

Waterfall Asset Management, LLC

Part 2A of Form ADV

The Brochure

1185 Avenue of the Americas
New York, NY 10036
Ph: 212.730.2000

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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 212-730-2000. 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.

Material Changes

Waterfall's most recent update to Part 2 of Form ADV was made in November 2011. Waterfall's business activities have not changed materially since the time of that update.

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Advisory Business

Waterfall through its principals and portfolio managers, Tom Capasse and Jack Ross (“Principals”), 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”).

Waterfall was founded in November 30, 2004 and is primarily owned by M.D. Sass – Macquarie Finstrat Waterfall Holdings, LLC, Thomas Capasse, and Jack Ross. As of December 31, 2011, Waterfall managed approximately \$1.85 billion on a discretionary basis.

Waterfall is part of a group of affiliated investment advisers. Waterfall is the investment adviser to Waterfall Eden Fund, L.P. (“Eden LP”), Waterfall Victoria Fund, L.P. (“Victoria LP”), Sutherland Master Fund, LP (“Sutherland Master Fund”), and Sutherland Fund, LP (“Sutherland LP”), each a Delaware limited partnership (collectively, the “US Funds”); Sutherland Fund, Ltd. (“Sutherland Ltd” and together with Sutherland Master Fund and Sutherland LP, the “Sutherland Funds”); Waterfall Eden Fund, Ltd. (“Eden Ltd,” and together with 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”).

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 Waterfall Intermediate Fund, which in turn will invest substantially all of its assets in the Eden Master Fund except when Waterfall determines that it is advantageous for Waterfall Intermediate Fund 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. Victoria Master invests a portion of its assets in Sutherland Master.

Sutherland LP invests substantially all of its assets in, and is a member of Sutherland Master; Sutherland Ltd ultimately invests substantially all of its assets in Sutherland Master.

Waterfall is also the investment adviser to Waterfall TALF Opportunity Fund, LLC (“TALF Fund LLC”) and Waterfall TALF Opportunity, LLC (“TALF LLC”), each a Delaware limited liability

company, and Waterfall TALF Opportunity Fund, Ltd. (the “TALF Ltd,” and collectively with the TALF Fund LLC, and TALF LLC, the “TALF Funds”), each an exempted Cayman Islands company formed under the laws of the Cayman Islands. TALF Ltd is expected to invest substantially all of its assets in TALF Fund LLC, which will ultimately invest substantially all of its assets in TALF LLC. TALF Fund LLC is a closed-end investment fund formed to capitalize on the investment opportunities created by the Term Asset-Backed Securities Loan Facility (the “TALF”). The Eden Funds, the Victoria Funds, the Sutherland Funds, the TALF Funds, Eden Master Fund, Victoria Master Fund, Victoria Master Fund II are herein known as the “Funds”.

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 one of its affiliated investment advisers. Management for each Investment Vehicle is continuously provided for each client based upon its specific investment objectives.

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

Fees and Compensation

Waterfall charges the Funds 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 0.1875% (i.e., 0.75% per annum) to 0.375% (i.e., 1.5% per annum) of the value of each limited partner’s capital account, depending upon the applicable class of Eden LP limited partnership interests, as 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 0.1875% (i.e., 0.75% per annum) to 0.375% (i.e., 1.5% per annum) of the net assets of Eden Ltd, depending upon the applicable class of Eden Ltd shares, as 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 and Waterfall Management, LLC, a Delaware limited liability company, an affiliate of Waterfall and the General Partner of Eden LP and Victoria LP (the “General Partner”), in their 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; Waterfall Intermediate Fund 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 0.50% (i.e., 2.0% per annum) of the value of each Limited Partner’s capital account, as 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 0.50% (i.e., 2.0% per annum) of the net assets of Victoria Ltd, as 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 an amount ranging from 0.375% (i.e., 1.5% annual rate) to 0.50% (i.e., 2.0% annual rate). 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 and Waterfall Management may in their sole discretion may, in effect, waive or reduce the Victoria Management Fee to be paid by any Victoria Fund limited partner/shareholder, as applicable.

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 Funds pay 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 Sutherland LP for any quarter is an amount equal to 0.50% (i.e., 2.0% per annum) of the value of each limited partner's capital account, as adjusted on a pro rata basis for subscriptions and redemptions made during such calendar quarter. The Sutherland Management Fee paid by the Sutherland Ltd for any quarter is an amount equal to 0.50% (i.e., 2.0% per annum) of the net assets of Sutherland Ltd, as adjusted on a pro rata basis for subscriptions and redemptions made during such calendar quarter. To the extent the Sutherland Management Fees are payable at the Sutherland LP, and the Sutherland Ltd levels, no management fee will be charged by the Sutherland Master Fund. Waterfall and Waterfall Management may in their sole discretion, in effect, waive or reduce the Sutherland Management Fee to be paid by any Sutherland Fund limited partner/shareholder, as applicable. In addition, investments made into Victoria LP, Victoria Ltd or Victoria ERISA which are allocated to the Sutherland Funds will not be subject to the Sutherland Management Fee.

The Sutherland Funds bear the expenses applicable to the respective funds as well as a pro rata share of the expenses related to the Sutherland 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; 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 Sutherland Funds' average month-end net asset value for such year.

- TALF LLC pays Waterfall a quarterly management fee in arrears as of the last day of each calendar quarter (the "TALF Management Fee"). The TALF Management Fee paid by TALF LLC for any quarter is an amount ranging from 0.25% (i.e., 1.00% per annum) to 0.375% (i.e., 1.5% per annum) of the value of each TALF Fund LLC member's capital account, depending upon the applicable class of TALF Fund LLC limited liability company interests. As an investor in TALF Fund LLC, TALF Ltd will bear its pro rata share of the TALF Management Fee. Waterfall in its sole discretion may waive or reduce the TALF Management Fee to be paid by any TALF Fund LLC limited liability company member.

Such expenses include, but are not limited to the administrator fees, legal fees, auditing fees and other costs related to the purchase, sale or transmittal of investments.

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

Waterfall has entered into side letter arrangements with investors in the Funds managed by Waterfall whereby Waterfall and such investors may agree to vary such investors' investment terms from those made available to other investors, including 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 and/or incentive), "key man" provisions, shorter notice periods for redemption, more frequent dates for redemptions, redemption payouts, and/or timing for subscriptions.

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

In addition to the management fees outlined above, Waterfall receives performance based fees as discussed below.

Performance Based Fees and Side-by-Side Management

Waterfall, in addition to the management fees, may earn performance based fees on the management of the Clients.

- 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 (the “Legacy Limited Partner”), and 17% 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% 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 and the General Partner of Eden LP and Eden Ltd, respectively, may, in their sole discretion, waive or reduce the incentive allocation/incentive fee for any Eden Fund limited partner/shareholder, as applicable.
- 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, if any, 20% of the net profits (including net unrealized gains), if any, allocable to the common shares of Victoria Ltd, and 20% of the net profits (including net unrealized gains), 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 and the General Partner of Victoria LP and Victoria Ltd, respectively, may, in their sole discretion, waive or reduce the incentive allocation/incentive fee for any Victoria Fund limited partner/shareholder, as applicable.
- The Sutherland Funds, at the end of each fiscal year (December 31), 20% of each limited partner’s share of Sutherland LP net profits for the current year, if any, and 20% of the net profits (including net unrealized gains), if any, allocable to the common shares of Sutherland 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 will be subject to a preferred rate and manager catch-up clause. Waterfall and the General Partner of Sutherland LP and Sutherland Ltd, respectively, may, in their sole discretion, waive or reduce the incentive allocation/incentive fee for any Sutherland Fund limited partner/shareholder, as applicable.
- At the end of the TALF program, distributable cash of the TALF Fund LLC, if any, will be distributed (i) first to TALF Fund LLC limited liability company members (including

TALF Ltd) in an amount equal to their respective capital contributions to TALF Fund LLC, (ii) second to such members as a cumulative compounded return in an amount ranging from 10% to 15% depending upon the class of TALF Fund LLC limited liability company interests, and (iii) third, 80% to such members and 20% to Waterfall TALF Opportunity MM, LLC, a Delaware limited liability company and an affiliate of Waterfall, as Managing Member of TALF Fund LLC.

- Performance based fees for the Investment Vehicles are subject to negotiation and certain of the Investment Vehicles may provide for incentive based compensation.

Performance based fees 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 under the circumstances to all clients.

Types of Clients

Waterfall primarily provides investment advice to the Funds and other Clients, which primarily consist of 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 and TALF Fund LLC 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 and TALF Ltd will be offered only to experienced and sophisticated investors who are neither citizens nor residents of the United States and to a limited number of 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.

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 superior information or negotiated transactions resulting 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 i.e. research analysts, rating agency analysts, investment bankers and traders. At this point, Waterfall conducts a legal review of the security documentation. Lastly, post-purchase Waterfall engages in active bond surveillance. Waterfall sources investments in both the new issue and secondary markets (with an emphasis on the latter). Investments generally will be either registered or Rule 144A private placements. Waterfall may enter into derivative contracts such as credit default 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, required period for 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, 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. 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.

Disciplinary Information

Waterfall and 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.

Other Financial Industry Activities and Affiliations

Waterfall is owned primarily by Jack Ross, Thomas Capasse and M.D. Sass FinStrat Waterfall Holdings, LLC (the “Managing Member”).

The following entities are related parties of Waterfall on the basis of being under common control with Waterfall:

I. Registered investment advisors:

- M.D. Sass Investors Services, Inc. (“Services”);
- M.D. Sass Associates, Inc. (“Associates”);
- Resurgence Asset Management, L.L.C. (“RAM”);
- Resurgence Asset Management International, L.L.C. (“RAMI”);
- Re/Enterprise Asset Management, L.L.C. (“REAM”);
- M.D. Sass-Macquarie Financial Strategies Management Company, L.L.C. (“Sass-Macquarie”); and
- AMERRA Capital Management, LLC (“AMERRA”).

II. Unregistered investment advisors:

- Ascent Real Estate Advisors, LLC (“Ascent”); and
- Taurus Funds Management Pty Limited (“Taurus”).

III. Registered Broker-Dealer:

- M.D. Sass Securities, L.L.C. (“M.D. Sass Securities”)

Waterfall has entered into the following arrangements with the affiliates of the Managing Member:

- A sub-advisory relationship with Associates, in which Waterfall serves as a sub-advisor with respect to certain of Associates’ clients.
- M.D. Sass Securities markets interests and shares of the Funds to investors. M.D. Sass Securities receives compensation for marketing the interests and shares that may include a portion of the management and incentive fees and the allocations received by Waterfall and the general partner of the partnership Funds, as applicable.
- An Administrative Services Agreement with Services whereby Services will provide Waterfall with certain personnel, supplies, legal, compliance, technology, marketing, clerical and other office support services as may be required for the business and operations of Waterfall and a License Agreement with Associates, whereby Associates will provide office space to Waterfall. Such services will be provided for compensation, payable monthly, equal to the cost of the services provided which will be calculated (i) as a prorated portion of rent plus taxes, utilities and services for office space, (ii) as a

prorated portion of overall compensation including benefits for personnel and (iii) in good faith in the reasonable judgment of Services for other services not otherwise readily calculable.

- Waterfall’s limited liability company operating agreement (the “Operating Agreement”) provides for an investment by clients of Sass-Macquarie in the operating capital of Waterfall and in pooled investment vehicles managed by Waterfall.

In addition, some of Waterfall’s underlying investors may be solicited to invest or have already invested in other limited partnerships or other entities in which Services, Sass-Macquarie or another affiliate of the Managing Members serves as general partner or managing member. As such, this may limit certain investment opportunities to the Funds or the Investment Vehicles, as applicable, that it would otherwise find attractive.

Waterfall and the Managing Member have put into place policies and procedures to minimize the conflicts that may arise from the business of Waterfall and the business of the Managing Member.

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

Waterfall is part of a group of affiliated investment advisers. Waterfall (and its members, employees and affiliates) may serve as investment adviser or investment manager to other 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.

Certain principals and employees are limited partners or members of private investment partnerships or limited liability companies of which Waterfall or affiliates of Waterfall are general partners or Managing Members (collectively, "Sass Entities"). Sass Entities pursue a broad variety of investment strategies and practices in seeking capital appreciation, including, in some instances, active short-term trading. On occasion, Sass Entities may own shares of the same companies owned by other client accounts, and in the course of actively trading positions in such companies may purchase or sell securities at the same time as or at different times than other client accounts based on separate investment decisions made for each account in light of its particular investment objectives and risk/return characteristics, provided that no transaction on behalf of a Sass Entity will be permitted if it is determined that it will disadvantage the interests of other clients.

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 adopts, 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 affiliate's Compliance Department. Waterfall has adopted a Code of Ethics that 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 invest for their own or related accounts in certain securities purchased for the firm's or its affiliates' clients. In order to avoid possible conflicts with clients' interests, all Access Persons are prohibited from trading any Waterfall Assets, which overlap with the mandate of any Client managed by Waterfall.

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 affiliate'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, 1185 Avenue of the Americas, 17th Floor, NY, NY 10036.

Brokerage Practices

The General Partner of the US Funds and Waterfall are 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, the General Partner and Waterfall need not solicit competitive bids and do not have an obligation to seek the lowest available brokerage commissions, mark-ups or other compensation (collectively “Commissions”). It is not the General Partner’s or 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.

Brokerage and research services obtained by the use of Commissions arising from the Clients’ investment transactions may be used by the General Partner or Waterfall in its other investment activities. Research services may be shared among Waterfall and its affiliated advisers. Therefore, research services that primarily benefit Waterfall and/or an affiliated adviser may be paid for with commissions generated by another of the affiliates. All other services obtained by the use of Commissions arising from the Funds’ investment transactions will be limited to services that would otherwise be a Client expense.

In selecting brokers and negotiating Commissions, the General Partner or 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.

In addition to implementing best practices with respect to the execution, to the extent a particular investment is suitable for the Clients such investments will be allocated between the Clients pro rata, based on assets under management or in some other manner (e.g., rotational) which Waterfall determines is fair and equitable under the circumstances to all Clients.

Review of Accounts

Waterfall's portfolio managers, Jack Ross and Tom Capasse, have the primary responsibility of reviewing and monitoring all investments made for its investment advisory clients. Waterfall conducts such review 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 also receive audited annual reports.

Client Referrals and Other Compensation

Waterfall maintains an internal arrangement by which it compensates certain of its affiliate's employees for referring investors to the Funds. Additionally, Waterfall may, from time-to-time, compensate third party finders for referrals of prospective investors in the Funds pursuant to written solicitation agreements and subject to disclosure requirements complying with the provisions of Rule 206(4) under the Investment Advisers Act of 1940, as amended, as may be applicable.

M.D. Sass Securities, an affiliate of Waterfall, may market interests and shares of the Funds. M.D. Sass Securities will receive compensation for marketing the interests or shares that may include a portion of the management and incentive fees and allocations received by Waterfall and/or an affiliate.

Custody

Client assets generally are held in custody by unaffiliated broker/dealers or banks, however, Waterfall may be deemed to have access to some Client cash or securities since it or an affiliate serves as the general partner or managing member of each 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 and distributed within 120 days of each Fund's fiscal year end.

Investment Discretion

WAM 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.

Voting Client Securities

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

To the extent Waterfall must 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.

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, 1185 Avenue of the Americas, 17th Floor, NY, NY 10036.

Financial Information

Waterfall has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.