

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 ("**Waterfall**"). 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 about Waterfall is also available on the SEC's website at: www.adviserinfo.sec.gov. Waterfall 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**” or the “**Adviser**”) is required to identify and discuss any material changes to this brochure since its last update. The following reflects material changes since the last update to this brochure of March 2014:

- None

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Item No. 4: Advisory Business

Waterfall, through its principals, Thomas Capasse and Jack Ross (“**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), small-balance commercial mortgage loans, investments in pools of loans, related financial instruments and other acquisition vehicles to take advantage of certain tax, regulatory and administrative efficiencies (collectively, “**Waterfall Assets**”). As of December 31, 2014, Waterfall managed approximately \$4.35 billion in net assets on a discretionary basis. As of December 31, 2014, Waterfall did not manage any assets on a non-discretionary basis.

Waterfall was founded in 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 Delta GP, LLC (“**Waterfall Delta GP**”), Waterfall Sandstone GP, LLC (“**Waterfall Sandstone GP**”) and Waterfall Olympic GP, LLC (“**Waterfall Olympic GP**”), all Delaware limited liability companies, and affiliates of the Adviser, serve as the general partner of certain private investment funds managed by Waterfall (as further described below).

Waterfall is the investment adviser to: Waterfall Eden Fund, L.P. (“**Eden LP**”), and Waterfall Victoria Fund, L.P. (“**Victoria LP**”), each a Delaware limited partnership (collectively, the “**US Funds**”); Waterfall Eden Fund, Ltd. (“**Eden Ltd**”) and the Waterfall Eden Intermediate Fund, Ltd (“**Eden Intermediate**,” and together with Eden Ltd and Eden LP, the “**Eden Funds**”); Waterfall Victoria ERISA Fund, Ltd., (“**Victoria ERISA Ltd**”), Waterfall Victoria Fund, Ltd. (“**Victoria Ltd**,” and together with Victoria LP and Victoria ERISA Ltd, the “**Victoria Funds**”), each an exempted Cayman Islands company formed under the laws of the Cayman Islands; and Waterfall Eden Master Fund, Ltd. (“**Eden Master Fund**”), Waterfall Victoria Master Fund II, Ltd (“**Victoria Master Fund II**”) and Waterfall Victoria Master Fund, Ltd. (“**Victoria Master Fund**”), each an exempted company organized under the laws of the Cayman Islands (collectively, the “**non-US Funds**”); Waterfall Olympic Master Fund, LP (“**Olympic Master Fund**”) and the Waterfall Olympic Offshore Fund, Ltd. (“**Olympic Ltd**”).

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 substantially all of its assets in the Eden Master Fund except when Waterfall determines that it is advantageous for Eden Intermediate to make investments directly.

Victoria ERISA Ltd invests substantially all of its assets in Victoria Master Fund and is a shareholder of Victoria Master Fund; Victoria Ltd and Victoria LP invest substantially all of their assets in Victoria Master Fund and Victoria Master Fund II and are shareholders of both Victoria Master Fund and Victoria Master Fund II. Victoria Master Fund II will invest primarily in non-

ERISA eligible assets. Olympic Ltd invests substantially all of its assets in, and is a limited partner of, the Olympic Master Fund.

The Eden Funds, the Victoria Funds, the Sutherland LP, Eden Master Fund, Victoria Master Fund, Victoria Master Fund II, the Olympic Master Fund and Olympic Ltd are herein known as the “**Funds**”.

The Adviser had previously served as the investment adviser to the Sutherland Master Fund, LP (“**Sutherland Master Fund**”). In November 2013, the assets of the Sutherland Master Fund were converted into a real estate investment trust (the “**Sutherland REIT**”). US-taxable and US tax-exempt investors which held interests in the Sutherland Mast Fund though either Sutherland LP or one of the Victoria Funds receiving interests in a Delaware limited partnership which holds common shares in the Sutherland REIT. Non-US investors, which held interests in the Sutherland Master Fund though one of the Victoria Funds, received limited partnership interests in a Cayman Islands holding company. As a result of these transactions, the Adviser’s small balance commercial loan business is now separated from, and operated independently of, the Victoria Funds. The Adviser continues to manage a limited number of assets which were not eligible to be contributed to the Sutherland REIT in the Sutherland Fund, LP (“**Sutherland LP**”).

Waterfall also acts as investment manager to the Waterfall Delta Fund, Ltd. (the “**Delta Fund**”), Waterfall Delta Offshore Master Fund, L.P. (the “**Delta Master**,” and together with the Delta Fund, the “**Delta Funds**”), and the Waterfall Sandstone Fund, LP (“**Sandstone Fund**”). The Delta Funds and the Sandstone Fund invest in a strategy similar to the Eden Funds, however, interests in the Delta Funds and the Sandstone Fund are not offered to new investors.

Waterfall also provides investment management services to clients through separately managed accounts and other investment vehicles (the “**Investment Vehicles**”). Waterfall manages certain of these Investment Vehicles on a sub-advisory basis in conjunction with an investment adviser which had previously been an affiliate of Waterfall (See Item No. 10). Management for each Investment Vehicle is continuously provided for each client based upon such Client’s specific investment objectives.

We refer to the Funds and Investment Vehicles collectively herein as the “**Clients**.”

Item No. 5: Fees and Compensation

The Funds pay the following fees and expenses:

- 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 ranging from 0.375% (i.e., 1.5% per annum) to 0.425% (i.e., 1.7% per annum) of the value of each limited partner’s capital account, depending upon the applicable class of Eden LP limited partnership interests, adjusted on a pro rata basis for subscriptions and withdrawals made during such calendar quarter. The Eden Management Fee paid by Eden Ltd for any quarter is an amount ranging from 0.375% (i.e., 1.5% per annum) to 0.425% (i.e., 1.7% per annum) of the net assets of Eden Ltd, depending upon the applicable class of Eden Ltd shares, adjusted on a pro rata basis for subscriptions and withdrawals made during such calendar quarter. To the extent the Eden Management Fees are payable at the Eden LP and the Eden Ltd levels, no management fees are charged by the Eden Master Fund. Waterfall in its sole discretion may, in effect, waive or reduce the Eden Management Fee to be paid by any Eden Fund limited partner/shareholder, as applicable.

Eden LP bears the expenses applicable to its Fund, as well as, a pro rata share of the expenses related to the Eden Master Fund; Eden Intermediate bears its own expenses, as well as (i) the expenses related to the Eden Ltd. and (ii) its pro rata share of expenses related to the Eden Master Fund. Such expenses include, but are not limited to, the administrator fees, director fees, legal fees, auditing fees and other costs related to the purchase, sale or transmittal of investments.

- 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 the 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 assets 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. To the extent the Victoria Management Fees are payable at the Victoria LP, Victoria ERISA Ltd and the Victoria Ltd levels, no management fee will be charged by the Victoria Master Fund or Victoria Master Fund II. Waterfall may in its sole discretion waive or reduce the Victoria Management Fee to be paid by any Victoria Fund limited partner/shareholder, as applicable.

Investors in the Eden Funds and the Victoria Funds that have interests with an aggregate net asset value of US\$100 million at the end of any calendar quarter are entitled to receive a reduced management fee (which is described in more detail in the respective fund’s

offering documents). The Victoria Funds bear the expenses applicable to the respective Funds as well as a pro rata share of the expenses related to the Victoria Master Fund. In addition, Victoria LP and Victoria Ltd bear the expenses related to their pro rata share of the Victoria Master Fund II. Such expenses include, but are not limited to the administrator fees, director fees, legal fees, auditing fees and other costs related to the purchase, sale or transmittal of investments; provided, however, expenses related to the internal asset monitoring, servicing and related administrative services of dedicated employees of Waterfall is limited to 0.50% of each of the Victoria Funds' average month-end net asset value for such year.

- The Sutherland REIT Funds pays Waterfall a quarterly management fee in arrears as of the last day of each calendar quarter (the “**Sutherland Management Fee**”). The Sutherland Management Fee paid by the Sutherland for any quarter is an amount equal to (i) 0.375% (i.e., 1.5% per annum), up to \$500 million of stockholder equity, and (ii) 0.25% (i.e., 1.0% per annum) of stockholders' equity above \$500 million.

Each of the Funds' management fees and expenses are deducted from the Fund's assets in arrears as of the last day of each calendar quarter.

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 not limited to: (i) the greater availability to such investors of certain information, 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 man” 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 the General Partner, the Adviser, the Principals and employees of the Adviser.

Waterfall generally receives fees from the Investment Vehicles based on the net assets managed and payable monthly or quarterly. The payment mechanics for the Investment Vehicles are negotiated separately and may either be deducted from the assets or invoiced on a periodic basis.

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 Investment Vehicle is responsible for expenses as set forth in the applicable investment management agreement.

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 herein, Waterfall may earn performance based compensation:

- In connection with the Eden Funds, at the end of each fiscal year (December 31), 10% of each limited partner (subject to a 5% hurdle), who was a limited partner in Eden LP prior to the restructuring date of October 31, 2009 (the “**Legacy Limited Partner**”), and 17% or 20% (depending on the class of such limited partner) of each limited partner’s (other than a Legacy Limited Partner), share of Eden LP net profits for the current year, if any, and 10% of the net profits (including net unrealized gains), if any, allocable to the shares held by a shareholder prior to the restructuring date (the “Legacy Shareholders”) in Eden Ltd. and 17% or 20% (depending on the class of such limited partner) of the net profits (including net unrealized gains), if any, allocable to the shares held by the shareholders (other than the Legacy Shareholders) of Eden Ltd will be reallocated and/or paid, as applicable, to the General Partner subject to a “loss carryforward” provision (sometimes referred to as a “highwater mark”) and with respect to certain Legacy Limited Partners and the Legacy Shareholders, an investment hurdle. Waterfall Management, as general partner of Eden LP, and Eden Ltd, respectively, may, in their sole discretion, waive or reduce the incentive allocation for any Eden Fund partner/shareholder, as applicable.
- In connection with the Victoria Funds, at the end of each fiscal year (December 31), 20% of each limited partner’s share of Victoria LP net profits for the current year in Series A and 17.5% of each limited partner’s share of Victoria LP net profits for the current year in Series B, if any, 20% of the net profits (including net unrealized gains), if any, allocable to the common shares of Victoria Ltd in Series A and 17.5% of Series B, and 20% of the net profits (including net unrealized gains) of Series A and 17.5% of Series B, if any, allocable to the common shares of Victoria ERISA Ltd will be allocated and/or paid, as applicable, to Waterfall Management subject to a “loss carryforward” provision (sometimes referred to as a “highwater mark”); provided, however, any allocations calculated with respect to certain classes of shares of each of Victoria LP, Victoria Ltd and Victoria ERISA Ltd, will be subject to a preferred rate and manager catch-up clause. Waterfall Management, on behalf of Victoria LP, and Victoria Ltd, respectively, may, in their sole discretion, waive or reduce the incentive allocation for any Victoria Fund partner/shareholder, as applicable.
- In connection with the Sutherland REIT, stockholders and partners will bear an incentive distribution of 15% of core earnings on a rolling four quarter basis over an 8% hurdle.
- Performance based allocations for the Investment Vehicles are subject to negotiation and certain of the Investment Vehicles may provide for incentive based compensation.

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 Waterfall’s Clients, such investments will be

allocated on a pro rata, based on assets under management or in some other manner (e.g., rotational) which Waterfall determines to be fair and equitable to all Clients under the circumstances (see Item No. 12 below for more information on allocation).

In sole discretion of the General Partner or the Adviser, the performance allocation may be calculated differently with respect to, or may not be charged to, certain investors, including the 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 pension plans, 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 General Partner or Waterfall. 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 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 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 general investment strategy has four key elements: (i) to develop proprietary trading ideas through quality information or negotiated transactions sourced from Waterfall's extensive network of relationships and market analysis; (ii) to perform intensive cash flow stress testing and due diligence on distressed situations; (iii) to reduce market risks through conservative leverage and hedging strategies; and (iv) to reduce downside risk related to unanticipated credit events by proactively managing positions.

Waterfall's proprietary investment process employs fundamental, technical, and cyclical analysis on all Waterfall Assets recommended for Client accounts.

With respect to high yield structured finance securities, including asset-backed securities, and residential and commercial mortgage-backed securities, Waterfall conducts industry analysis of sectors or special situations involving issuers, which are or have been experiencing distress. Once the sector has been identified, Waterfall screens the universe of issuer using qualitative analysis. Once a potential investment is identified, Waterfall performs extensive cash flow modeling for valuation purposes. Waterfall utilizes an expected value approach in determining the appropriate market valuation. Waterfall then conducts due diligence to validate the specific cash flow projections by contacting a variety of the parties involved with the security, e.g., research analysts, rating agency analysts, investment bankers and traders, as well as a review of the security documentation. Post-purchase, Waterfall engages in active bond surveillance. Waterfall sources investments in both the new issue and secondary markets. Investments generally will be either registered or Rule 144A private placements. Waterfall may enter into derivative contracts such as credit default, interest rate and total-rate-of-return swaps.

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 critical 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 may employ active hedging strategies with the use of derivative

instruments, seek leverage through repurchase transactions or secure long term facilities with financial institutions. In addition, Waterfall may invest in acquisition vehicles to take advantage of certain tax, regulatory and administrative efficiencies.

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 entirely or in part. 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 given the concentrated nature of a particular portfolio.
- **Lack of Liquidity.** The markets for some of the investments traded within a strategy 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.
- **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.
- **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 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 disrupt severely 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.
- ***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.

Item No. 9: Disciplinary Information

Waterfall and, to the best of its knowledge, its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a Client's evaluation of the company or its personnel.

Item No. 10: Other Financial Industry Activities and Affiliations

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

A private equity fund managed by NB Dyal Advisors LLC (“**Dyal**”) holds a passive, non-voting, minority equity interest in each of the Adviser and the General Partner. Dyal is ultimately controlled by Neuberger Berman. Dyal has no control over the investment process or day-to-day operations of the Adviser, the General Partner or the Funds, but has certain consent rights relating to the actions of the Adviser and the General Partner in respect of themselves.

The Adviser acts as sub-adviser to certain investment management clients of M.D. Sass Associates, Inc. (“**Associates**”). At the time the Adviser entered into such arrangements, Associates was an affiliate of the Adviser: the Adviser and Associates are no longer affiliated. In addition, certain employees of M.D. Sass Securities, LLC (“**Securities**”) and Associates provide investor relations and client services to certain Clients and investors in Funds, and Securities and Associates receive a fee from the Adviser for providing such service. At the time such employees of Associates and Securities, as the case may be, introduced such Clients and investors to the Adviser, Associates and Securities were affiliates of the Adviser: the Adviser and Securities are no longer affiliated.

Except as otherwise disclosed in this brochure, neither the Adviser 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, the Adviser 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 (and its members, employees and affiliates) may serve as investment adviser or investment manager to multiple client accounts and 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 (or its members, employees and affiliates) 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 applicable, 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 that requires all principals, employees and immediate family members (“**Access Persons**”) to report holdings and securities transactions to Waterfall’s 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, reflects 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.

Waterfall permits its Access Persons to invest for their own or related accounts. In addition, Access Persons may participate in investments in certain Waterfall Assets which overlap with the mandate of any Client managed by Waterfall. Such investments will only be permitted if Waterfall believes that it is able to manage any potential conflict of interest between Access Persons’ interest and the interest of its Clients.

To the extent applicable, principals and employees of Waterfall will not act for their own or related accounts in anticipation of a research report or purchase or sell recommendation for the Funds or otherwise on the basis of material non-public information. All transactions by Principals or employees are required to be reported to Waterfall’s Compliance Department on a periodic basis.

Note that the foregoing summary of the Code of Ethics is qualified in its entirety by the complete text, a copy of which may be requested by contacting Kenneth Nick, Chief Compliance Officer, c/o Waterfall Asset Management, LLC, 1140 Avenue of the Americas, 7th Floor, NY, NY 10036.

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 US 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). However, Waterfall, in its sole discretion, may make non-pro rata allocations amongst Client accounts based on, among other things, Waterfall’s perception of the liquidity of Client Accounts at the time of the investment and on a going-forward basis; relative exposure to market trends; the remaining term of each such account; the terms, structure and availability of financing in respect of an investment; and the investment programs and portfolio positions of the accounts for which participation is appropriate. In addition, at the inception of an Investment Vehicle, or upon the acceptance of a new inflow of investor capital by a Fund or Investment Vehicle, until the subscription proceeds have been substantially invested, the Adviser may, in application of the allocation and rebalancing policies described above, and as a result of having regard to cash balances or liquidity and other operational factors of the new Investment Vehicle, allocate to that Investment Vehicle certain securities and financial instruments in excess of the Investment Vehicle’s pro rata share of such securities and financial instruments.

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. 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. 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.

Item No. 13: Review of Accounts

Waterfall's Principals, together with the other members of the Adviser's respective investment management teams, have the primary responsibility of reviewing and monitoring all investments made for the Adviser's investment advisory Clients. Waterfall conducts such reviews on a continual basis. Matters generally reviewed include specific securities held, adherence to investment guidelines and the performance of each Client account.

In addition, Waterfall, either directly or through its 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.

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, and there are no sales charges payable to the Adviser, 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 and allocations received by Waterfall.

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 access to some Client cash or securities since an affiliate serves as the general partner or managing member of such Fund.

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 (e.g., December 31).

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 Client.

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 will require case-by-case analysis.

To the extent Waterfall exercise 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 maximizes 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 Kenneth Nick, Chief Compliance Officer, c/o Waterfall Asset Management, LLC, 1140 Avenue of the Americas, 7th Floor, NY, NY 10036.

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.