19 pandemic, or other global or local pandemic or epidemic disease can have unpredictable and adverse impacts on global, national and local economies, which can in turn negatively impact a client account and its investment performance. While the duration and intensity of resulting business disruption and related financial and social impact associated with the COVID-19 epidemic (including on the Adviser's business) have diminished in the recent past, the impact of the pandemic could continue to remain material for the foreseeable future. Consequently, the Adviser's operations and business results could be adversely affected.

Inflation risk

Securities prices and portfolio returns will likely vary in response to inflation and interest rates changes. Inflation causes future dollars to be worth less and may reduce the purchasing power of a borrower's future interest payments and principal. Inflation also generally leads to higher interest rates which may cause the value of many types of fixed-income investments to decline.

Geo-Political risk

Securities prices and portfolio returns will likely vary in response to interest rate changes. Certain geo-political issues may have adverse effect on the interest rate. These changes in rates may affect power of a borrower's future interest payments and principal.

Item 9: Disciplinary Information

Neither the Adviser nor any of its officers, directors, employees or other management persons, have been involved in any legal or disciplinary events in the past 10 years that would require disclosure in response to this Item.

Item 10: Other Financial Industry Activities and Affiliations

Although the Adviser is not registered as a broker-dealer, one of the Adviser's management persons is a registered representative of a broker-dealer. However, the Adviser does not conduct business with such broker-dealer and the Adviser does not believe that such person's activities as a broker-dealer representative interfere with their responsibilities to the Adviser and its clients.

An affiliate of the Adviser, Credit Bridge GP 1 LLC, serves as managing member to Credit Bridge Fund I LLC. It is intended that in the future, other affiliates of the Adviser will serve as managing member or general partner (depending on the legal structure used) of other private fund clients.

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

The Adviser strives to observe the highest industry standards of conduct based on its obligation as a fiduciary to its clients. In an effort to meet this obligation, the Adviser has adopted a written Code of Ethics (the "Code") that is applicable to all employees. Each employee will be provided with a copy of the Code. Employees are required to acknowledge, in writing, that they have received, read, understand and will abide by the Code, upon commencement of employment, at least annually thereafter, and upon any material change to the Code.

The Code requires that employees act in the Adviser's clients' best interests and comply with applicable laws and regulations. Employees are expected to avoid any action that is, or could even appear to be, legally or ethically improper.

Employees are required to bring any violations, actual or suspected, of the Code to the attention of the Adviser's Chief Compliance Officer promptly. Failure to comply with the Code may result in disciplinary action or other sanctions.

The Code also places certain restrictions on the personal trading activities of employees and certain immediate family members. Employees must obtain pre-clearance from the Chief Compliance Officer before making any private investment or investing in any initial public offering. Such persons also require permission from the CCO before trading in any single-name security that is set out on the Adviser's restricted list. Such list will include (but not be limited to) the securities of those banks that originate the secured debt obligations in which clients invest, and any securitized collection of debt obligations that is tradable under Rule 144A under the Securities Act of 1933 or subsequently registered as a public security. Employees are required to disclose to the Chief Compliance Officer, their personal securities holdings on an initial and annual basis, and their personal securities transactions on quarterly basis.

A copy of the Adviser's Code is available upon written request to john.contino@creditbridge.com.

It is possible that both the Adviser and certain employees may invest in future comingled private funds. To the extent they do, they will indirectly participate in client transactions.

Item 12: Brokerage Practices

The Adviser primarily invests client assets in portfolios of secured debt obligations. These are typically privately negotiated transactions with banks that originate the underlying secured debt obligations. To the extent a client acquires an equity position in an associated operating unit, this will also be a privately negotiated transaction. Further, all derivatives trading will be conducted through futures commission merchants.

The only situation in which the Adviser currently contemplates using a broker-dealer to affect a transaction is if, a securitized collection of debt obligations in which a client invests becomes tradable under Rule 144A under the Securities Act of 1933 or registered as a public security, and the Adviser later determines to sell the same. In this case, the Adviser will use its knowledge of those broker-dealers that trade in such securities to select the broker-dealer that it believes is most likely to provide best execution for the Adviser's clients, and (to the extent applicable) assesses the reasonableness of any compensation paid to such broker-dealers for affecting such transactions.

Although the Adviser may receive research and referrals of prospective investors from broker-dealers, this will not be a factor when selecting broker-dealers to execute client transactions.

With regard to the provision of research, the Adviser does not have any formal soft dollar arrangements. However, on occasion, the Adviser may receive research from certain broker-dealers. Research is not provided in connection with clients' securities transactions or contingent upon forthcoming securities transactions. To the best of the Adviser's knowledge, such research is generally made available to all institutional clients of such broker-dealers. In any event, the Adviser's policy is for any research it receives to fall within Section 28(e) of the Securities Exchange Act of 1934. To the extent research is received, the Adviser does not seek to allocate this benefit to only those accounts that traded with the providing broker-dealer in question.

The Adviser does not require or permit clients to direct it to execute transactions through specified broker-dealers.

To the extent the Adviser determines that, a particular investment is consistent with the investment mandate of more than one client; and both clients have sufficient capital to make such investment, the Adviser will have to determine whether to allocate the entirety of the investment to just one client or allocate it among all such accounts, and if so, in what amount. The Adviser does not currently manage client accounts with competing or overlapping mandates, but should it do so, it will adopt investment allocation procedures to address the allocation of such investment opportunities.

As discussed in Item 4 however, the Adviser may determine that it is appropriate to seek co-investors for certain investments, for example, if the size of the investment is greater than the amount of capital that the Adviser believes is prudent for applicable client to invest. In this case, the Adviser must determine how much of the investment opportunity to allocate to its client and how much to allocate to the co-investors or co-investment vehicle. Investment opportunity allocation decisions will be governed by the procedures referred to in the previous paragraph.

In the event that multiple clients own the same publicly traded security, and the Adviser decides to sell the investment for more than one client at the same time, the Adviser will typically aggregate such securities transactions. Each participating client will pay its proportionate share of the total commission or other costs and receive its proportionate share of the total sales proceeds. All clients will participate at the average sale price and no client will be favored over another.

Item 13: Review of Accounts

The Adviser's Chief Investment Officer or (in his absence) another member of the Adviser's Investment Committee reviews all client accounts on a daily basis.

The Adviser provides private fund investors with the following written reports: quarterly capital statements; quarterly performance estimates; quarterly investor letters, audited annual financial statements; and annual tax information necessary to complete any applicable tax returns.

Item 14: Client Referrals and Other Compensation

The Adviser does not currently pay referral fees to independent persons or firms, including placement agents, for introducing prospective investors. Should it ever elect to do so, the Adviser will take steps to ensure that it has a reasonable basis for believing that such referred investors are made aware of the arrangement and the compensation paid.

The Adviser does not receive any economic benefits from non-clients for providing investment management or other services to its clients.

Item 15: Custody

The Adviser will have access to client assets since it and/or its affiliates will serve as general partners and/or managing members of private funds. Investors will not receive statements from any custodians. Instead: the private funds will be subject to an annual audit conducted in accordance with U.S. Generally Accepted Auditing Standards by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board; and such audited financial statements will be distributed to each investor within 120 days of the private fund's fiscal year end.

Item 16: Investment Discretion

The terms and conditions of the applicable fund-of-one agreement and/or, private fund governing documents will govern whether the Adviser has discretionary authority to determine the investments and the amounts to be bought or sold on behalf of such client.

Item 17: Voting Client Securities

The Adviser does not make investments for which there are associated proxy voting rights. To the extent such investments have other types of voting rights attached to them, the Adviser anticipates that in most cases, only one party will have sufficient voting rights to be able to control the outcome of the vote. When this is not the case, or when the Adviser has the ability to control the outcome of the vote, the Adviser will exercise its voting authority in the way that it believes is most likely to maximize the value of clients' assets, while acting in such clients' best interests. The Adviser does not anticipate that there will be any conflicts of interest between it and clients when exercising such authority, but in the event that a conflict does arise, it believes that acting in accordance with clients' best interests will be sufficient to address such conflict.

Clients and investors will not be permitted to direct how the Adviser exercises its voting authority.

A copy of the Adviser's written voting policies and procedures, as well as a record of how the Adviser has voted proxies in the past, will be maintained and available for review upon written request to john.contino@creditbridge.com.

Item 18: Financial Information

The Adviser is not required to provide a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.