

Waterfall Asset Management, LLC

Part 2A of Form ADV

(“Brochure”)

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This brochure provides information about the qualifications and business practices of Waterfall Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 257-4600. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information is also available on the SEC’s website at: www.adviserinfo.sec.gov. Waterfall Asset Management, LLC is an SEC-registered investment adviser. This registration does not imply any level of skill or training.

Item No. 2: Material Changes

Waterfall Asset Management, LLC (“**Waterfall**”, the “**Adviser**”, or the “**Firm**”) is required to identify and discuss any material changes to this Brochure since its last update in March 2023.

Waterfall does not consider any changes from its last update of this Brochure to be material but recommends that you read this Brochure in its entirety.

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Item No. 4: Advisory Business

Waterfall, through its principals, Thomas Capasse and Jack Ross (the “**Principals**”), and portfolio managers, provides investment advice to its clients relating to investments in distressed and high-yield structured finance securities, including asset-backed securities, consumer and commercial performing and non-performing loans, residential and commercial mortgage-backed securities (which may be distressed and/or rated sub-investment grade), privately negotiated transactions with specialty finance companies to acquire new issue assets, small-balance commercial mortgage loans, investments in pools of loans, private equity, corporate bonds, related financial instruments and other acquisition vehicles to take advantage of certain tax, regulatory and administrative efficiencies (collectively, “**Waterfall Assets**”). As of December 31, 2023, Waterfall managed \$11,980,363,459 in net assets on a discretionary basis (please see Form ADV Part 1, Item 5 for information on Regulatory Assets Under Management). As of December 31, 2023, Waterfall did not manage any assets on a non-discretionary basis.

Waterfall was founded on November 30, 2004 and is managed by the Principals. Please see the Adviser’s Form ADV Part 1, Schedules A and B, for additional information regarding Waterfall’s direct and indirect ownership.

Waterfall Management, LLC (“**Waterfall Management**”), Waterfall Atlas GP, LLC (“**Atlas GP**”), Waterfall Delta GP, LLC (“**Delta GP**”), Waterfall Dislocation Opportunity GP, LLC (“**DOF GP**”), Waterfall Dislocation Opportunity II GP, LLC (“**DOF GP**”), Waterfall Eagle GP, LLC (“**Eagle GP**”), Waterfall Osprey GP, LLC (“**Osprey GP**”), Waterfall Residential Credit Opportunity Fund GP, LLC (“**RCOF GP**”), Waterfall Rock Island GP, LLC (“**Rock Island GP**”), Waterfall Sandstone GP, LLC (“**Sandstone GP**”), Waterfall Sandstone Opportunity GP, LLC (“**Sandstone Opportunity GP**”), Waterfall Sentinel GP LLC (“**Sentinel GP**”), Waterfall Silver Spring GP, LLC (“**Silver Spring GP**”), and Waterfall Structured Credit Dislocation GP, LLC (“**Structured Credit GP**”), all Delaware limited liability companies, and affiliates of the Adviser, serve as general partners of certain private investment funds managed by Waterfall (as further described below).

Waterfall is the investment adviser to the following private investment funds:

- The “**US Funds**,” each a Delaware limited partnership except where otherwise noted:
 - SHARB Investors LP (“**SHARB**”),
 - Waterfall Atlas Fund, LP (“**Atlas LP**”),
 - Waterfall Atlas Fund (TE), LP (“**Atlas TE**”),
 - Waterfall Atlas Anchor Feeder, LLC (a Delaware limited liability company, “**Atlas Anchor Feeder**”),
 - Waterfall Atlas Co-Invest Fund, LP (“**Atlas Co-Invest**”),

- Waterfall Atlas Blocker A, LLC (a Delaware limited liability company, “**Atlas Blocker A**”),
- Waterfall Atlas Blocker B, LLC (a Delaware limited liability company, “**Atlas Blocker B**”),
- Waterfall Dislocation Opportunity Fund, LP (“**DOF LP**”),
- Waterfall Dislocation Opportunity Fund II, LP (“**DOF II LP**”),
- Waterfall Eden Fund, LP (“**Eden LP**”),
- Waterfall Ithaca Fund, LLC (a Delaware limited liability company, “**Ithaca Fund**”),
- Waterfall Residential Credit Opportunity Fund I, LP (“**RCOF LP**”),
- Waterfall Sentinel Fund I LP (“**Sentinel LP**”),
- Waterfall Sentinel Fund I (UB), LP (“**Sentinel (UB) LP**”),
- WSMF I AV LP (“**AV LP**”), and
- Waterfall Victoria Fund, LP (“**Victoria LP**”).
- The “**Non-US Funds**,” each an exempted company formed under the laws of the Cayman Islands except where otherwise noted:
 - Waterfall Atlas Fund (Cayman), LP (a Cayman Islands exempted limited partnership, “**Atlas Cayman**,” and together with Atlas LP, Atlas TE, Atlas Anchor Feeder, Atlas Co-Invest, Atlas Blocker A, and Atlas Blocker B, the “**Atlas Funds**”),
 - Waterfall Dislocation Opportunity Fund (Cayman), LP (a Cayman Islands exempted limited partnership, “**DOF Cayman**,” and together with DOF LP, the “**DOF Funds**”),
 - Waterfall Dislocation Opportunity Fund II (Cayman), LP (a Cayman Islands exempted limited partnership, “**DOF II Cayman**,” and together with DOF II LP, the “**DOF II Funds**”),
 - Waterfall Eden Fund, Ltd. (“**Eden Ltd**”),
 - Waterfall Eden Intermediate Fund, Ltd. (“**Eden Intermediate**”),
 - Waterfall Eden Intermediate Holdings, Ltd (“**Eden Intermediate Holdings**,” and together with Eden Ltd, Eden LP, and Eden Intermediate, the “**Eden Funds**”),
 - Waterfall Residential Credit Opportunity Fund I (Cayman), LP (a Cayman Islands exempted limited partnership, “**RCOF Cayman**,” and together with RCOF LP, the “**RCOF Funds**”),
 - Waterfall Sentinel Fund I (Cayman I) LP (a Cayman Islands exempted limited partnership, “**Sentinel (Cayman I)**,” and together with Sentinel LP and Sentinel (UB) LP, the “**Sentinel Funds**”),
 - Waterfall Structured Credit Dislocation Fund, LP (a Cayman Islands exempted limited partnership, “**Structured Credit**”),
 - Waterfall Victoria ERISA Fund, Ltd. (“**Victoria ERISA Ltd**”),
 - Waterfall Victoria Fund, Ltd. (“**Victoria Ltd**”),

- Waterfall Victoria ERISA Intermediate Fund, LP (a Cayman Islands exempted limited partnership, “**Victoria ERISA Intermediate**”),
- Waterfall Victoria Intermediate Fund, LP (a Cayman Islands exempted limited partnership, “**Victoria Intermediate**”), and
- Waterfall Victoria Intermediate Holdings, Ltd (“**Victoria Intermediate Holdings**,” and together with Victoria LP, Victoria ERISA Ltd, Victoria ERISA Intermediate, Victoria Intermediate, the “**Victoria Funds**”).
- The “**Master Funds**,” each a Cayman Islands exempted limited partnership except where otherwise noted:
 - Waterfall Atlas Master Fund A, LP (a Delaware limited partnership, “**Atlas Master Fund A**”),
 - Waterfall Atlas Master Fund B, LP (a Delaware limited partnership, “**Atlas Master Fund B**”),
 - Waterfall Dislocation Opportunity Master Fund, LP (“**DOF Master Fund**”),
 - Waterfall Dislocation Opportunity Master Fund II, LP (“**DOF Master Fund II**”),
 - Waterfall Eden Master Fund, Ltd. (a Cayman Islands exempted company “**Eden Master Fund**”),
 - Waterfall Residential Credit Opportunity Master Fund I, LP (“**RCOF Master Fund**”),
 - Waterfall Sentinel Master Fund I-A LP “**Sentinel Master Fund I-A**”),
 - Waterfall Sentinel Master Fund I-B LP (“**Sentinel Master Fund I-B**”),
 - Waterfall Victoria Master Fund II, Ltd. (a Cayman Islands exempted company “**Victoria Master Fund II**”), and
 - Waterfall Victoria Master Fund, Ltd. (a Cayman Islands exempted company “**Victoria Master Fund**”).

Atlas LP will invest substantially all of its assets in Atlas Master Fund A and Atlas Master Fund B. Atlas Anchor Feeder will invest substantially all of its assets in Atlas Blocker A and Atlas Master Fund B. Atlas Blocker A will in turn invest all of its assets in Atlas Master Fund A. Atlas TE and Atlas Cayman will invest substantially all of their assets in Atlas Blocker B. Atlas Blocker B will in turn invest all of its assets in Atlas Master Fund A and Atlas Master Fund B.

DOF LP and DOF Cayman invest substantially all of their assets in the DOF Master Fund. DOF II LP and DOF II Cayman invest substantially all of their assets in the DOF Master Fund II.

Eden LP invests substantially all of its assets in, and is a shareholder of, Eden Master Fund; Eden Ltd invests substantially all of its assets in, and is a shareholder of, Eden Intermediate, which in turn will invest all of its assets in Eden Intermediate Holdings; Eden Intermediate Holdings will invest substantially all of its assets in Eden Master Fund except when Waterfall determines that it is advantageous for Eden Intermediate Holdings to make investments directly.

RCOF LP and RCOF Cayman invest substantially all of their assets in the RCOF Master Fund.

Sentinel LP, Sentinel (UB) LP, and Sentinel (Cayman I) invest all of their assets in Sentinel Master Fund I-B.

Victoria ERISA Fund and Victoria Ltd invest substantially all of their assets in Victoria ERISA Intermediate and Victoria Intermediate, respectively. Victoria ERISA Intermediate and Victoria Intermediate will in turn invest all of their assets in Victoria Intermediate Holdings. Victoria Intermediate Holdings and Victoria LP will each invest substantially all of their assets in Victoria Master Fund and Victoria Master Fund II. Victoria Master Fund II will invest primarily in non-ERISA eligible assets.

In addition, the Adviser serves as external investment adviser to Ready Capital Corporation (“**Ready Capital REIT**”), a publicly traded real estate investment trust that trades on the New York Stock Exchange under the ticker symbol “RC.” Further, the Adviser serves as sub-adviser to the FS Multi-Strategy Alternatives Fund, a fund registered under the Investment Company Act of 1940, as amended, and advised by FS Fund Advisor, LLC (the “**FS Fund**”).

Waterfall also acts as investment manager to Lake Cascade Fund, LP (“**Lake LP**”), the Waterfall Delta Fund, Ltd. (the “**Delta Fund**”), the Waterfall Delta Offshore Master Fund, L.P. (the “**Delta Master**,” and together with the Delta Fund, the “**Delta Funds**”), the Waterfall Eagle Fund, LLC (the “**Eagle Fund**”), the Waterfall Osprey Fund, Ltd. (the “**Osprey Fund**”), the Waterfall Osprey Master Fund, LP, (the “**Osprey Master**,” and together with the Osprey Fund, the “**Osprey Funds**”), the Waterfall Sandstone Fund, L.P (“**Sandstone Fund**”), Waterfall Sandstone Opportunity Fund, L.P (“**Sandstone Opportunity Fund**”), Waterfall Silver Spring Fund, LP (“**Silver Spring**”), and the Waterfall Rock Island, LLC (“**Rock Island Fund**,” and together with Lake LP, the Delta Funds, the Eagle Fund, the Osprey Funds, Sandstone Fund, Sandstone Opportunity Fund, and Silver Spring, the “**Funds of One**”). The Funds of One invest in a strategy similar to the Eden Funds, however, interests in the Funds of One are not offered to new investors.

The US Funds, Non-US Funds, Master Funds, and Funds of One are referred to in this Brochure collectively as the “**Funds**.”

Waterfall also provides investment management services through separately managed accounts, co-investment vehicles, and other investment vehicles (the “**Investment Vehicles**”).

Management for each Investment Vehicle is continuously provided for each client based upon such Client’s specific investment objectives.

Waterfall refers to the Funds, Ready Capital REIT, the FS Fund, and Investment Vehicles collectively herein as the “**Clients**” of Waterfall.

Item No. 5: Fees and Compensation

The Funds pay the following fees and expenses:

- The Atlas Funds pay Waterfall a management fee calculated and payable quarterly in advance (the “**Atlas Management Fee**”). The Atlas Management Fee paid by each limited partner in the Atlas Funds is equal to 0.375% (i.e., 1.5% per annum) of such limited partner’s invested capital in the Atlas Funds. Capital contributions made after the commencement of a calendar quarter will increase a limited partner’s invested capital and be subject to a pro-rated Atlas Management Fee reflecting the time remaining during the quarter. If a distribution is made prior to the end of a calendar quarter, such amounts will reduce a limited partner’s invested capital and such limited partner will be entitled to reimbursement or, if possible, a credit against future Atlas Management Fees for a *pro rata* portion of the Atlas Management Fees for the period remaining in such quarter subsequent to the date of such distribution. Waterfall, from time to time, in its sole discretion and in effect, waives or reduces the Atlas Management Fee to be paid by any Atlas Fund limited partner.
- The DOF Funds and the DOF II Funds are commingled funds which invest primarily in asset-backed security bonds. The DOF Funds and the DOF II Funds are non-fee paying.
- The Eden Funds pay Waterfall a quarterly management fee in arrears as of the last day of each calendar quarter (the “**Eden Management Fee**”). The Eden Management Fee paid by Eden LP for any quarter is an amount equal to: 0.375% (i.e., 1.5% per annum) for Sub-Class A and 0.425% (i.e., 1.7% per annum) for Sub-Class B, of the net asset value of each limited partner’s capital account, adjusted on a *pro rata* basis for subscriptions and redemptions made during such calendar quarter. The Eden Management Fee paid by Eden Ltd for any quarter is an amount equal to: 0.375% (i.e., 1.5% per annum) for Sub-Class A and 0.425% (i.e., 1.7% per annum) for Sub-Class B of the balance of each sub-account of Eden Ltd, adjusted on a *pro rata* basis for subscriptions and withdrawals made during such calendar quarter. Sub-Classes B of Eden LP and Eden Ltd are offered to investors only at the discretion of Waterfall. Waterfall, from time to time, in its sole discretion and in effect, waives or reduces the Eden Management Fee to be paid by any Eden Fund limited partner or shareholder, as applicable. Investors in the Eden Funds that have interests with an aggregate outstanding subscription value of at least US\$100 million at the end of any calendar quarter (either individually or as part of a consultant or advisor relationship) are entitled to receive a reduced management fee.

- The RCOF Funds pay Waterfall a management fee calculated and payable quarterly in advance (the “**RCOF Management Fee**”). The RCOF Management Fee paid by each limited partner in the RCOF Funds is equal to 0.375% (i.e., 1.5% per annum) of such limited partner’s invested assets in the RCOF Funds. Capital contributions made after the commencement of a calendar quarter will increase a limited partner’s invested assets and be subject to a pro-rated RCOF Management Fee reflecting the time remaining during the quarter. If a distribution is made prior to the end of a calendar quarter, such amounts will reduce a limited partner’s invested assets and such limited partner will be entitled to reimbursement or, if possible, a credit against future RCOF Management Fees for a *pro rata* portion of the RCOF Management Fees for the period remaining in such quarter subsequent to the date of such distribution. Waterfall, from time to time, in its sole discretion and in effect, waives or reduces the RCOF Management Fee to be paid by any RCOF Fund limited partner.
- The Sentinel Funds pay Waterfall a management fee calculated and payable quarterly in advance (the “**Sentinel Management Fee**”). During the investment period of the Sentinel Funds, the Sentinel Management Fee paid by each limited partner in the Sentinel Funds is equal to 0.375% (i.e., 1.5% per annum) of such limited partner’s capital commitment. Thereafter, the Sentinel Management Fee paid by each limited partner in the Sentinel Funds will be 0.375% (i.e., 1.5% per annum) of such limited partner’s invested capital in the Sentinel Funds. Capital contributions made after the commencement of a calendar quarter will increase a limited partner’s invested assets and be subject to a pro-rated Sentinel Management Fee reflecting the time remaining during the quarter. If a distribution is made prior to the end of a calendar quarter, such amounts will reduce a limited partner’s invested assets and such limited partner will be entitled to reimbursement or, if possible, a credit against future Sentinel Management Fees for a *pro rata* portion of the Sentinel Management Fees for the period remaining in such quarter subsequent to the date of such distribution. Waterfall, from time to time, in its sole discretion and in effect, waives or reduces the Sentinel Management Fee to be paid by any Sentinel Fund limited partner.
- The Victoria Funds pay Waterfall a quarterly management fee in arrears as of the last day of each calendar quarter (the “**Victoria Management Fee**”). The Victoria Management Fee paid by Victoria LP for any quarter is an amount equal to: 0.4375% (i.e., 1.75% per annum) for Series A and 0.375% (i.e., 1.5% per annum) for Series B, of the value of each Limited Partner’s capital account, adjusted on a *pro rata* basis for subscriptions and redemptions made during such calendar quarter. The Victoria Management Fee paid by Victoria Ltd for any quarter is an amount equal to: 0.4375% (i.e., 1.75% per annum) for Series A and 0.375% (i.e., 1.5% per annum) for Series B of the net asset value of such series of shares of Victoria Ltd, adjusted on a *pro rata* basis for subscriptions and redemptions made during such calendar quarter. The Victoria Management Fee paid by

Victoria ERISA Ltd for any quarter is: 0.4375% (i.e., 1.75% per annum) for Series A and 0.375% (i.e., 1.5% per annum) for Series B of the net asset value of such series of shares of Victoria Ltd, adjusted on a *pro rata* basis for subscriptions and redemptions made during such calendar quarter. Waterfall, from time to time, in its sole discretion and in effect, waives or reduces the Victoria Management Fee to be paid by any Victoria Fund limited partner or shareholder, as applicable. Investors in the Victoria Funds that have interests with an aggregate outstanding subscription value of at least US\$100 million at the end of any calendar quarter (either individually or as part of a consultant or advisor relationship) are entitled to receive a reduced management fee.

- Ready Capital REIT pays Waterfall a management fee calculated and payable quarterly in arrears equal to 1.5% per annum of the Ready Capital REIT's stockholders' equity up to \$500 million and 1.00% per annum of stockholders' equity in excess of \$500 million (the "**Ready Capital Management Fee**").
- The adviser to the FS Fund pays Waterfall a fee for acting as subadviser to the FS Fund.
- The Ithaca Fund is an employee co-invest fund which invests in commercial real estate assets. Interests in the Ithaca Fund are non-fee-paying and offered only to qualified employees.
- In addition to the fees described herein, Waterfall receives management fees from the other Funds, Funds of One, and Investment Vehicles to which it provides investment advice. These fees will be determined as between the Client and Waterfall and will vary depending upon a number of factors including, but not limited to: the size of the account, anticipated additional subscriptions made into the account, the types of assets purchased for the account, and whether the account is related to, or associated with, other Clients of Waterfall.

Waterfall has entered, and from time to time may enter, into side letter arrangements with investors in the Funds whereby Waterfall and such investors agree to vary the terms of such investors' investment from those provided to other investors. Such variances may include, but are not limited to: (i) greater availability of certain information to such investors, disclosures and/or reports (including personnel or other changes to Waterfall or the private investment funds, or portfolio holdings and other information concerning the private fund's investments or such investors' investment); (ii) the timing of the delivery to such investors of such information or other private investment fund information, disclosures and/or reports; and (iii) certain other investment terms, including but not limited to reduced fees to be charged to such investors (management fee and/or incentive allocation), "key person" provisions, and/or timing for subscriptions. In the sole discretion of the Adviser, the management fee may be calculated differently with respect to, or

may not be charged to, certain investors, including Waterfall Management, the Adviser, the Principals, and employees of the Adviser.

Waterfall will remit to a Client(s) (or the entity making, or proposing to make, an investment, e.g., SPV or alternative investment vehicle) transaction fees, break-up fees, commitment fees, underwriting fees, amendment fees, waiver fees, modification fees, monitoring or asset management fees, directors' fees, consulting fees, advisory fees, SPV management fees, portfolio company monitoring fees, closing fees and similar fees, payments or compensation (whether in the form of cash, options, warrants, stock or otherwise) ("**Transaction Fees**"), if any, received and retained by Waterfall with respect to an investment in which such Client(s) participated (or would have participated in the case of a break-up fee) (the "**Remitted Fee Amounts**"). If multiple Clients participate in such investment, Waterfall will remit to each Client its *pro rata* portion of the Transaction Fee (or, if third-party investors have invested or, in the case of a break-up fee, proposed to invest, in the relevant investment, the amount, multiplied by a fraction (i) the numerator of which is the amount invested (or anticipated to be invested in the case of a break-up fee) in the relevant investment by such Client and (ii) the denominator of which is the aggregate of all amounts invested (or anticipated to be invested in the case of a break-up fee) in the investment by such Client, and all other third-party investors).¹

As more fully described in each of the Funds' respective offering documents, each Fund bears all of its own, and (if applicable) its *pro rata* share of its master fund's expenses. Each Fund and certain Investment Vehicles are responsible for expenses as set forth in the applicable governing document(s). Such expenses may include organizational fees including, without limitation, legal fees, accounting fees, and other expenses associated with the initial structuring, organization and closings of the Funds and the related vehicles, including any feeder, parallel, and/or alternative investment vehicles. Clients may also bear and pay all expenses related to the operations of the Funds or Investment Vehicles, including, without limitation, costs and expenses relating to: administration fees, director fees, legal fees, audit fees, liability insurance (allocated portion); regulatory filings (specific to the Fund's or Investment Vehicle's business or operations); research

¹ In certain situations, Waterfall has elected, and may in the future elect, to reduce the management fee payable by such Client(s), but not below zero, dollar-for-dollar by a *pro rata* portion of the amount (or, if third-party investors have invested or, in the case of a break-up fee, proposed to invest, in the relevant investment, the amount, multiplied by a fraction (i) the numerator of which is the amount invested (or anticipated to be invested in the case of a break-up fee) in the relevant investment by such Client and (ii) the denominator of which is the aggregate of all amounts invested (or anticipated to be invested in the case of a break-up fee) in the investment by such Client, and all other third-party investors) of Transaction Fees (the amount of such reduction, the "**Fee Offset Amounts**").

The Fee Offset Amounts received in any calendar quarter will reduce the management fees for the following quarter as set forth above. If the Fee Offset Amounts exceed the management fees payable for a given quarter, such excess amounts will be carried forward to one or more subsequent quarterly periods and applied to reduce the future payments of the management fee in such future quarters until such excess amounts have been fully offset. Generally, Fee Offset Amounts will not be applied to reduce any previously paid management fee amounts and if such fees are greater than the aggregate amount of future management fees that would otherwise be payable to Waterfall, Waterfall may receive more income than they otherwise would have received from Clients.

expenses (including research-related travel and technology (which may include specialty data subscription and license-based services and risk analysis software)); software or other technology used to enhance the valuation process relating to Client holdings; market analysis; expenses relating to the monitoring and servicing of investment assets (which may include (i) expenses paid to affiliates of Waterfall, (ii) the salaries of non-investment related employees and other expenses of Waterfall relating to such monitoring, servicing and related administrative activities, and (iii) expenses associated with the building and maintenance of internal asset monitoring software) (internal asset monitoring, servicing, and related administrative expenses of dedicated Waterfall employees are often limited to an expense cap); transactions and fundings; fees, expenses and costs incurred in connection with the operation of subsidiaries, holding companies, or vehicles; entity-level taxes; valuing Fund and Investment Vehicle assets, which may include third party valuation services; the sale of assets in kind, and expenses related to extraordinary events such as litigation and all associated costs thereof; indemnification amounts; the costs and expenses associated with the dissolution, winding up, liquidation or termination of a Fund or the entities related thereto (including, but not limited to, any subsidiaries, holding companies or vehicles).

In addition, each Investment Vehicle is responsible for expenses relating to investment sourcing and diligence for a particular investment strategy, including sourcing and diligence expenses incurred with respect to the pursuit of particular investments that are never actually consummated. Examples of such “broken deal” expenses include fees and expenses of any legal, financial, accounting, consulting or other advisors or lenders, investment banks and other financing sources in connection with arranging financing for transactions that are not consummated, any travel and accommodation expenses, and any deposits or down payments that are forfeited in connection with, or amounts paid as a penalty for, unconsummated transactions. These expenses are allocated to the Clients that participate in the relevant investment strategy. The proportion of such expenses allocated to any relevant Client may vary from period to period, but as a general matter, most such expenses will typically be borne by the primary investment vehicles for such strategy, which include any Client that has allocation priority in the strategy or any Client that participates in the strategy and has sufficient liquidity to participate in the transaction if consummated.

Waterfall may have a conflict of interest in determining whether certain costs and expenses incurred in the course of operating a Fund or Investment Vehicle should be paid by the Fund, Investment Vehicle or by Waterfall. While a Client’s governing documents identify the costs and expenses to be paid by the Client, questions of interpretation inevitably arise in connection with determining whether a certain cost or expense has, in fact, been so identified as well as whether newly arising and/or unanticipated costs or expenses (including but not limited to costs and expenses arising from newly imposed regulations and self-regulatory requirements) fit within the categories of costs and expenses described. In such situations, Waterfall will allocate costs in a manner which is fair and equitable for all parties.

In addition to the management fees outlined above, Waterfall receives performance-based fees as discussed Item No. 6 herein.

Item No. 6: Performance-Based Compensation and Side-by-Side Management

In addition to the management fees described in Item 5, Waterfall earns performance-based compensation. Performance-based allocations or fees for Clients (as applicable) are subject to negotiation, as detailed in the respective governing documents for such Clients. In addition, the general partner or manager of each such Client has, and may in the future, in its sole discretion, waive or reduce the incentive allocation or performance fee for any fund limited partner, member, or shareholder.

Performance-based compensation may create an incentive for Waterfall to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. To the extent a particular investment is suitable for Clients, such investment will be allocated on a basis that Waterfall believes is fair and equitable for all Clients, based upon each Client's respective investment guidelines. Such allocation may be, but not be limited to, *pro rata*, based on assets under management, or *pro rata*, based upon gross assets value or rotational (see Item No. 12 below for more information on allocation).

Subject to the terms of the relevant governing documents, performance fees earned by Waterfall are accrued monthly, and are paid to Waterfall (i.e., crystalized) at the end of each fiscal year or the time of an investor's redemption, as may be applicable. In the sole discretion of a general partner or the Adviser, the performance allocation may be calculated differently with respect to, or may not be charged to, certain investors, including a general partner, the Adviser, the Principals and employees of the Adviser.

Item No. 7: Types of Clients

Waterfall provides investment advice to the Funds and other Clients, which are generally insurance companies, state, municipal or corporate pension plans, sovereign wealth funds, endowments, foundations, or other institutional investors.

With respect to the Funds, Waterfall has the following restrictions: (i) minimum investment and (ii) investor qualifications. The Funds generally require a minimum initial investment of \$1,000,000, subject to waiver or reduction by the Fund's general partner or the Adviser. The US Funds generally will be open to investment only by persons that are both "accredited investors" within the meaning of Regulation D of the Securities Act of 1933, as amended ("**Regulation D**"), and "qualified purchasers" within the meaning of Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "**Company Act**"). Common shares or interests, as applicable of the Non-US Funds will be offered only to experienced and sophisticated investors who are neither citizens nor residents of the United States or to United States investors consisting primarily of tax-exempt entities, which are "accredited investors" under Regulation D and qualified purchasers under the Company Act. Common shares or interests, as applicable will not be offered to members of the public in the Cayman Islands.

With respect to the Investment Vehicles, Waterfall may negotiate certain minimum and maximum investment amounts with respect to the size of the Investment Vehicle and require the Investment Vehicle to meet certain criteria related to the purchase of certain assets.

Item No. 8: Methods of Analysis, Investment Strategies and Risk of Loss

Waterfall's investment strategy has four key elements: (i) developing proprietary trading ideas based on evaluation of available information or negotiated transactions sourced from Waterfall's network of relationships and market analysis; (ii) performing cash flow stress testing and due diligence on performing and distressed situations; (iii) seeking to reduce market risks through leverage and hedging strategies; and (iv) seeking to reduce downside risk related to unanticipated credit events through the use of surveillance to evaluate collateral pool performance and proactively manage positions.

Generally, the first step in the investment process begins with an industry analysis of the sector or special situations involving an issuer which is or has been experiencing distress. A sector will typically be considered for analysis when an industry-wide credit event has resulted in a significant number of securities' credit ratings having been lowered or put on watch for downgrade. Apart from a sector analysis, investments involving special situations, including distressed issuers in an otherwise healthy sector, are also reviewed. In certain instances, there may have been issuer credit events which do not directly affect the collateral in the relevant trust but nonetheless impact the market for the ABS securities by raising concerns about further credit problems in similar securities. Increased market yield spreads may provide opportunities to invest in specific issues at more favorable yields and prices than their specific circumstances might otherwise warrant.

In the second step, after the sector is identified, the universe of issuers is screened primarily using quantitative analysis of the relationship between remaining credit support and expected collateral credit loss. Securities with a higher ratio of credit support to expected credit loss are generally targeted for investment.

Third, after potential investments are identified, prior to making an investment, Waterfall will generally:

(1) Perform cash flow modeling for valuation purposes utilizing both in-house and vendor credit models. An important litmus test of an ABS security is whether there is sufficient remaining structural credit enhancement under various "stress test" scenarios to allow for the return of bond principal. Waterfall utilizes an expected value approach to determine the appropriate market valuation.

(2) Conduct due diligence to validate the specific cash flow projections, which may include contacting a variety of parties involved in the security such as: investment bankers and traders, ABS and equity research analysts, rating agency analysts, servicers, competitors of the issuer or servicer, stand-by servicers, trustees, other investors and attorneys, among others.

(3) Conduct a legal review of the security documentation to understand the priority of cash flow payments in the relevant structure.

Lastly, post-purchase, Waterfall performs active collateral surveillance. For the Funds' ABS investments, servicers provide monthly reports on collateral performance. Waterfall also utilizes outside data providers to assist in the review and analysis of this data on most ABS securities in the portfolio. Contact is made with the trustee or servicer, if necessary, to discuss discrepancies and unusual or negative credit trends. Each month, Waterfall expects to compare the actual pool performance to the performance as anticipated. As a result of this analysis, each security will be assigned a rating by the Waterfall (signifying hold, watch or sell). This process is designed to enable the Waterfall to proactively manage the portfolio based on current credit trends in each individual holding.

With respect to performing and nonperforming consumer and commercial loans, Waterfall analyzes numerous criteria, including, but not limited to: current market value of the underlying properties, credit worthiness of the borrowers, seasoning of the loans, number and degree of loan defaults, current loan-to-value ratios, borrowers' payment history and debt-to-income levels, estimated costs of modifying the mortgage loans, estimated servicing expenses and estimated loan loss reserves. Once an investment is identified, Waterfall will conduct extensive due diligence for valuation purposes, as applicable, considering factors such as whether the properties are owner-occupied, the type of loans and their terms, status of the relevant documentation and perfection of the mortgage liens, the terms of any secondary liens, the underlying property value and location. In connection with mortgage loans, a component of Waterfall's strategy is to work with the loan borrowers to avoid foreclosure, cure loan defaults and prevent future defaults. Waterfall will seek to resolve payment issues with non-performing borrowers and, with appropriate consideration of the borrower's specific economic situation and Waterfall's objectives, modify loans to enable the borrower to continue to make payments and otherwise perform on the modified mortgage loan terms. Finally, Waterfall seeks to sell the re-performing loans to state or federal agencies, government sponsored entities or others as whole loans or loan portfolios.

Additionally, Waterfall has employed and may in the future employ active hedging strategies with the use of derivative instruments, seek leverage through repurchase transactions or secure long-term facilities with financial institutions. From time to time Waterfall also invests in acquisition vehicles to take advantage of certain tax, regulatory, and administrative or operational efficiencies.

With regards to the private equity platform, Waterfall generally invests through negotiated transactions with both privately held and publicly traded companies. The investment strategy focuses on identifying and executing on opportunities in the specialty finance and financial services sectors and certain sub-sectors therein (including, but not limited to, residential mortgage, commercial mortgage, auto finance, unsecured consumer, student loans, equipment leasing, factors, and Small Business Administration lending). Waterfall will pursue control and non-control

growth equity investments, distressed buyout, and management-backed platforms in target companies. A core part of the investment process often involves developing a relationship with the senior executives and key shareholders of a target company.

Waterfall's investment strategies outlined above are subject to market risk such as price movements, volatility and lack of liquidity, regulatory risk, model risk and other ongoing uncertainties related to business, legal, financial or economic conditions that could affect the payments of interest and principal on the underlying securities. Although, Waterfall manages these risks by continually monitoring the assets and engaging in hedging and other strategies that mitigate and offset these risks, investments in Waterfall Assets involve a risk of loss that Clients should be prepared to bear. Examples of some of the risks associated with Waterfall's investment strategy include, but are not limited to the following (for a complete description of risks associated with a particular Fund managed by Waterfall, please refer to such Fund's offering documents):

- ***Potential Loss of Investment.*** There is a risk that an investment in a strategy will be lost in part or entirely. A strategy investment is not a complete investment program and should represent only a portion of an investor's portfolio management strategy.
- ***Volatility.*** The prices of the instruments traded within a strategy have been subject to periods of excessive volatility in the past, and such periods can be expected to continue or recur. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions. While volatility can create profit opportunities, it can also create unusual risks, especially in a relatively concentrated portfolio.
- ***Lack of Liquidity.*** The markets for some of the investments traded within certain Waterfall strategies are subject to limited liquidity. Lack of liquidity can make it economically unfeasible for Waterfall to recognize profits on open positions or to close out open positions against which the market is moving. In addition, illiquidity can disrupt the historical price relationships on which certain of the strategies are based, as the fewer transactions that take place the greater the risk of market values not reflecting true pricing relationships or fair value.
- ***Uncertain Exit Strategies.*** Due to the illiquid nature of Waterfall's private equity investments, Waterfall is unable to predict with confidence what the exit strategy will ultimately be for any given position, or that one will be available at all. Exit strategies that 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.

- ***Interest Rate Risk.*** The value of the fixed-income securities in which the strategies invest changes as the general levels of interest rates fluctuate. When interest rates decline, the values of the fixed-income securities are generally expected to rise. Conversely, when interest rates rise, the values of such securities are generally expected to decline.
- ***Monetary Policy and Governmental Intervention.*** The United States has experienced substantial rates of inflation and supply chain issues in recent years. As part of the response to recent inflation, the U.S. Federal Reserve (the “**Federal Reserve**”) and global central banks have, in addition to other governmental actions to stabilize markets, acted to increase interest rates from previously historic lows. It cannot be predicted with certainty when, or how, these policies will change, but actions by the Federal Reserve and other central banks may have a significant effect on interest rates and on the U.S. economy generally, which in turn may affect the performance of the investments made by Waterfall or the ability of Clients to realize their investment objectives
- ***Securities Lending.*** As part of implementing the strategy, Waterfall may, on behalf of its Clients, borrow and lend securities in the ordinary course of its business. Third parties that borrow securities may not be able to return these securities on demand (possibly causing Waterfall Clients to default on its obligations to other parties) and may also default on the payment obligations owed to the Waterfall Clients in connection with such securities loans, potentially resulting in substantial losses to such Clients.
- ***Debt Instruments.*** The debt instruments in which Waterfall invests in connection with a strategy may be subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. Waterfall may choose to invest in non-investment grade debt securities, which are typically subject to greater market fluctuations and risks of loss of income and principal than lower yielding, investment grade securities and are often influenced by many of the same unpredictable factors which affect equity prices. In addition to the sensitivity of debt securities to overall interest-rate movements, debt securities involve a fundamental credit risk based on the issuer’s ability to make principal and interest payments on the debt it issues. An investment in debt instruments may experience substantial losses due to adverse changes in interest rates and the market’s perception of issuers’ creditworthiness.
- ***High-Yield Debt Instruments.*** Waterfall invests in high-yield debt instruments. High-yield debt instruments face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer’s inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do

higher-rated securities which react primarily to fluctuations in the general level of interest rates and tend to be more sensitive to economic conditions than are higher-rated securities. Issuers of such debt instruments are often highly leveraged and may not have access to more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such debt instruments and may have an adverse impact on the value of such debt instruments. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such debt instruments to repay principal and pay interest thereon and increase the incidence of default of such debt instruments.

- **Valuation.** Many of the investments made by the Funds and Investment Vehicles are illiquid and thus have no readily ascertainable market prices. Waterfall values these investments based on its estimate, or an independent third party's estimate, of their fair value as of the date of determination, which often involves significant subjectivity. Investors in certain Funds and Investment Vehicles purchase and redeem interests based on a determination of the fair value of the assets and liabilities of the relevant Client. In addition, Waterfall's management fees and incentive allocations are determined by reference to these valuations. To the extent market quotations are unavailable or Waterfall determines that such quotations inadequately represent the fair value of the assets, Waterfall will value such positions in good faith. There is no single standard for determining fair value in good faith and in many cases fair value is best expressed as a range of fair values from which a single estimate may be derived. Waterfall estimates the fair value of investments based on third-party models, or models developed by it, which include discounted cash flow analyses and other techniques and may be based, at least in part, on independently sourced market parameters. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, the timing of and the estimated proceeds from expected financings, some or all of which factors may be ascribed more or less weight in light of the particular circumstances. The actual results related to any particular investment often vary materially as a result of the inaccuracy of these estimates and assumptions. In addition, because many of the investments held by Clients are in industries or sectors which are unstable, in distress or undergoing some uncertainty, valuations of such investments may be subject to rapid and/or significant changes caused by, among other matters, sudden company-specific or industry-wide developments.

Because such valuations will be inherently uncertain, they may fluctuate significantly over short periods of time and will be based on estimates and other material assumptions, Waterfall's determinations of fair value may differ materially from the values that would have been used if a readily available market for these investments existed and may differ

materially from the values that Clients may ultimately realize on such investments. Investors in the Funds and Investment Vehicles may be adversely affected in connection with subscriptions or redemptions to the extent the values so determined are incorrect.

- ***Distressed Securities.*** Waterfall invests in distressed securities. Investment in the securities of financially and/or operationally troubled issuers involves a high degree of credit and market risk. Securities of such issuers are typically more volatile and less liquid than securities of companies not experiencing such difficulties.
- ***Modeling Risk.*** Given the complexity of Waterfall's investment process, Waterfall relies heavily on financial models (both proprietary models developed by Waterfall, and those supplied by third parties) and information and data supplied by third parties ("**Models and Data**"). Models and Data are used to construct sets of transactions and investments, to value investments or potential investments, to provide risk management insights, and to assist in hedging investments. When Models and Data prove to be incorrect or incomplete, any decisions made in reliance thereon expose the Clients to potential risks. Similarly, any hedging based on faulty Models and Data may prove to be unsuccessful.
- ***Litigation.*** From time to time, in the ordinary course of operations, Waterfall is subject to litigation and arbitration, which can be costly and divert significant portions of available staff time and resources. In addition, it is possible that Waterfall may use litigation as part of its investment strategy. A Client could be party to lawsuits either initiated by it, or by a company in which such Client invests, other shareholders, or state, federal and foreign governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the applicable Client. Any litigation or arbitration could have a materially adverse effect on the involved Client.
- ***Material Non-Public Information.*** From time to time, Waterfall will receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, Clients will 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.
- ***Systems and Operational Errors.*** Waterfall relies on certain financial, accounting, data processing and other operational systems and services that are employed by Waterfall and/or by third party service providers, including the third-party administrator, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, Waterfall and its Clients could be exposed to errors

made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the Clients' operations. Any such errors and/or disruptions may lead to financial losses, the disruption of the client trading activities, and liability under applicable law, regulatory intervention or reputational damage.

- ***Risk Management.*** Although Waterfall attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Moreover, many risk management techniques, including those employed by Waterfall, are based on historical market behavior, but future market behavior may be entirely different and, accordingly, the risk management techniques employed on behalf of Clients may be incomplete or altogether ineffective. Similarly, Waterfall may be ineffective in implementing or applying risk management techniques. Any inadequacy or failure in risk management efforts could result in material losses to Clients.
- ***Foreign Investment Risk.*** Investments in securities of non-U.S. issuers (including non-U.S. governments) and securities denominated or whose prices are quoted in non-U.S. currencies pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and market manipulation. Income realized, and gross sale or other disposition proceeds received, by the Clients from sources within some countries may be reduced by withholding and other taxes imposed by such countries.
- ***Side Letters.*** Waterfall has allowed, and from time to time may allow, certain investors to invest in a Fund or Investment Vehicle on different terms than other investors. Such different terms have included, and may in the future include, without limitation, different information rights, different minimum investment amounts, different transfer and liquidity rights, and different fees and allocations. The specific terms of any such arrangement, which may be detrimental to other investors of Waterfall, likely will not be disclosed to such other investors unless Waterfall determines that disclosure is required by law, rule or contractual requirements.
- ***General Market Risks.*** Recent legal and regulatory changes may adversely impact Clients. The regulation of U.S. and non-U.S. securities, futures markets and investment funds has undergone substantial changes in recent years and such changes may continue. The effect of such new regulations on Clients could be substantial and adverse and may subject Clients to increased capital requirements, fees, expenses and limits on the types of investors they may solicit. Laws and regulations can change quickly and unpredictably in a manner

adverse to the Clients' interests. As a result, Waterfall and its Clients may be subject to unduly burdensome and restrictive regulations.

The financial services industry and the activities of private funds and their managers in particular, have been subject to increasing regulatory scrutiny. This may increase the exposure of Clients to potential liabilities and additional legal, compliance and other related costs that, as a result, adversely affect the ability of Clients to achieve their investment objectives.

- **General Data Protection Regime.** Waterfall and certain of its Clients are directly or indirectly subject to the requirements of the General Data Protection Regulation (Regulation (EU) 2016/679) ("GDPR"), which came into effect in the EU in May 2018. GDPR has direct effect in all 27 members of the EU and has extraterritorial effect where non-EU persons, such as Waterfall, certain Clients, or their respective service providers process personal data in relation to the offering of goods and services to individuals in the EU or the monitoring of the behavior of individuals in the EU.

GDPR imposes a number of obligations on data controllers and rights for data subjects and introduces fines for serious breaches. There is a risk that the measures taken to comply with GDPR will not be implemented correctly or that individuals within the business will not be fully compliant with the new procedures. If there are breaches of these measures, the Adviser and certain Clients and their respective affiliates (as relevant) could face significant administrative and monetary sanctions, as well as reputational damage which may have a material adverse effect on the operations, financial condition and prospects of such Clients.

- **Foreign Corrupt Practices Act Considerations.** The Adviser seeks to comply with the U.S. Foreign Corrupt Practices Act and other anti-corruption laws, anti-bribery laws and regulations, as well as anti-boycott regulations, to which they are subject. As a result, Clients may be adversely affected because of the Adviser's unwillingness to participate in transactions that violate such laws or regulations.
- **Leverage.** Clients, in certain instances, borrow and utilize various other forms of leverage and expect to operate with a significant leverage ratio. Although leverage presents opportunities for increasing a Client's total return, it has the effect of potentially increasing losses as well. If income and appreciation on investments made with borrowed funds are less than the cost of the leverage, the total return of the leveraging Client will decrease. Accordingly, any event which adversely affects the value of a portfolio investment would be magnified to the extent a Client is leveraged. The cumulative effect of the use of leverage by Clients in a market that moves adversely to such Clients' investments or in the event portfolio investments experience credit quality deterioration could result in a substantial loss to Clients that could be substantially greater than if such Clients were not

leveraged. In addition, contractual demands by lenders to a Client to reduce its leverage may force such Client to sell investments at prices less than those obtainable in a more orderly liquidation. To the extent that a creditor has a claim on a Client, such claim would be senior to the rights of an investor in the Client. As a result, if a Client's losses were to exceed the amount of capital invested, an investor could lose its entire investment.

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- ***SOFR Replacement of LIBOR.*** In the United States, there have been efforts to identify alternative reference interest rates for U.S. dollar LIBOR. The cash markets have generally coalesced around recommendations from the Alternative Reference Rates Committee (the “ARRC”), which was convened by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (“FRBNY”). The ARRC has recommended that U.S. dollar LIBOR be replaced by rates based on the Secured Overnight Financing Rate (“SOFR”) plus, in the case of existing LIBOR contracts and obligations, a spread adjustment. The derivatives markets are using SOFR-based rates to replace U.S. dollar LIBOR. For purposes of the following discussion, the term “LIBOR” refers solely to U.S. dollar LIBOR.
- ***Limited History of SOFR.*** With the discontinuance of the London Interbank Offered Rate (“LIBOR”) the Secured Overnight Financing Rate (“SOFR”) has been the primary substitute. SOFR has a limited history, having been first published in April 2018. The future performance of SOFR, and SOFR-based reference rates, cannot be predicted based on SOFR's history or otherwise. Future levels of SOFR may bear little or no relation to historical levels of SOFR, LIBOR or other rates. There is no assurance that SOFR, or rates derived from SOFR, will perform in the same or a similar way as LIBOR would have performed at any time, and there is no assurance that SOFR-based rates will be a suitable substitute for LIBOR.
- ***Force Majeure.*** Investment activity could be affected by force majeure events (i.e., unforeseen circumstances beyond Waterfall's control). Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative impact on the world economy and business activity in general. Force majeure events include, but are not limited to: acts of God, war, riots, fire, flood, hurricane, earthquake, explosion, outbreaks of an infectious disease, pandemic or any other serious public health concern, act or threat of terrorism, labor strikes, theft, cyber-attacks, malicious damage, electricity line rupture, energy blackouts, failure of technology, social instability, etcetera.
- ***Public Health Risk.*** Certain countries have been susceptible to epidemics, such as severe acute respiratory syndrome, avian flu, H1N1/09 flu and COVID-19. As a recent example, the outbreak of the COVID-19 pandemic and the accompanying public health concern,

together with the resulting restrictions on travel and quarantines imposed, had a negative impact on the economy, and business activity across the world, including regions in which the Firm invests and operates. Such disruptions impacted, in certain circumstances, the performance of specific Client's Investments. A similar event in the future could also disrupt specific Client's Investments.

- ***Terrorism and War.*** Terrorism, war, military confrontations and related geopolitical events have led, and may in the future lead, to increased short-term market volatility and have adverse long term effects on world economies. The extent and duration of the military action, resulting sanctions and resulting future market disruptions, including declines in its stock markets and the value of the ruble against the U.S. dollar, and their impacts on the more global economy, are impossible to predict, but could be significant.
- ***Cybersecurity.*** The computer systems, networks and devices that Waterfall uses to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized, systems, networks, or devices can be breached, and Clients could be negatively impacted as a result of a cybersecurity breach.

Cybersecurity breaches can include unauthorized access to systems, networks, or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow, or otherwise disrupt operations, business processes, or website access or functionality. Cybersecurity breaches may cause disruptions and impact business operations, potentially resulting in financial losses to a Client; interference with our ability to calculate the value of an investment owned by a Client; impediments to trading; the inability of Waterfall and other service providers to transact business; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs; as well as the inadvertent release of confidential information.

Similar adverse consequences could result from cybersecurity breaches affecting issuers of securities in which a Client invests; counterparties with which a Client engages in transactions; governmental and other regulatory authorities; exchange and other financial market operators, banks, brokers, dealers, insurance companies, and other financial institutions; and other parties. In addition, substantial costs may be incurred by these entities in order to prevent any cybersecurity breaches in the future.

- ***Environmental, Social, Governance Factors.*** Waterfall has committed to consider material environmental, social, and governance (“ESG”) issues during the investment due diligence process and in monitoring portfolio investments to the extent pertinent and

reasonably practicable under the circumstances, subject in all cases to (i) the governing documents of the relevant Client accounts and (ii) Waterfall's fiduciary duty to its Clients. Material ESG issues are those issues that the Adviser in its sole discretion determines have, or could have, a direct substantial impact on an organization's ability to create, preserve, or erode economic, environmental, or social value for itself and its stakeholders.

Item No. 9: Disciplinary Information

There have been no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of Waterfall's advisory business or the integrity of Waterfall's management.

Item No. 10: Other Financial Industry Activities and Affiliations

Waterfall and its Principals are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

Each of Waterfall and Waterfall Management is exempt from registration as a commodity pool operator and commodity trading adviser with the Commodity Futures Trading Commission (“CFTC”). Waterfall has claimed an exemption in respect of each applicable Fund from registration as a commodity pool under applicable requirements of the CFTC.

An affiliate of the Adviser, Waterfall Asset Management (UK) LLP (“**Waterfall (UK)**”), is authorized and regulated by the Financial Conduct Authority of the United Kingdom. Currently, the Adviser is the only client of Waterfall (UK). The relationship between the two affiliates is evidenced via a Participating Affiliate Agreement. Waterfall (UK) is majority owned by Waterfall Asset Management Holdings (UK) Limited (“**Waterfall (UK) Limited**”). The two Principals of Waterfall are board members of Waterfall (UK) Limited.

A subsidiary of Navigator Global Investments Limited (“**Navigator**”) holds a passive, non-voting, minority equity interest in each of Waterfall and Waterfall Management. Navigator is a publicly-traded company listed on the Australian Securities Exchange (ASX: NGI). Navigator has no control over the investment process or day-to-day operations of Waterfall, Waterfall Management or the Funds, but has certain consent rights relating to the actions of each of Waterfall and Waterfall Management.

Except as otherwise disclosed in this brochure, neither Waterfall nor any of its management persons has a relationship or an arrangement that is material to its advisory business or to its Clients. In addition, Waterfall has implemented policies and procedures to minimize potential or actual conflicts of interest which may have an impact on its advisory business or relationship with its Clients.

Item No. 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Waterfall serves as investment adviser or investment manager to multiple client accounts and may (although it does not currently) conduct investment activities for its or their own account(s). Such other entities or accounts (“**Other Clients**”) may have investment objectives, or may implement investment strategies, similar to those of the Funds and the Investment Vehicles. In that regard, Waterfall may give advice or take action with respect to the Other Clients that differs from the advice given with respect to the Funds and Investment Vehicles, and advice given or action taken with respect to one Fund or Investment Vehicle may differ from the advice given with respect to another Fund or Investment Vehicle. Such transactions must be consistent with the investment objectives and policies of each account and, in the view of the respective portfolio managers, in the interest of each side of the transaction, and will be conducted in accordance with applicable rules and regulations (including, if necessary, with appropriate consent by the account).

Waterfall further protects the interests of the Clients by taking steps to prevent the misuse of material, non-public information and to ensure that the personal securities transactions of its personnel are not in conflict with the interests of Waterfall’s Clients. Pursuant to Rule 204A-1 Waterfall has adopted, maintains and enforces a Code of Ethics (“**Code of Ethics**”) that requires all Principals, employees and other persons whom Waterfall deems appropriate (collectively, “**Access Persons**”), as well as immediate family members of Access Persons, to report holdings and securities transactions to the Waterfall Legal and Compliance Department. The Code of Ethics also sets forth standards of ethical and business conduct expected of Waterfall’s personnel, requires compliance with the federal securities laws, describes Waterfall’s fiduciary responsibilities and those of its advisory personnel, prohibits or restricts certain personal securities transactions and requires Access Persons to periodically report certain securities holdings and transactions.

To the extent applicable, Access Persons of Waterfall will not act for their own or related accounts, in anticipation of a purchase or sell recommendation for the Funds or otherwise, on the basis of material, non-public information. All transactions by Access Persons shall be reported to the Waterfall Legal and Compliance Department, either directly or through Waterfall’s compliance management platform, ComplySci, on a periodic basis.

Note that the foregoing summary of the Code of Ethics is qualified in its entirety by the complete text of the Code of Ethics, a copy of which may be requested by contacting the Chief Compliance Officer, c/o Waterfall Asset Management, LLC, 1251 Avenue of the Americas, 50th Floor, NY, NY 10020.

Managing Investments across the Capital Structure of an Issuer

Waterfall employs a wide range of investment strategies for its Clients. In specific instances, these strategies result in buying and selling securities and instruments within different parts of an issuer's capital structure for different Clients. In pursuing these investment strategies for Clients, Waterfall may acquire an instrument for a Client's account that is senior in the capital structure of an issuer relative to an instrument Waterfall may acquire for another Client that is more junior in the capital structure, or even common stock (which is in all cases junior, and subordinate, to a senior or secured creditor). Such investment decisions can be made by the same team of investment professionals for the same or different Clients depending on the investment strategy employed.

In another instance, Waterfall could invest for one Client in the senior bank debt or preferred stock of an issuer and invest for another Client in the unsecured debt or common stock of the same issuer. In this situation, a conflict can arise when an issuer defaults on its debt or seeks protection from creditors in bankruptcy or reorganizations, because actions taken to protect the interests of one Client may be at the potential detriment of other Clients holding different securities or instruments of the same issuer.

Waterfall seeks to mitigate these risks in several ways. Waterfall may avoid certain investment opportunities by imposing limitations on both amounts and types of such investments to minimize the impact of any potential conflict. Additionally, Waterfall may enact internal procedures designed to minimize such conflicts, which could also have the effect of limiting certain investment opportunities. Lastly, if an actual conflict could or does arise, the investment professionals, or other Waterfall employees involved, will bring the matter to the Waterfall Conflicts Committee to determine appropriate action to take on behalf of the various Clients involved. Resolutions proposed by the Waterfall Conflicts Committee may include: one or more Client(s) disposing of the security or instrument; recusal from voting with respect to such security or instrument; or where authorized in the constituent documents for such Client(s), delegating any such vote to an investor advisory committee or independent representative of such Client(s).

Furthermore, due to regulatory requirements and related Waterfall policies, certain Clients may be unable to invest in investments of issuers in which certain other Clients (e.g., registered funds) are investing or already hold an interest. As a result of these policies, Client(s) may be unable to participate in certain investments that may have otherwise been profitable for such Client(s).

Cross Transactions

Waterfall may also arrange for transactions between certain Clients, in which one Client buys a security from, or sells a security to, the account of another Client(s) ("**Cross Transactions**"). Waterfall receives no compensation (other than its management and performance-based fees),

directly or indirectly, for effecting Cross Transactions. Waterfall generally deems all of its Clients as eligible to participate in Cross Transactions, however, there may be other restrictions that prevent Waterfall, in the first instance, from including a client in a Cross Transaction (e.g., the client is an ERISA plan assets vehicle, the client is a registered fund, the client is a vehicle for employee investments, or client-specific investment guidelines prohibit participating in cross transactions).

Waterfall engages in Cross Transactions only after determining the transaction is in the best interest of each participating Client, the securities or other instruments are suitable and appropriate for each purchasing Client, and that the Cross Transactions are executed at a price which is fair for both the selling Client(s) and purchasing Client(s). Waterfall generally does not execute Cross Transactions through a broker-dealer. In those instances when a broker-dealer is used to execute a Cross Transaction, Waterfall will confirm that the compensation paid to the broker-dealer is reasonable. In all cases, Cross Transactions are executed at a price deemed fair by Waterfall for all participating Clients.

Waterfall may arrange Cross Transactions at its discretion. Cross Transactions do not require Client consent, unless otherwise set forth in the Client investment advisory agreements and/or other constituent documents.

Item No. 12: Brokerage Practices

Waterfall is authorized to determine the broker or dealer to be used for each securities transaction for the Clients. In selecting brokers or dealers to execute transactions, Waterfall need not solicit competitive bids and does not have an obligation to seek the lowest available brokerage commissions, mark-ups or other compensation (collectively, “**Commissions**”). It is not Waterfall’s practice to negotiate “execution only” Commissions; thus, the Funds and the Investment Vehicles may be deemed to be paying for research and related services and other services provided by the broker or brokers which are included in the Commissions. Research and related services furnished by brokers will be limited to services which constitute research within the meaning of Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, which generally may include information on the economy, industries, sectors, individual companies, statistical information, accounting and tax interpretations, political developments, legal developments affecting portfolio securities, technical market activity, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues. Research services may be received in the form of written reports, telephone contacts, and meetings with security analysts.

In selecting brokers and negotiating Commissions, Waterfall will take into account the financial stability and reputation of the brokerage firms, the brokerage, research and related execution services and other services provided by such brokers, although the Clients may not, in any particular instance, be the direct or indirect beneficiary of the research or related services provided.

When it is determined that an investment opportunity would be appropriate for one or more Client accounts managed by Waterfall, Waterfall will seek to allocate the investment opportunity for all participating investment accounts in proportion to the relative amounts of capital available for investment by such investment account (e.g., remaining commitments plus investment proceeds available for reinvestment). As a general matter, whether any particular allocation is fair and equitable will depend upon the facts and circumstances, including the investment objectives, guidelines and restrictions of Waterfall’s various Clients as each are described in the applicable management agreement or offering/disclosure document, as well as the construction of each Client’s portfolio. As a consequence, Waterfall may determine not to cause a Client to participate in a transaction in which it is otherwise legally and financially able to participate. However, since certain investment opportunities may be suitable for more than one Client, Waterfall will determine the amount of securities and other financial instruments to be purchased for or sold by each Client, based on the procedures noted below.

Certain investment opportunities, although appropriate for one or more Client accounts, may not be divisible among multiple accounts due to, among other reasons, the small size of the opportunity or the structure of the investment. To the extent an opportunity cannot be allocated among multiple

accounts, such opportunities may be allocated among the different accounts on a basis that Waterfall considers fair and equitable over time, including allocating the first such opportunity to one account, the second such opportunity to another account and so on. This may be the case, for example, where Waterfall and its affiliates propose to acquire a large position in an issuer without causing the Funds to become overly exposed to that issuer. Because Waterfall may make non-*pro rata* allocations, certain accounts managed by Waterfall may produce results that are materially different from those experienced by other accounts in the same investment strategy. Waterfall and its affiliates have in the past, and may in the future, establish special investment vehicles, or SPVs, to make investments in one or more securities or financial instruments.

Waterfall may choose to have each Client participate in an investment in any amount Waterfall deems to be fair and equitable. Waterfall need not cause its Clients to co-invest in a *pro rata* manner.

Notwithstanding the foregoing, the Ready Capital REIT has been granted a right of first refusal with respect to the purchase of small balance commercial mortgage loans. To the extent such loans are an appropriate investment for another Client of Waterfall, such loans will be allocated subject to the Ready Capital REIT's right of first refusal.

Waterfall may, in the event that has the ability to acquire assets which exceed the capacity of the primary accounts for a specific strategy, first allocate a portion of such assets to Clients for which such asset class is part of the primary investment mandate prior to allocating such assets to other Client accounts. In addition, Waterfall may only allocate an asset to a certain sub-set of eligible accounts should such acquisition be determinative by ownership of an underlying asset (e.g., allocating trust collateral only to such accounts which own the notes in such trust).

Waterfall recognizes that in managing private funds and separate accounts while sub-advising one or more registered investment company ("side-by-side management"), the Firm may face a conflict between its fiduciary duty to all Clients and its own economic interest based upon the differing compensation paid to the Firm by particular accounts. As a matter of policy, the Firm will not permit such conflicts to influence trade allocation or other investment decisions, but rather will make such decisions in a manner that is fair and equitable to all Clients.

Waterfall may on occasion experience an error with respect to a trade made on behalf of Clients. Errors may occur either in the investment decision-making process (e.g., a decision may be made to purchase a security or an amount of a security that violates the Client's investment restrictions) or in the trading process (e.g., a buy order may be executed as a sell (or vice versa)). Waterfall's Trade Error Policy dictates that a trade error will be corrected as soon after discovery as reasonably practical. Generally, the Firm will bear any loss to a Client as a result of a trade error. Conversely, Clients will retain any gain related to a trade error.

Item No. 13: Review of Accounts

Waterfall's Principals, together with the other members of the Adviser's investment management team, have the primary responsibility for reviewing and monitoring all investments made for the Adviser's investment advisory Clients. After the purchase of an asset, a vital component of the Adviser's portfolio risk management is active asset surveillance. Servicers provide monthly reports on collateral performance and the Adviser utilizes outside data providers to assist in the review and analysis of this data on most assets held in Client portfolios. The trustee or servicer is contacted, if necessary, to discuss discrepancies and unusual or negative credit trends. Each month, pool performance is compared to the performance as projected by the Adviser. This process enables the Adviser to proactively manage the portfolio based on current credit trends in each individual holding.

In addition, Waterfall, either directly or through the Funds' administrator, provides the Funds' limited partners, members, shareholders and other Clients' monthly statements for their accounts, providing capital account balances and returns for the applicable period. Limited partners, members and shareholders, as the case may be, also receive audited annual reports.

Waterfall also provides investors with periodic updates, which offer performance and market conditions as well as commentary from Waterfall portfolio management.

Item No. 14: Client Referrals and Other Compensation

Waterfall does not receive economic benefit from non-advisory Clients for providing investment advice or other advisory services with respect to such non-advisory Clients, and there are no sales charges payable to the Adviser or its affiliates of the Funds in connection with the offering of shares or interests, as applicable.

Waterfall has entered, and may in the future, enter into agreements with placement agents with respect to investors introduced to certain of the Funds by such placement agent. Such placement agents will generally receive compensation that may include a portion of the management and incentive fees or allocations received by Waterfall. Certain placement agent activities may be considered endorsements under Rule 206(4)-1(b) of the Adviser Act; for such endorsements, Waterfall will provide clear and prominent disclosures addressing whether (i) the endorser is a Client or investor in a Client, (ii) cash or noncash compensation has been provided in connection with the statement/endorsement/delivery of advertising materials, and (iii) any material conflicts of interest exist between the Firm and endorser or placement agent.

Further, in connection with certain securitization arrangements entered into by Clients, the Adviser is eligible to receive collateral management, asset management or reporting fees. To the extent that such fees apply to securitized products in which the primary loan pools serving as collateral for such securitized product are derived from the Clients, the Adviser shall rebate (or provide an offset to management fees) to such Clients all such fees received therewith.

Item No. 15: Custody

Client assets generally are held in custody by unaffiliated broker/dealers or banks (i.e., qualified custodians), however, Waterfall may be deemed to have custody as it may have access to some Client cash or securities as the Adviser or an affiliate serves as the general partner or managing member of such Fund. In addition, in certain circumstances the Adviser may be provided the ability to direct payments from a Client account, and in such case, the Adviser would be considered to have custody.

Fund investors will not receive statements directly from the qualified custodian; rather, statements are provided by the Funds' administrator. However, the Funds are subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements will be prepared in accordance with generally accepted accounting principles by independent, certified public accountants and distributed within 120 days of each Fund's fiscal year end.

Item No. 16: Investment Discretion

Waterfall has discretionary trading authority to make investment decisions for its Clients in accordance with, and in furtherance of, the applicable investment strategy as set forth in the applicable offering documents and investment management agreements with such Clients.

Item No. 17: Voting Client Securities

Given the focus of Waterfall's investment strategy, Waterfall anticipates rarely, if ever, voting proxies with respect to Clients' investments, and then generally in non-routine matters that would require case-by-case analysis.

To the extent Waterfall exercises voting authority over Client securities, its general policy is to vote on proxy proposals, amendments, consents or resolutions (collectively, "**proxies**") in a manner that serves the best financial interests of its Client and has the potential to increase return in accordance with its investment strategies.

Waterfall follows procedures that are designed to identify conflicts or potential conflicts that could arise between its own interests and those of its Clients. If it is determined that any such conflict or potential conflict is not material, Waterfall may vote proxies notwithstanding the existence of the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, appropriate personnel of Waterfall will work to agree upon a method to resolve such conflict before voting proxies affected by the conflict. In addition, in certain situations a Client may direct Waterfall to vote in a particular proxy solicitation.

The foregoing summary of Waterfall's proxy voting policies is qualified in its entirety by the complete text of the policy, a copy of which may be requested, along with the Adviser's proxy voting record by contacting the Chief Compliance Officer, c/o Waterfall Asset Management, LLC, 1251 Avenue of the Americas, 50th Floor, NY, NY 10020.

Item No. 18: Financial Information

The Adviser is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its Clients and has not been the subject of a bankruptcy petition.

A balance sheet is not required to be provided as none of the Adviser's Clients require or solicit prepayment of more than \$1,200 in fees per Client more than six months in advance of services rendered.