

**FORM ADV**

**Part 2A – Page 1**

**FIRM BROCHURE**

**Item 1 – Cover Page**

Name of Investment Adviser: Sandler O'Neill Advisors, L.P.

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**This brochure provides information about the qualifications and business practices of Sandler O'Neill Advisors, L.P. If you have any questions about the contents of this brochure, please contact us at (212) 466-7920. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Sandler O'Neill Advisors, L.P. also is available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Sandler O'Neill Advisors, L.P. is a registered investment advisor. Registration only means that we are registered with the SEC, and does not and should not imply any level of skill or training.**

## Item 2 – Material Changes

This brochure contains material changes from the last update of our brochure, which was dated as of December 31, 2017 and filed with the SEC on March 29, 2018. The following is a summary of changes since the last update of this brochure:

- information about our relationship with Sandler O'Neill Hedging Services, LLC, which is described in Item 10.C;
- certain modifications to our brokerage practices, which are described in Item 12; and
- information about our solicitation agreement with Sandler O'Neill & Partners, L.P., which is described in Item 14.B.

This is a summary of material changes only. It is not intended to replicate the entire brochure and should not be construed as complete disclosure of information regarding our advisory services.

## Item 3 – Table of Contents

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#### Item 4 – Advisory Business

- A. We are a limited partnership organized under the laws of Delaware. Our general partner is SOAGP L.L.C., a Delaware limited liability company. Our largest limited partner is SOP Holdings, LLC, a Delaware limited liability company. No other individual or company owns 25% or more of our partnership interests.
- B. We have been in business since 2005. We have three primary business lines: collateral management services, research and investment recommendations and balance sheet management services.

*Collateral Management Services.* We manage the securities held by special-purpose entities known as collateralized debt obligations or CDOs. Those securities typically consist of trust preferred, subordinated debt and other securities issued by various financial institutions. We currently serve as the collateral manager to two CDOs. We have entered into collateral management agreements with each of those CDOs, which set forth the terms under which we advise the CDOs on the selection, purchase and sale of securities, hedging strategies and other matters. Our CDO clients generally follow a “buy and hold” strategy and are not actively managed. In connection with our collateral management services, we also offer advice regarding swaps and other derivatives to which our CDO clients may be a party.

We also serve as a sub-advisor to collateral managers of other CDOs. The sub-advisory services we have agreed to provide include:

- obtaining price quotes and other information with respect to the collateral underlying the CDOs;
- facilitating sales of securities and assets which form a part of the collateral underlying the CDOs; and
- providing other services upon which we and the applicable collateral manager may agree.

To date, we have not been called upon to provide any sub-advisory services under these arrangements.

*Research and Investment Recommendations.* We provide research and investment recommendations to our clients through the distribution of research reports. Our research analysts cover a significant number of financial services companies, including small-, mid- and large-cap banks, thrifts, specialty finance companies, REITs, government sponsored entities, credit card companies, eFinance companies, asset management companies, investment banks and insurers. We publish company reports, which set forth our views on particular companies, and we publish industry reports, which are designed to help clients evaluate the extent to which individual companies will perform in accordance with industry projections.

*Balance Sheet Management Services.* We provide balance sheet management services for financial institutions, including banks, thrifts, insurance companies and credit unions. These services include investment recommendations and a range of analyses of interest rate sensitivities, yields, asset quality, etc. We do not make investment decisions or hold assets for these advisory clients. Instead, we provide our analyses, conclusions and recommendations to our clients' boards of directors, senior managements, and/or senior investment or financial personnel. These services are provided on either a commission basis, a fixed-fee basis or for fees that are determined as a percentage of the assets analyzed. In each case, we negotiate the amount of the fee with the applicable client.

- C. We do not generally tailor our services to the individual needs of clients. Our services are relatively consistent within each of our business lines.
- D. We do not participate in wrap fee programs.
- E. We managed \$417,500,000.00 in client assets as of December 31, 2017. Our method for computing client assets is the same as the method we used to compute assets under management in our Form ADV Part I.

#### Item 5 – Fees and Compensation

- A. We are compensated in different ways depending on the type of services we provide as follows:

*Collateral Management Services.* For our role as collateral manager, each CDO pays us a quarterly fee equal to a percentage of the total value of securities under management. The amount of our fees is subject to negotiation, but the fees generally range between approximately 0.05% and 0.30% per year of the value of the CDO's securities under management. For our role as sub-advisor to collateral managers of other CDOs, we generally receive a negotiated percentage of the applicable collateral manager's fee.

*Research and Investment Recommendations.* We offer our research reports to our clients either on a subscription basis or for a fixed fee that is subject to negotiation. Annual subscriptions cost up to \$100,000 per year. Clients may cancel research report subscriptions at any time.

We have entered into, and may from time to time continue to enter into, agreements under which we provide research reports to one of more of our clients in exchange for payment from a third party (typically, an investment manager retained by the client). We conduct these research arrangements according to applicable law. Any payments to us will be made pursuant to a written agreement between us and the third party. We negotiate these agreements on a case-by-case base and may set pricing based on the amount of anticipated access to research reports, or alternatively, pricing may be negotiated as a flat fee.

*Balance Sheet Management Services.* We provide our balance sheet management services on either a commission basis, a fixed-fee basis or for fees that are determined as a percentage of the assets analyzed. In each case, we negotiate the amount of the fee with the applicable client.

*Our Broker-Dealer Affiliate.* We have retained our registered broker-dealer affiliate, Sandler O'Neill & Partners, L.P. (which we refer to as SOP), to solicit clients. SOP has acted and may continue to act as a broker, dealer or underwriter for financial institutions (including CDOs) that we may seek as clients. SOP may receive a fee or other compensation for these services. In the case of CDO clients, such fees and other compensation will be specified in the applicable offering memorandum. We will conduct all solicitation arrangements according to applicable law. Among other requirements, any payments to SOP for solicitation must be made pursuant to a written agreement and the solicitor must disclose the nature of its relationship with us to prospective clients at the time of the solicitation. In the case of CDO clients, these requirements may be satisfied by disclosure in the placement agency or other agreement entered into between the CDO and SOP, the applicable offering memorandum and/or other relevant documents. We have a general policy to avoid the use of non-affiliated third-party solicitors.

- B. We receive fees from our collateral management clients on a quarterly basis. Those fees are paid in accordance with the priority of payments established by the indenture governing the securities issued by the applicable CDO. We bill all other types of fees to our clients at such times as may be agreed to between us and the clients. Our fees are not deducted from client assets.
- C. Clients do not generally pay any other fees to us in connection with our advisory services. However, clients may incur brokerage and other transaction costs, as described in Items 10 and 12 of this brochure.
- D. We require the payment of some of our fees in advance. Subscriptions for research and investment recommendations generally must be paid in advance. Although clients may cancel research report subscriptions at any time, we will only issue refunds in the event that, during the applicable subscription period, the client has not received any research reports from us. We may also require the advance payment of fees for balance sheet management services. We generally do not refund payments made in advance in the event the client terminates the advisory agreement before we render all of our services.
- E. Neither we nor any of our supervised persons accepts compensation for the sale of securities or other investment products.

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

Neither we nor any of our supervised persons accepts performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

#### **Item 7 – Types of Clients.**

We provide collateral management services exclusively to CDOs and the collateral managers of CDOs. We generally provide our research and investment recommendations only to institutional investors. We provide our balance sheet management services to a variety of financial institutions, including banks, thrifts, insurance companies and credit unions. We do not generally provide advice to any other types of clients.

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

- A. Our methods of analysis and investment strategies vary depending on the type of services we provide.

*Collateral Management Services.* When analyzing the securities held by CDOs, we generally perform credit reviews of the securities with reasonable care and in good faith. We use a degree of skill and attention consistent with practices and procedures followed by reasonable and prudent institutional managers of comparable securities. The procedures we follow also may be specified in the applicable collateral management agreement. Our reviews are generally performed on a quarterly basis following either the receipt by us or the public disclosure of the applicable issuer's quarterly financial information. These reviews consist of comparisons of each issuer's quarterly and/or year end financial data, including an analysis of changes in total assets, total equity, return on assets, return on equity and, where applicable, regulatory capital levels and net charge-offs. In addition, if we obtain knowledge of material facts which may affect the financial condition or results of operations of an issuer during any interim period, we generally will review the issuer's securities at that time based on available information.

*Research and Investment Recommendations.* We provide institutional investors with timely, value-added investment ideas based on rigorous fundamental analysis of financial services companies, independent thinking and deep industry knowledge. We seek to ascertain the intrinsic value of the companies we cover by examining economic, financial and other qualitative and quantitative data in the public domain.

*Balance Sheet Management Services.* We employ proprietary balance sheet modeling to analyze the asset/liability structure of our clients and the impact of various financial and operating strategies. Our review of the asset/liability structure generally includes an analysis of interest rate sensitivities, yields, asset quality and other similar metrics. Using pro forma models, we project the impact of various strategies on our clients, as well as the impact of changes to interest rate risk profile, credit, liquidity and capital management. Based on our analysis, we may recommend strategies to our clients to help them achieve their goals.

B. The following risks apply to each of our investment strategies and methods of analysis:

- *Risks relating to banks, thrifts and the banking industry generally.* We focus on the financial services industry, which is subject to change, volatility and significant pressures. Securities issued by financial service companies may decline in value due to deteriorations in their businesses or creditworthiness.
- *Our dependence on key personnel.* Our clients depend on our financial and managerial experience, as well as the skills of our personnel, to develop investment strategies and conduct our analyses. In the event that our personnel were no longer available to provide services to us, we would have to reassign responsibilities, contract for additional personnel and/or hire one or more additional employees. Any such loss could have a material adverse effect on our investment strategies and methods of analysis. In addition, since most of our personnel are employees of SOP, our personnel have substantial responsibilities outside of their responsibilities to perform services for us.
- *Potential conflicts of interest involving us and our affiliates.* Various potential and actual conflicts of interest may arise from our advisory, investment and other activities and those of our affiliates. As a result, we may have incentives to favor ourselves, our affiliates, our other clients or the clients of our affiliates over you.

Our investment strategies and methods of analysis are also subject to additional risks, depending on the type of services we provide, as detailed below:

*Collateral Management Services.* The material risks relating to our collateral management services are set forth in the offering memoranda describing the securities issued by each CDO client. Those risks generally include, but are not limited to, the following:

- risks relating to the nature of the securities held by the CDOs;
- risks relating to defaults, deferrals and payment restrictions relating to the securities held by the CDOs;
- the limited liquidity of the securities held by the CDOs;
- the limited circumstances under which we are permitted to sell the securities held by the CDOs; and
- our limited experience serving as a collateral manager to CDOs.

*Research and Investment Recommendations.* Investors should note that the research reports we produce do not constitute an offer, or a solicitation of an offer, to buy or sell any securities or other financial instruments, including the securities of companies mentioned in the reports. The reports are prepared and circulated for general information only and do not take into account the financial position or particular needs or investment objectives of any individual or entity. The securities or strategies discussed in the reports may not be suitable for all investors. You must make your own determination of the appropriateness of an investment in any securities based on the legal, tax and accounting considerations applicable to you and your own investment strategy. You should understand that statements regarding future prospects may not be realized and that past performance is not necessarily indicative of future performance. Finally, we note that investing in securities involves risk of loss that clients should be prepared to bear.

*Balance Sheet Management Services.* The investment strategies and methods of analysis that we utilize when providing balance sheet management services are highly dependent on the accuracy of our financial models. Although we develop our financial models based upon or by reference to sources, materials and systems that we believe to be reliable and accurate, we do not guarantee their completeness or accuracy. In addition, some of our investment strategies and methods of analysis are based on assumptions. The assumptions and parameters used are not the only ones that we might reasonably have selected, and you must make your own determination as to the reasonableness or appropriateness of these assumptions. In addition, as our investment strategies and analyses are prepared as of a particular date and time, they will not reflect subsequent changes in market values or prices or in any other factors relevant to their determination. You should also note that the strategies and analyses we produce do not constitute an offer, or a solicitation of an offer, to buy or sell any securities or other financial instruments.

C. Due to our focus on the financial services industry, we primarily recommend securities that are issued by financial services companies and securities that are suitable investments for financial services companies. The degree to which we recommend particular securities varies depending on the type of services we provide.

*Collateral Management Services.* We generally recommend trust preferred, subordinated debt and other debt securities issued by financial institutions in connection with our collateral management services. These securities are subject to numerous risks that are set forth in the offering memoranda relating to the applicable CDOs. Following the initial selection of securities for purchase by the CDO, we generally have limited opportunity to recommend additional investment actions.

*Research and Investment Recommendations.* All research we provide relates to equity securities, and some of that research may contain recommendations. In addition to the risks described above, clients should recognize that investing in equity securities is not without risk, and equity securities may increase or decrease in value quickly and with little notice. Our research reports reflect the views of the research analysts who write them, and those views may not be the same views held by others in the market. In addition, SOP does and seeks to do business with companies covered in our research reports, and as a result SOP may have a conflict of interest that could affect the objectivity of the reports we produce. You should consider our reports as only a single factor in making investment decisions.

*Balance Sheet Management Services.* Our balance sheet management services may at times result in recommendations to buy or sell securities. However, since each client's balance sheet varies, we do not primarily recommend any particular type of security for purchase or disposition.

#### Item 9 – Disciplinary Information

There are no legal or disciplinary events that are material to a client or prospective client's evaluation of our advisory business or the integrity of our management.

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

- A. Our managing persons are registered representatives of our affiliated broker-dealer, SOP. The principal business of our managing persons does not involve the provision of investment advice. As discussed below, we have entered into an administrative and general services agreement with SOP, allowing certain personnel of SOP to conduct our investment advisory activities. In accordance with this agreement, certain executive officers of SOP also serve as our managing persons. It is expected that our managing persons will continue to devote the majority of their time to SOP's broker-dealer business.
- B. Neither we nor any of our managing persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor or an associated person of the forgoing entities.
- C. We have arrangements with certain of our affiliates that are, or are expected to be, material to our advisory business.

*Arrangement with Sandler O'Neill & Partners, L.P.* We have an arrangement with SOP that is material to our advisory business. Both we and SOP are either indirectly or directly under the common control of SOP Holdings, LLC. We have entered into an administrative and general services agreement with SOP under which SOP provides to us administrative, financial and other general services. Under this agreement, certain personnel of SOP are made available to conduct our investment advisory activities. SOP charges us for the actual costs of providing these services. In addition, many of our clients are also clients of SOP.

*Arrangement with Sandler O'Neill Hedging Services, LLC.* We have an arrangement with Sandler O'Neill Hedging Services, LLC (which we refer to as SOHS) that is expected to be material to our advisory business in the future. SOHS is a Delaware limited liability company and our only wholly-owned subsidiary. SOHS has submitted an application for National Futures Association (NFA) membership and registration as a swap introducing broker with the Commodity Futures Trading Commission (CFTC). If SOHS's application is approved, SOHS expects to broker, facilitate and solicit our clients to engage in certain derivatives transactions, namely interest rate swaps. We have entered into an administrative and general services agreement with SOHS under which we provide SOHS with certain administrative and other general services. Under this agreement, certain of our personnel are made available to conduct SOHS's swap introducing broker activities. We charge SOHS for the actual costs of providing these services. In addition, many of our clients are expected to also be clients of SOHS.

*Conflicts of Interest.* We, SOP and SOHS have adopted strict procedures designed to address various potential conflicts of interest associated with our respective business relationships and activities. In particular, we have created an information barrier, known as a firewall, between our professionals and some of SOP's professionals. Our procedures are designed to prevent the dissemination of inside, confidential and proprietary information and to prohibit communications intended to place inappropriate pressure on investment advisory and research professionals to participate in transactions in which SOP is acting as a financial advisor, underwriter or placement agent or to favor the interests of SOP's investment banking clients.

In order to ensure the high quality of our research and to address possible conflicts of interest, we and our affiliates have adopted strict procedures governing the relationships between our research department and other elements of our business and the business of our affiliates. We have also adopted policies and procedures that our research analysts (and, as applicable,

others) must observe with respect to any research report, opinion or recommendation we publish or distribute and any public appearance and with respect to the determination of research analysts' compensation.

Additional information concerning our procedures with respect to various potential conflicts of interest is set forth in Item 11.B and Item 12 below.

D. We do not recommend or select other investment advisers for our clients.

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

A. *Code of Ethics.* Our Code of Ethics governs personal trading activity that may involve a conflict between our personnel trading for their own accounts and recommendations for our clients. Our Code of Ethics, among other things:

- sets forth standards of ethical and business conduct expected of our personnel;
- requires compliance with the federal securities laws;
- reflects our fiduciary responsibilities and those of our advisory personnel;
- requires our personnel to pre-clear certain securities transactions and to periodically report their personal securities transactions; and
- contains policies and procedures designed to prevent and detect the misuse of material nonpublic information.

We will provide our Code of Ethics to any client or potential client upon request.

B. *Participation or Interest in Client Transactions.* We or our affiliates may have ongoing business relationships with companies whose securities are the subject of our investment recommendations or that are owned by our clients. We or our affiliates also might have ongoing business relationships with certain clients, or certain CDO investors, that could create a conflict of interest with respect to investment recommendations in relation to our other clients. These conflicts might also exist with respect to companies on which we publish research reports. We and our affiliates have attempted to mitigate these conflicts through the use of our firewall and other procedures, although there is no assurance that these procedures will be successful. In addition, we may at times recommend the purchase or sale of an investment by some clients, while making the opposite recommendations for other clients or where our affiliates are engaging in the opposite transaction for their own accounts or the accounts of their customers.

- *Brokerage Practices.* As discussed in more detail in Item 12, we generally will recommend (or in the case of CDOs, select) SOP to effect securities transactions for clients, subject to best execution and other applicable law.
- *Principal Transactions.* We generally do not own securities or engage in any securities transactions for our own account. However, SOP or another of our affiliates, acting for its own account, may engage in a principal transaction and buy securities from or sell securities to one or more of our clients in a transaction for which we provided investment advice. These principal transactions may involve conflicts of interest between the interests of us and/or our affiliate, on the one hand, and the interests of our clients, on the other hand. These conflicts may exist both as to the price and the terms of a transaction, including as to whether to buy or sell a particular security. There may also be transactions in which a CDO purchases portfolio securities from or sells portfolio securities to another CDO or other client where our affiliates have a substantial equity or other interest in the CDO that is purchasing or selling the portfolio securities. We will maintain our applicable fiduciary duties in any of these principal transactions to ensure that we and/or our affiliate do not prefer our own interests to those of our clients and that our clients are treated fairly.

All principal transactions must be executed according to the requirements of Section 206(3) of the Investment Advisers Act of 1940. We will apply these disclosure and consent requirements upon the initial selection of collateral for a CDO, as well as in connection with sales and substitutions of collateral, if SOP or another affiliate is purchasing securities from or selling securities to the CDO. The requirements also will apply if SOP or another affiliate acts as counterparty to a hedge agreement with a CDO we advise. The requirements also would apply if another type of client, such as a financial institution for which we provide balance sheet management analysis, determines to implement purchase or sale recommendations with SOP or another affiliate.

We may cause any client to:

- purchase portfolio securities from or sell portfolio securities to SOP or any of our other affiliates, or from or to any other client, or
- purchase securities issued by another client (e.g., a CDO) under circumstances that constitute a principal transaction,

only if written disclosure is provided to the client, and written consent of the client is obtained, prior to completion of the transaction.

The application of these disclosure and consent requirements may depend on the nature of the client and the transaction. In the case of CDOs, an appropriate party to receive the disclosure and give any required consents may be appointed, or be deemed to have been appointed, by the CDO and/or investors in the CDO, as permitted by the CDO's governing documents.

- *Agency Cross Trades.* Agency cross trades are trades in which we act as investment adviser for either the purchaser or seller in the transaction, and SOP or another of our affiliates acts as agent for both the purchaser and seller of the securities and receives compensation for acting as agent. These trades present conflicts of interest because of the compensation to SOP, and clients may have divergent interests. We will not recommend, and our affiliates will not execute, agency cross trades with clients except:
  - pursuant to the above requirements for principal transactions; or
  - where we are acting as investment adviser solely to one party to the transaction and the trade is executed in accordance with the requirements of Rule 206(3)-2 under the Advisers Act.

Rule 206(3)-2 requires, among other things, that the client prospectively makes written authorization of agency cross trades, and we make written disclosure to the client regarding the capacities in which we and our affiliates will act and the potential for conflicts of our duty of loyalty in an agency cross trade.

There also are conflicts of interest where SOP or another of our affiliates may engage in trades with a client with respect to securities that are the subject of our research reports. Even in the presence of these potential conflicts, in accordance with Rule 206(3)-1 under the Advisers Act, our affiliates may engage in trades with a client for which we are acting as investment adviser solely by the provision of a research report that:

- is distributed to 35 or more persons who pay for the report;
- does not purport to meet the objectives or needs of specific clients or accounts; and/or
- contains statistical information with no expression of an opinion as to the investment merits of a particular security,

provided that in each case the report contains a statement that if the buyer of the report uses SOP or another of our affiliates in connection with the purchase or sale of a security that is the subject of the report, SOP or the other affiliate may act as principal for its own account or as agent for the account of another person. This disclosure is intended to make clients aware of the existence of potential conflicts. Moreover, as noted above, there are various firewall and other procedures intended to mitigate potential conflicts.

- *Allocating Opportunities Among Clients.* We may advise multiple clients, which may compete for our time and attention and for limited investment opportunities. Our affiliates may invest in the CDOs we advise. Because the business terms relating to different CDOs may vary among one another, we may have financial incentives to favor one CDO over another.

We have a fiduciary obligation to use our best efforts to ensure that no client is treated unfairly in relation to any other client in the allocation of investment opportunities or the timing of recommendations or advice regarding securities or transactions. In selecting securities and making investment recommendations for our CDO clients and making investment recommendations for other clients, we and our personnel shall endeavor to ensure that:

- clients are treated fairly over time with respect to the timing of recommendations or advice regarding securities; and
- in the selection, acquisition and disposition of securities, CDO clients are treated fairly over time in the allocation of investment opportunities, especially with respect to securities of limited availability.

- C. Our affiliates, particularly SOP, may invest in securities that would be appropriate for our clients. These investments may also be different from those we recommend to our clients. As a result, our affiliates may own equity or debt securities issued by issuers of, and other obligors on, securities that are the subject of our recommendations or that are owned by our clients. Securities owned by our affiliates may be senior to, or have interests different from or adverse to, securities that are the subjects of recommendations to, or that are owned by, our clients.
- D. Some of our personnel and/or our affiliates may invest directly or indirectly in our clients. Our personnel on occasion also may trade for their own accounts securities that we recommend to clients. It is possible that our personnel may engage in



transactions for their accounts in a manner that is inconsistent with our recommendations to a client. Personal securities transactions by our personnel may raise potential conflicts of interest when our personnel trade in a security that is owned by, or considered for purchase or sale for, one of our clients. We and our affiliates have adopted policies and procedures designed to prevent, detect and address these conflicts of interest.

## Item 12 – Brokerage Practices

In certain circumstances as described below, we will select or recommend brokers or dealers to implement clients' securities transactions.

- We may select or recommend brokers or dealers to be used in connection with implementing clients' securities transactions. Given our relationship with SOP, we face a conflict of interest in the selection or recommendation of brokers or dealers. It is anticipated that in many or most instances where we do select or recommend brokers or dealers – given the types of securities involved and other factors – we will recommend or select our affiliate, SOP. To the extent that we recommend (or in the case of CDOs, select) brokers or dealers to effect securities transactions for clients, these recommendations and selections must be guided by the principal objective of seeking to obtain best execution. "Best execution" includes the following factors:
  - best price, including commissions;
  - capital position of the broker;
  - ability to consummate and clear trades in an orderly and satisfactory manner;
  - consistent quality of service;
  - risks taken in positioning a block of securities; and
  - broad market coverage resulting in a continuous flow of information regarding bids and offers.

"Best execution" does not necessarily mean obtaining the lowest possible price for any particular transaction.

- To mitigate the conflict of interest inherent in recommending SOP to effect securities transactions, any transactions executed for our balance sheet management clients by SOP will be effected without commissions, mark-ups or mark-downs. While our clients retain the right to execute securities transactions with parties other than SOP, clients may incur additional charges in connection with transactions executed through other broker-dealers. Clients are responsible for paying any such charges, including any applicable commissions, mark-ups or mark-downs charged by approved broker-dealers.
- We will not enter into soft dollar arrangements. We do not receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions.
- Aside from our brokerage practices disclosed above, we do not consider, in selecting or recommending broker-dealers, whether we or a related person or entity receives client referrals from a broker-dealer or third party.

## Item 13 – Review of Accounts

We generally provide periodic reviews of accounts only in connection with our collateral management services and our balance sheet management services.

*Collateral Management Services.* Conrad Chanzit, our portfolio manager, and Jason Mendelson, our assistant portfolio manager, perform the credit reviews provided as part of our collateral management services. Unless otherwise provided in the applicable collateral management agreement, Messrs. Chanzit and Mendelson generally analyze the credit quality of each issuer of securities prior to purchase and periodically as described in Item 8.A above. We prepare written reports on a quarterly basis following the completion of our credit reviews. These reports detail any material changes in the credit quality of the securities under management, as well as a summary of any purchases or sales of securities which occurred during the most recent quarterly period.

*Balance Sheet Management Services.* In connection with our balance sheet management services, we review client portfolios on a fixed schedule, typically quarterly, or as the client and we might otherwise agree. The level of review is negotiated separately between us and each client and ranges from an asset-by-asset analysis of each security held in an investment portfolio to an overall analysis of the interest rate sensitivity of a portfolio taken as a whole. The reviewers include Scott Hildenbrand and persons under his supervision. As we acquire additional accounts, we will enact limits on the number of accounts that can be reviewed by any particular individual.

## Item 14 – Client Referrals and Other Compensation

- A. We do not receive from non-clients any economic benefit for providing investment advice or other advisory services to our clients.

- B. We compensate our supervised persons for client referrals. In addition, we have entered into a written solicitation agreement with SOP to pay a percentage of the investment advisory fees we receive for services we provide to the balance sheet management clients referred to us by SOP. Fees we pay to SOP for referrals are not passed along to our clients. All solicitation arrangements will be in writing and will comply with applicable rules regarding compensation, client disclosure and consent.

**Item 15 – Custody**

We do not have custody of any client funds or securities.

**Item 16 – Investment Discretion**

Services provided to institutional clients, including banks, credit unions, insurance companies and other financial institutions, are limited to investment advice and/or recommendations. We do not have investment discretion with respect to these accounts.

When acting as collateral manager for a CDO, we have the authority to select the initial securities to be acquired by the CDO, and also have the authority to select replacement or additional securities to be acquired by the CDO and to instruct the trustee with respect to the disposition of certain securities, in some cases without obtaining specific client consent. We also may negotiate on behalf of the CDO and instruct the CDO with respect to actions taken in connection with hedging arrangements without obtaining specific client consent. Prior to assuming the authority to take these actions on behalf of a CDO, we enter into a collateral management agreement with the CDO. We have made and will make all investment decisions in compliance with the investment restrictions set forth in the indenture between the CDO and the applicable trustee, as well as the collateral management agreement between the CDO and us.

**Item 17 – Voting Client Securities**

We generally will not accept authority to vote client proxies. In certain limited instances, however, we may be asked to provide advice or recommendations to clients in connection with client proxy solicitations. Further, as collateral manager for a CDO, we may, in accordance with the applicable indenture, direct the trustee to tender a security pursuant to a tender offer or consent or refuse to consent to any proposed modification, amendment or waiver of the collateral securities. In these cases, we are guided by general fiduciary principles and have a duty to provide recommendations or give instructions in a manner consistent with the best interests of our clients. At the same time, we may have conflicts of interest in giving advice or recommendations because, for example, SOP might have business or other relationships with issuers of securities that are the subject of the vote.

In the event that we are asked to provide recommendations or give instructions, we will do so in a manner we believe to be consistent with client interests and will not place our own interests (or the interests of our affiliates) ahead of client interests. In furtherance of our goal to make proxy recommendations in the best interests of clients, we follow procedures designed to identify and address material conflicts that may arise between our interests and those of our clients before making voting recommendations.

Clients may request a copy of our Proxy Voting Policies and Procedures, as well as relevant proxy voting records, by contacting us at (212) 466-7920.

**Item 18 – Financial Information.**

- A. We do not require or solicit prepayment of client fees.
- B. We do not know of any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients.
- C. We have not been the subject of a bankruptcy petition at any time in the past ten years.

**Item 19 – Requirements for State-Registered Advisers**

We are not a state-registered adviser.