



# ESM Management LLC

SEC Form ADV Part 2A

Firm Brochure (“Brochure”)

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March 29, 2024

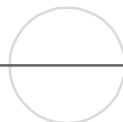
This Brochure provides information about the qualifications and business practices of ESM Management, LLC, a Registered Investment Advisor. If you have any questions about the contents of this Brochure, please contact the firm by telephone at 646-927-6089. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

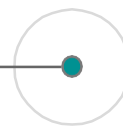
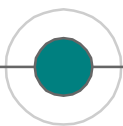
ESM Management, LLC is a Registered Investment Advisor. Registration of an Investment Advisor does not imply any level of skill or training. Additional information about ESM Management, LLC also is available on the SEC’s website at [www.adviserinfo.sec](http://www.adviserinfo.sec).

This Brochure does not constitute an offer to sell or the solicitation of an offer to buy any securities. Prospective investors should refer to the offering documents of the applicable private fund client prior to considering an investment in such private fund client.

## Item 2 - Material Changes

Since our previous annual amendment on March 2, 2023, ESM Management LLC (“ESM” or “Firm”) no longer provides advisory services to the Newton Opportunity Fund, LP but does continue to serve as the general partner to the fund. ESM also updated the ADV disclosures to reflect the Firm’s receipt of compensation in the form of rebates for persons investing in the RFX fund. ESM only charges certain Clients incentive fees. Other non-material changes not specified in this summary may have been made to this Brochure. Consequently, we encourage you to read this Brochure in its entirety.





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## Item 4 - Advisory Business

ESM Management LLC (“ESM”, the “Firm” or “we”) was founded in January 2009. The Firm’s principal owners are William Van de Water and Eric Meyer. ESM provides investment advice on acquiring, analyzing, or liquidating portfolios consisting primarily of mortgage related securities and/or securities impacted by the same or substantially similar factors that impact mortgage-backed securities. ESM expertise and investment methodology may be applied across other structured credit products as investment opportunities in those markets become available.

ESM provides portfolio management services to separately managed accounts, investment companies, other investment advisers, and a UCITS. For these managed accounts, ESM has discretionary trading authority and generally builds and maintains, and at times partially or fully liquidates, an investment portfolio according to the client’s investment objectives and risk tolerance. ESM works with each client to understand the risks and opportunities involved in the mortgage-backed securities (“MBS”) market and generally provides each client with periodic reports and market commentary. As the case may be where investments may be made in other structured credit products, ESM will work in the same manner with each client.

As of December 31, 2023, ESM managed approximately \$836,000,000, all on a discretionary basis.





## Item 5 - Fees and Compensation

The Newton Opportunity Fund, LP (“Fund”) is winding down. ESM no longer provides investment advisory services to the Fund; however, ESM does continue to serve as the general partner. ESM does not receive compensation from the Fund for serving as the general partner but the Fund does reimburse ESM for reasonable expenses incurred on behalf of the Fund and allowed under the limited partnership agreements.

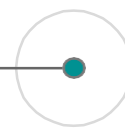
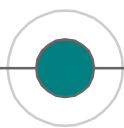
For certain Clients, ESM charges incentive fees only. ESM may, due to a variety of factors, periodically maintain a portion of a client’s account in cash. These funds will still be subject to ESM’s advisory fee. These fees are paid to ESM directly from the fund rather than the individual investors.

For managed accounts, ESM charges an incentive fee based on the profits that are generated in the account, on a realized basis. The incentive fees may be subject to hurdles that are applicable to the account. The exact calculation of the incentive fee is outlined in the account management agreement between ESM and its client. All managed accounts charged an incentive fee must meet regulatory guidelines, including the requirement that these clients be accredited investors.

ESM may, at our discretion, agree to enter into alternative fee arrangements, which could include a performance-based fee, or an incentive fee coupled with an AUM-based management fee. Incentive fees are accrued as a percentage of the absolute return and may be either measured against a mutually agreed upon benchmark, or against a hurdle rate. ESM bills clients directly for management fees in arrears. Generally, ESM bills clients semi-annually; however, this is negotiable.

The Rational Special Situations Income Fund charges a management fee of 1.5%. There are multiple share classes available and some of the share classes also have 12b-1 fees and sales charges. Please read the prospectus for a list of all applicable fees and expenses that may be incurred when investing in this fund. ESM receives a portion of the 12b-1 fees charged for select share classes.

Fees paid to ESM are exclusive of all custodial fees, brokerage commissions and transaction costs paid to the client’s custodian, brokers, or other third parties, as well as any fees and taxes on brokerage accounts and securities transactions. The client should review all fees charged by funds, brokers, ESM, and others to fully understand the total amount of fees paid by the client for investment and financial-related services.



## Item 6 – Performance-Based Fees and Side-by-Side Management

As mentioned above, ESM charges performance-based fee arrangements, as detailed in Item 5 above. As such, potential conflicts may arise, and ESM may have an incentive to favor accounts for which the Firm receives a performance-based fee. ESM does not charge a performance fee on all of our accounts. In addition, as noted in Items 4 and 5 above, ESM also engages in side-by-side management since we manage the hedge fund and the mutual fund as well as managing separately managed accounts, which may create a conflict of interest.

ESM is committed to treating all accounts fairly and equitably. Investment opportunities are allocated first and foremost according to the needs of each client's portfolio. For example, when determining allocations, ESM weighs various factors against each other when determining how to make allocations among client accounts for bonds such as the amount of free cash available for investment in the type of bond for sale, whether the bond is a match for an odd lot position of a client and, whether or not the bond provides diversification for the client. ESM has developed and implemented an allocation policy further detailing its methodology for allocating trades across the various accounts and funds that it manages. However, our main goal is to treat all clients on an equal footing without regards to fee arrangements or personal relationships. Please see Item 12 "Brokerage Practices" for additional information on our trade allocation procedures.

## Item 7 - Types of Clients


ESM provides investment management services to institutional clients, such as pension funds, mutual funds, family offices, high net-worth individuals and a UCITS, an investment advisory fund registered in and subject to EU regulations.

ESM's minimum investment requirement is \$25 million for new managed accounts. ESM may waive the minimum investment amount at its discretion. Investors seeking to invest less than this amount may consider investing in other funds managed by ESM. The minimum investment amount for the mutual fund is \$1,000. Existing client relationships are excluded from the minimum investment amount.

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

ESM's main goal is to introduce and expose clients to the mortgage-backed securities market with an emphasis on mortgage-backed securities. Our strategy is long-only. Investment horizons can vary from





days to years. We do not generally hedge. We reinvest principal pay downs and interest payments opportunistically, seeking to increase positions in the strategies we believe have the highest expected return based on our own modeling.

Most of our modeling work is done for three purposes:

1. To estimate whether the investment expected to get absolute return is reasonable given the portfolio's investment objectives;
2. To determine whether the investment is attractive relative to similar opportunities within the same asset class; and
3. To assess risk and attempt to limit losses due to a market downturn or a catastrophic change in factors affecting the outcome of the particular investment.

The key advantages we believe we have over other market participants are i) we are focused on a very particular segment of the MBS market where few others are looking for investment opportunities and ii) we are very experienced in and diligent about analyzing and understanding the operating documents behind every security. Due to our approach to the non-agency mortgage-backed securities market, client funds may be invested in cash accounts for limited periods of time while ESM searches for a viable investment opportunity. While invested in these cash accounts, risk is minimal but so also are the returns, leaving the possibility that clients will pay more in fees than the assets earn while in the cash account.

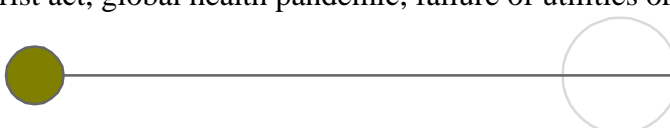
## Risk of Loss

The following risk factors do not purport to be a complete list or explanation of all the risks associated with ESM's investment strategies, methods of analysis or types of investment instruments utilized.

### *ESM Investment Activities*

ESM's investment activities involve a significant degree of risk. The analysis of mortgage-based securities and even more so non-agency mortgage-backed securities is complicated and requires consideration of various risks, such as interest rate risk, prepayments and credit risk (default and recovery). Despite efforts exerted by individuals at the Firm, the performance of any investment is subject to numerous factors, which are neither within the control of, nor predictable by, the Firm. Such factors include a wide range of economic, political, legal, competitive, geographic and other conditions that may affect investments in general or specific industries or companies. The markets may be volatile, which may adversely affect the ability of the Firm to realize profits on behalf of its clients. As a result of the nature of the Firm's investing activities, it is possible that the client's results may fluctuate substantially from period to period.

Investment activities are also subject to Force Majeure Risk: This is the risk that there may be an act of God, terrorist act, global health pandemic, failure of utilities or other similar circumstance not within the



reasonable control of ESM that may have an unknown and potentially catastrophic effect on the global markets. ESM has a business continuity plan to mitigate the effects of a force majeure risk, however, these events may still affect ESM, our clients, the financial markets, and client investments.

## SEE PRINCIPAL RISK SECTION OF THE MUTUAL FUND FOR A COMPLETE LIST OF RISK DISCLOSURES

### **Principal Risks of Investing in the Fund:**

As with any mutual fund, there is no guarantee that the Fund will achieve its objective. Investment markets are unpredictable and there will be certain market conditions where the Fund will not meet its investment objective and will lose money. The Fund's net asset value and returns will vary, and you could lose money on your investment in the Fund and those losses could be significant. An investment in the Fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

The following summarizes the principal risks of investing in the Fund. These risks could adversely affect the net asset value, total return and the value of the Fund and your investment.

**Market Risk.** The value of securities in the Fund's portfolio will fluctuate and, as a result, the Fund's share price may decline suddenly or over a sustained period of time. Overall market risks may also affect the value of the Fund. Factors such as economic growth and market conditions, interest rate levels and political events affect the securities markets.

**Mortgage-Backed Securities Risk.** Mortgage-backed securities represent participating interests in pools of residential mortgage loans, some of which mortgage loans are guaranteed by the U.S. government, its agencies or instrumentalities. These guarantees are made at the "loan level" and relate only to the payment of principal and interest on the underlying mortgage loans. These loan-level governmental guarantees do not cover the payment of principal and interest on, or fluctuations in the market values of, the related mortgage-backed securities, and do not apply to investors' purchase of shares of the Fund.

Mortgage-backed securities issued or guaranteed by governmental agencies or instrumentalities such as Ginnie Mae, or government-sponsored entities such as Fannie Mae and Freddie Mac, are generally known as "agency mortgage-backed securities." Agency mortgage-backed securities are backed by mortgage loans that satisfy the underwriting and other criteria published by the applicable governmental entity. The payment of interest and principal on these mortgage-backed securities is generally guaranteed by the applicable governmental entity.

Mortgage-backed securities issued by private issuers are also known as "non-agency" mortgage-backed securities. Non-agency mortgage-backed securities are not subject to the same stringent underwriting requirements as agency mortgage-backed securities and, therefore, the mortgage loans underlying privately issued mortgage-backed securities may have less favorable collateral, credit risk or other underwriting characteristics, and wider variances in interest rate, term, size, purpose and borrower characteristics. The market for non-agency mortgage-backed securities is smaller and less liquid than the market for agency mortgage-backed securities.

Mortgage-backed securities do not have a fixed maturity and their expected maturities may vary as interest rates rise or fall. An increased rate of prepayments on the Fund's mortgage-backed securities will result in an unforeseen loss of interest income to the Fund as the Fund may be required to reinvest assets at a lower interest rate. A decreased rate of prepayments lengthens the expected maturity of a mortgage-backed security. The prices of mortgage-backed securities may decrease more than prices of other fixed-income securities when interest rates rise. The liquidity of mortgage-backed securities may change over time.





Mortgage-backed securities may be backed by mortgage loans across the spectrum of credit quality. Lower credit quality mortgage loans, such as those considered “subprime,” are more likely to default than those considered “prime” by a rating agency or service provider. Mortgage-backed securities supported by subprime mortgage loans generally carry a higher risk of loss and are potentially less liquid than mortgage-backed securities supported by prime mortgage loans, as an economic downturn or period of rising interest rates could adversely affect the market for sub-prime mortgage loans and thereby reduce the Fund’s ability to sell securities backed by such loans. Additionally, subprime loan borrowers may seek bankruptcy protection which would delay resolution of security holder claims and may eliminate or materially reduce liquidity.

**Real Estate Risk.** Through its investments in mortgage-related securities, the Fund is subject to the risks of the real estate market as a whole, such as taxation, regulations and economic and political factors that negatively impact the real estate market and the direct ownership of real estate. These may include decreases in real estate values, overbuilding, rising operating costs, interest rates and property taxes. In addition, some real estate-related investments are not fully diversified and are subject to the risks associated with financing a limited number of projects.

**Fixed Income Securities Risk.** The value of the Fund’s fixed income securities will fluctuate with changes in interest rates. Typically, a rise in interest rates causes a decline in the value of fixed income securities owned by the Fund. In general, the market price of fixed income securities with longer maturities will increase or decrease more in response to changes in interest rates than shorter-term securities. Other risk factors include credit risk (the risk that the debtor may default), extension risk (an issuer may exercise its right to repay principal on a fixed rate obligation held by the Fund later than expected), and prepayment risk (the risk that the debtor may pay its obligation early, reducing the amount of interest payments). These risks could affect the value of a particular investment by the Fund, possibly causing the Fund's share price and total return to be reduced and fluctuate more than other types of investments.

**Income Risk.** The Fund’s distributions to shareholders may decline when prevailing interest rates fall, when the Fund experiences deterioration of the underlying debt securities it holds, or when the Fund realizes a loss upon the sale of a debt security.

**Interest Rate Risk.** Interest rate risk is the risk that bond prices overall, including the prices of securities held by the Fund, will decline over short or long periods of time due to rising interest rates. Bonds with longer maturities tend to be more sensitive to interest rates than bonds with shorter maturities. The maturity and effective duration of the Fund’s investment portfolio may vary materially, from time to time, and there is no assurance that the Fund will achieve or maintain any particular target maturity or effective duration of its investment portfolio.

**Credit Risk.** Credit risk is the risk that an issuer of a security will fail to pay principal and interest in a timely manner, reducing the Fund’s total return. In addition, the credit quality of fixed income securities held by the Fund may be lowered if an issuer's financial condition changes. The issuer of a fixed income security may also default on its obligations. The Fund’s exposure to credit risk may be increased through its investments in high-yield securities, commonly known as “junk” bonds. Credit risk may be substantial for the Fund.

**Prepayment and Extension Risk.** Prepayment risk is the risk that principal on a debt obligation may be repaid earlier than anticipated. Extension risk is the risk that an issuer will exercise its right to repay principal on a fixed rate obligation held by the Fund later than expected. Both prepayment and extension risks may impact the Fund's profits and/or require it to pay higher yields than were expected.

**Junk Bond Risk.** Lower-quality bonds, known as “high-yield” or “junk” bonds, are considered to be speculative with respect to the issuer’s ability to pay interest and principal when due and present greater risk than bonds of higher quality, including an increased risk of default. An economic downturn or period of rising interest rates could adversely affect the market for these bonds and reduce the Fund's ability to sell the bonds in its portfolio. The lack of a liquid market for these bonds could decrease the value of the Fund's portfolio and net asset value per share.



**Liquidity Risk.** Liquidity risk exists when particular investments of the Fund would be difficult to purchase or sell, possibly preventing the Fund from selling such illiquid securities at an advantageous time or price, or possibly requiring the Fund to dispose of other investments at unfavorable times or prices in order to timely meet its redemption obligations. Liquid securities can become illiquid due to political, economic or issuer specific events; supply/demand imbalances; changes in a specific market's size or structure, including the number of participants; or overall market disruptions.

**Management Risk.** The investment strategies and models employed by the Sub-Advisor in selecting investments for the Fund may not result in an increase in the value of your investment or in overall performance equal to other similar investment vehicles having similar investment strategies. In addition, the Sub-Advisor's judgment about the attractiveness, value and potential total return of the securities in which the Fund invests may prove to be incorrect and there is no guarantee that the Sub-Advisor's judgment will produce the desired results.

**Activist Strategies Risk.** As part of the Fund's principal investment strategy, the Sub-Advisor seeks to identify "special situations" where it can seek to remedy legal, technical or structural issues it has identified in the securities held by the Fund through activist strategies, including through litigation or the threat of litigation. Such activist strategies may not be successful and may have a negative impact on the Fund, including causing the Fund to incur legal related costs and expenses and portfolio turnover if the Sub-Advisor determines to sell such securities.

**New Sub-Advisor Risk.** The Sub-Advisor has limited experience managing a mutual fund. Mutual funds and their advisors are subject to restrictions and limitations imposed by the 1940 Act and the Internal Revenue Code that do not apply to the management of other types of individual and institutional accounts. As a result, investors do not have a long-term track record of managing a mutual fund from which to judge the Sub-Advisor and the Sub-Advisor may not achieve the intended result in managing the Fund.

**Concentration Risk.** Because the Fund concentrates its investments in a sector, industry or group of industries, the Fund is more vulnerable to adverse market, economic, regulatory, political or other developments affecting such sector, industry or group of industries than a fund that invests its assets more broadly.

**Asset-Backed Securities Risk.** Issuers of asset-backed securities may have limited ability to enforce the security interest in the underlying assets, and credit enhancements provided to support the securities, if any, may be inadequate to protect investors in the event of default. Asset-backed securities are subject to prepayment risk, which is the risk that a borrower's payments may be received earlier or later than expected due to changes in prepayment rates on underlying loans. Asset-backed securities are also subject to extension risk, which is the risk that a rise in interest rates could reduce the rate of prepayments, causing the price of the asset-backed securities and the Fund's share price to fall.

**CDOs and CLOs Risk.** CDOs and CLOs are securities backed by an underlying portfolio of debt and loan obligations, respectively. CDOs and CLOs issue classes or "tranches" that vary in risk and yield and may experience substantial losses due to actual defaults, decrease of market value due to collateral defaults and removal of subordinate tranches, market anticipation of defaults and investor aversion to CDOs and CLOs as a class. The risks of investing in CDOs and CLOs depend largely on the tranche held by the Fund and the types of underlying debts and loans in such tranche of the CDO or CLO, respectively. CDOs and CLOs are also subject to additional risks including, but not limited to, interest rate risk and credit risk.

**Structured Note Risk.** Structured notes are subject to credit risk, default risk, adverse changes in the index or reference asset to which payments are linked and may involve leverage risk.

**U.S. Government Obligations Risk.** The Fund may invest in U.S. government or agency obligations. Securities issued or guaranteed by federal agencies and U.S. government-sponsored entities may not be backed by the full faith and credit of the U.S. government.



**Security Risk.** The value of the Fund may decrease in response to the activities and financial prospects of an individual security in the Fund's portfolio.

**Derivatives Risk.** The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. These risks include (i) the risk that the counterparty to a derivative transaction may not fulfill its contractual obligations; (ii) risk of mispricing or improper valuation; and (iii) the risk that changes in the value of the derivative may not correlate perfectly with the underlying reference asset. Derivatives can also create leverage risk because they do not require payment up front equal to the economic exposure created by holding a position in the derivative. As a result, an adverse change in the value of the underlying asset could result in the Fund sustaining a loss that is substantially greater than the amount invested in the derivative or the anticipated value of the underlying asset, which may make the Fund's returns more volatile and increase the risk of loss. Derivative instruments may be less liquid than more traditional investments and the Fund may be unable to sell or close out its derivative positions at a desirable time or price. This risk may be more acute under adverse market conditions, during which the Fund may be most in need of liquidating its derivative positions. Derivatives may also be less tax efficient and subject to changing government regulation that could impact the Fund's ability to use certain derivatives or their cost. When a derivative is used for hedging, the change in value of the derivative may also not correlate specifically with the risk of the underlying asset being hedged. Derivative prices are highly volatile and may fluctuate substantially during a short period of time. Such prices are influenced by numerous factors that affect the markets, including, but not limited to: changing supply and demand relationships; government programs and policies; national and international political and economic events, changes in interest rates, inflation and deflation and changes in supply and demand relationships. Derivatives strategies may not always be successful, and their successful use will depend on the portfolio managers' ability to accurately forecast movements in the market relating to the underlying asset.

**Credit Default Swap Risk.** Credit default swaps ("CDS") are typically two-party financial contracts that transfer credit exposure between the two parties. Under a typical CDS, one party (the "seller") receives pre-determined periodic payments from the other party (the "buyer"). The seller agrees to make compensating specific payments to the buyer if a negative credit event occurs, such as the bankruptcy or default by the issuer of the underlying debt instrument. The use of CDS involves investment techniques and risks different from those associated with ordinary portfolio security transactions, such as potentially heightened counterparty, concentration and exposure risks.

**Credit Spread Options Risk.** The Fund's credit spread options positions expose the Fund to leverage risk because a small investment may produce large changes in Fund value. Additionally, the Fund's credit spread options positions expose the Fund to losses limited by the spread's price differential, which is the difference between the strike prices less the net credits from writing a call (put) option while buying a call (put) option at a higher (lower) strike price.

**Futures Risk.** Investments in futures contracts involve leverage, which means a small percentage of assets invested in futures can have a disproportionately large impact on the Fund. This risk could cause the Fund to lose more than the principal amount invested. In addition, futures contracts may become mispriced or improperly valued relative to the Sub-Advisor's expectations and may not produce the desired investment results. Additionally, changes in the value of futures contracts may not track or correlate perfectly with the underlying reference asset because of temporary, or even long-term, supply and demand imbalances and because futures do not pay dividends.

**Options Market Risk.** Markets for options and options on futures may not always operate on a fair and orderly basis. At times, prices for options and options on futures may not represent fair market value and prices may be subject to manipulation, which may be extreme under some circumstances. The dysfunction and manipulation of volatility and options markets may make it difficult for the Fund to effectively implement its investment strategy and achieve its objectives and could potentially lead to significant losses.



**Options Risk.** There are risks associated with the Fund's use of options. As the buyer of a call option, the Fund risks losing the entire premium invested in the option if the underlying reference instrument does not rise above the strike price, which means the option will expire worthless. As the buyer of a put option, the Fund risks losing the entire premium invested in the option if the underlying reference instrument does not fall below the strike price, which means the option will expire worthless. Conversely, as a seller (writer) of a call option or put option, the Fund will lose money if the value of the underlying reference instrument rises above (written call option) or falls below (written put option) the respective option's strike price. The Fund's losses are potentially large in a written put transaction and potentially unlimited in an unhedged written call transaction.

Additionally, purchased options may decline in value due to changes in price of the underlying reference instrument, passage of time and changes in volatility. Generally, options may not be an effective hedge because they may have imperfect correlation to the value of the Fund's portfolio securities. Further, the underlying reference instrument on which the option is based may have imperfect correlation to the value of the Fund's portfolio securities. Option premiums are treated as short-term capital gains and when distributed to shareholders, are usually taxable as ordinary income, which may have a higher tax rate than long-term capital gains for shareholders holding Fund shares in a taxable account. Options are also subject to leverage and volatility risk, liquidity risk, tracking risk, and sub-strategy risk.

**Over-the-Counter ("OTC") Trading Risk.** Certain of the derivatives in which the Fund may invest may be traded (and privately negotiated) in the OTC market. While the OTC derivatives market is the primary trading venue for many derivatives, it is largely unregulated. As a result, and similar to other privately negotiated contracts, the Fund is subject to counterparty credit risk with respect to such derivative contracts.

**Swaps Risk.** Swaps are subject to non-correlation risk because they may not be perfect substitutes for the instruments they are intended to hedge or replace. Over the counter swaps are subject to counterparty default. Leverage inherent in derivatives will tend to magnify the Fund's losses. Like other derivatives, swaps are also subject to leverage risk, which will tend to magnify the Fund's losses.

**Total Return Swap Risk.** Total return swap agreements may effectively add leverage to the Fund's portfolio because, in addition to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap. The primary risks associated with total returns swaps are credit risk and liquidity risk.

**Leverage Risk.** The use of leverage by the Fund, such as through the use of derivatives, will cause the Fund to incur additional expenses and magnify the Fund's gains or losses.

**Volatility Risk.** Using derivatives can create leverage, which can amplify the effects of market volatility on the Fund's net asset value and cause the Fund's returns and net asset value per share to experience significant increases or declines in value over short periods of time.

**Non-Diversification Risk.** To the extent that the Fund holds securities of a smaller number of issuers or invests a larger percentage of its assets in a single issuer than would a diversified portfolio, the value of the Fund, as compared to the value of a diversified portfolio, will generally be more volatile and more sensitive to the performance of any one of those issuers and to economic, political, market or regulatory events affecting any one of those issuers.





## Item 9 - Disciplinary Information

ESM has no disciplinary information to report.

## Item 10 - Other Financial Industry Activities and Affiliations

In 2020, Eric Meyer, ESM's President, graduated from law school and was admitted to practice law in Oregon and Massachusetts. Eric has started his own law practice, which operates out of ESM's Newton, MA office. ESM is his only client; he has no intention of seeking additional clients.

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

ESM's Code of Ethics ("Code") is designed to help ensure that ESM conducts business consistent with high standards of personal and professional conduct. ESM demonstrates this commitment through its procedures addressing insider trading and market manipulation, gifts and entertainment, political donations, personal investments and other outside activities of employees.

ESM's principal business is advising clients on investments and trading in mortgage-backed securities. ESM does not permit any direct trading in such products by any of ESM's principals or employees, or by ESM itself, except on behalf of ESM clients.

ESM requires quarterly reporting of its employee's personal trading activity, which is reviewed by the Firm.

ESM's Code is reviewed periodically by the principals, specifically the Chief Compliance Officer. In addition, all employees are required to annually acknowledge receipt and agreement to abide by our Code of Ethics. A copy of the Code is available to any prospective or existing client upon request. To request a copy of the Code of Ethics, please contact that Firm using the contact information on the cover page of this brochure.



## Item 12 - Brokerage Practices

### **Research and Other Soft Dollar Benefits:**

ESM receives research, market analysis, and even the use of certain proprietary models from brokers. This creates a benefit for ESM and may create a conflict of interest as the Firm may have an incentive to select or recommend a broker based on our interest to receive research services, rather than on clients' interest to receive the most favorable execution. Because our focus asset class (non-agency mortgage-backed securities), and attractive offers or bids for securities of the right sized position appear sporadically, we tend to do the most business with a large number of brokers who have an extensive and active client base of investors and managers with similar portfolio holdings to the funds and accounts we manage, which allows us to invest in these positions when they are offered by the different brokers.

### **Brokerage for Client Referrals:**

ESM may recommend specific brokers to clients. Generally, this occurs when the client needs to establish a brokerage account suitable for trading and holding mortgage-backed securities. ESM does not receive any compensation for these referrals; however, such referrals may earn us goodwill with the referred broker and may incentivize that broker to provide research and other services to us, which research or services may not directly benefit all clients of ESM.

### **Directed Brokerage:**

Clients may request that ESM use a particular broker-dealer to effect transactions in their accounts. In some cases, using a particular broker-dealer may result in clients paying more for such services than if brokers were chosen based on price or ability to aggregate trades with those of other clients. Clients who direct the brokerage will also not be able to participate in trade aggregations, which may result in that client paying higher fees and transaction costs than other clients.

### **Trade Aggregation:**

ESM strives to ensure that each client with substantially similar investment objectives is treated on an equal basis, regardless of that client's relationship with ESM and the nature or level of fees paid to ESM by that client.

With regards to trade aggregation, when an eligible bond from that asset class appears on a bid list or a dealer inventory list, ESM determines the suitability of the investment for ESM's clients. If ESM obtains the bond, ESM will allocate the bond in accordance with its allocation policy. ESM will generally allocate the eligible bonds on a pro rata basis, based on the pre-trade allocation, subject to rounding, cash balances, investment restrictions, and other factors. A copy of the allocation policy is available to any prospective or existing client upon request.





## Item 13 - Review of Accounts

Generally, ESM reviews client accounts on a daily basis, as new price information becomes available concerning any securities in the client's portfolio. Each morning, the principals review how much cash each client has to invest, and whether there are any good candidate bonds on bid-wanted-in-competition lists (i.e., auctions).

Every month, the principals review the principal pay downs and loan performance of each portfolio as detailed on Bloomberg and in master servicer remittance reports. Also, each client portfolio is priced monthly using our internal valuation methodology, which is designed to consolidate and consider all publicly available and internal information on the value of portfolio securities. A copy of the pricing policy is available to any prospective or existing client upon request. A review outside of the normal review process may be triggered when an issue persistently arises that may indicate a need for a review.

ESM provides clients with periodic reports and market commentary, at least quarterly, or upon client request. Clients are also invited to contact ESM at any time to review their accounts, preferences, and goals.

## Item 14 - Client Referrals

As disclosed in Item 12, ESM may refer clients to specific brokers when the client needs to establish a brokerage account suitable for trading and holding mortgage-backed securities. ESM does not receive any compensation for these referrals, however such referrals may earn us goodwill with the referred broker, as more particularly described in Item 12.

## Item 15 - Custody

ESM does not have direct custody of any client assets. Where a client grants trading authority to ESM, the client assets remain in the client's own brokerage account, and ESM has no authority to withdraw cash or any other assets, including ESM's annual incentive fee, at any time. Clients will receive statements directly from the custodian at least quarterly. We urge clients to review the statements carefully and compare them to any reports provided by or requested from ESM.





## Item 16 - Investment Discretion

ESM has discretionary authority, pursuant to our written investment management agreements with clients, to determine, without obtaining specific client consent, the securities to be bought or sold, the amount of the securities to be bought or sold, the brokers or dealers through which transactions will be executed, and the amount of commissions or mark ups or mark downs paid. Clients may impose reasonable restrictions on the investment decisions made by ESM. Any restrictions or limitations on ESM's discretionary authority must be made in writing and contained in the private fund client's offering memorandum, and/or in the investment management agreement between ESM and the client.

## Item 17 - Voting Client Securities

From time to time, ESM may be required to vote proxies for client securities. However, given that the instruments ESM trades often do not have voting rights and do not require voting frequently, this is not a likely occurrence. In the event that ESM is required to vote proxies for a client account, ESM has procedures designed to help ensure that such decisions are made in accordance with ESM's fiduciary obligation to act in the best interests of its clients.

Any material conflicts of interest that may arise between the interests of ESM or its supervised persons and those of its clients when voting proxies are addressed in a transparent manner. Clients do not have the ability to direct how we vote proxies, but clients can obtain information on how their proxies were voted by contacting us. ESM's policies and procedures are available to any client, prospective client, and investor upon request by contacting the Firm using the contact information on the cover page of this brochure.

## Item 18 - Financial Information

ESM has not been subject to a bankruptcy and does not have any financial conditions that might impair our ability to service our clients.