



**ITEM 1: COVER PAGE**

**FORM ADV 2A**

**DFG INVESTMENT ADVISERS, INC.**

www.DFGIA.com

MARCH 30, 2012

655 Third Avenue, 23<sup>rd</sup> Floor

New York NY 10017

This brochure provides information about the qualifications and business practices of **DFG INVESTMENT ADVISERS, INC.** ("DFG", the "Adviser" or the "Firm"). If you have any questions about the contents of this brochure, please contact us at (212) 488-1544. 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. DFG may refer to itself as a "registered investment adviser" or "RIA". You should be aware that registration with the SEC or a state securities authority does not imply a certain level of skill or training.

Additional information about DFG is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2: MATERIAL CHANGES**

The last annual update of this Brochure was filed by **DFG INVESTMENT ADVISERS, INC.** (“DFG”, the “Adviser” or the “Firm,”) with the SEC on March 29, 2011. Please review carefully the following material change that has been made since the last annual update:

- The Firm moved its headquarters in November 2011 to 655 Third Avenue, 23<sup>rd</sup> Floor, New York, New York 10017.
- The Firm opened a west coast office in October 2011 at 21250 Hawthorne Blvd, South Bay Tower, Suite 700, Torrance, CA 90503.

## **IMPORTANT NOTE ABOUT THIS BROCHURE**

**This Brochure is not:**

- **an offer or agreement to provide advisory services to any person**
- **an offer to sell interests (or a solicitation of an offer to purchase interests) in any Fund or Separate Account managed by DFG**
- **a complete discussion of the features, risks or conflicts associated with any Fund, Separate Account or Advisory Service managed/provided by DFG.**
- **to be relied on in determining whether to invest or establish an advisory relationship**

As required by the Investment Advisers Act of 1940, as amended (“Advisers Act”), DFG provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a DFG Fund or Separate Account, together with other relevant offering materials (such as subscription agreements, offering memoranda, operating agreements or advisory contracts), prior to, or in connection with, such persons’ establishment or consideration of an investment advisory relationship with DFG or an investment in a DFG Fund or Separate Account. Additionally, this Brochure is available through the Securities and Exchange Commission’s (“SEC’s”) Investment Adviser Public Disclosure website.

Although this publicly available Brochure describes investment advisory services and products of DFG, persons who receive this Brochure (whether or not from DFG) should be aware that it is designed solely to provide information about DFG as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant offering materials. In addition, more complete information about each DFG Fund or Separate Account, as well as DFG’s investment advisory services, is included in relevant offering materials, certain of which may be provided to current and eligible prospective clients or investors only by DFG or an Administrator or Placement Agent. To the extent that there is any conflict between discussions herein and similar or related discussions in any offering materials, the relevant offering materials shall govern and control.

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#### **ITEM 4: ADVISORY BUSINESS**

##### *a) Background*

DFG Investment Advisers, Inc. (the “Firm” or “DFG”) is an asset management firm specialized in structured and alternative credit products. DFG was founded in 2006 and is based in New York. Volkan Kurtas is the CEO of DFG. Since inception, DFG has been a leading player in the structured and alternative credit markets, providing discretionary and non-discretionary portfolio management and investment advisory services to clients, mainly to corporations, insurance companies, banks, and private investment funds, in the form of separate accounts. DFG further offers arms-length risk advisory and consulting services for a wide range of world-class global clients.

##### *b) Advisory Services*

DFG provides a variety of independent advisory and consulting services geared towards the structured and alternative credit markets. DFG primarily offers investment advice on collateralized debt obligations, with a focus on collateralized loan obligations and collateralized swap obligations, as well as on leveraged loans of US and European corporations, and investment advice on other structured or alternative credit products. DFG may also offer from time to time, although to a lesser extent, advice on corporate and US as well as foreign government fixed income securities, preferred stocks, equity, credit default swaps, private investments in debt, income trusts, equity and hybrid securities as well as structured products, alternative investments, and principal protected notes.

Additionally, DFG is frequently hired as a consultant to provide risk advisory solutions to meet a variety of objectives, including but not limited to risk monitoring and/or valuation of portfolios of complex credit assets, and consulting on deal structuring & documentation, quantitative modeling as well as for general business development consulting.

##### *c) Tailored Advice and Client-Imposed Restrictions*

DFG offers each client tailored advice to suit their own investment objectives, strategies and restrictions within the expertise of DFG’s product suite. Certain DFG services focus on a narrow investment strategy while others may pursue a broader investment strategy. DFG prepares offering materials with respect to each DFG service that contain more detailed information, including a description of the investment objective and strategy or strategies employed and related restrictions. These serve as a limitation on DFG’s management. Clients can also impose restrictions on DFG’s management through documents defining the Investment Program for the Client.

Clients and Investors must consider whether a particular DFG advisory relationship is appropriate to their own circumstances based on all relevant factors including, but not limited to, the Client's own investment objectives, liquidity requirements, tax situation and risk tolerance. Prospective Clients are strongly encouraged to undertake appropriate due diligence, including but not limited to a review of documents relating to the proposed Investment Program for the Separate Account or Fund and the additional details about DFG's investment strategies, methods of analysis and related risks in Item 8 of this Brochure, before making an investment decision or committing to a service provided by DFG.

*d) Wrap Fee Disclosure*

Not applicable.

*e) Assets Under Management*

As of December 31, 2011, DFG had approximately \$826,137,120<sup>1</sup> Million in assets under management ("AUM").

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<sup>1</sup> Assets of Separate Accounts based on market value and unused commitments, other account totals based on total notional amounts.

## **ITEM 5: FEES AND COMPENSATION**

### *a) Compensation*

#### **Private Funds Fees**

The Firm generally may charge both a management fee and a performance-based fee to private investment funds (the “Fund”) it may manage. The management fees are generally a percent of asset under management per year, payable quarterly in arrears or in advance. Fees are based in general on the market value of the securities and cash in the portfolio on the appraisal date. Performance-based fees are generally a certain percent of any increase of the net asset value above a high watermark or a percentage of excess return above a fixed hurdle rate. Fees are negotiable. Each Fund’s private placement memorandum describes its fee structure in detail. As of the date of this ADV, DFG does not manage a Fund.

#### **Managed Accounts**

The Firm charges its separately managed account clients a base management fee or advisory fee, and a performance-based fee. The base management or advisory fees are disclosed in the respective client’s investment management agreement and are generally structured as a fixed fee amount per year or as a percentage of assets under management for which advice and consultation is provided or a percentage of funds deployed for investments. The level of service may vary depending on individual circumstances and thus, fees are negotiable depending on time, effort, and expertise involved. Fees are computed and payable quarterly in arrears or on such other basis as is mutually agreed with each client.

From time to time, DFG may also charge performance-based advisory fees, the terms of which are negotiated between DFG and the client. Such agreements shall comply with the provisions of rule 205-3 of the Investment Advisers Act of 1940.

DFG further provides risk advisory and consulting services to institutional investors. Fee structures for these services depend on the individual contract. In general these fees are structured as annual fixed fees paid quarterly in arrears. In addition, specific consultation projects may be accomplished and the fee depends on the level of effort involved. DFG may also charge hourly fees to certain consulting projects.

A client may terminate its investment or risk advisory/consulting contract before its expiration date by providing written notice to DFG. Each advisory contract will specify the timing that an early termination may take effect after notice is received from the client and whether an early termination fee will be imposed. Such early termination fees, if any, may include (i) a lump sum payment, (ii) a percentage of outstanding fees, or (iii) a pre-determined amount based on the



performance of DFG. All such early termination fees will be contractually agreed upon by the client and DFG.

Upon termination of an investment or risk advisory relationship or contract with any client who has paid in advance, DFG will refund to such client the pro-rata portion of any advance payment, net of any termination fee, if any, based on the number of days remaining in the billing period after the date of termination.

*b) Billing*

Management fees are automatically deducted from the accounts of Fund Investors. Separate Account clients as well as Risk Advisory and consulting clients are billed for fees incurred.

*c) Other Expenses*

Clients may be responsible for and do incur other expenses separate and apart from the Firm's investment management, performance or consulting fees. These expenses typically may include custody fees, trading and brokerage service fees, other transaction fees, and/or other expenses associated with a Fund or the type of services being performed.

*d) Advance Billing*

DFG may charge Fund management fee in advance or in arrears for any funds it may manage, calculated and paid in US Dollars. With respect to managed accounts, management fees may be paid quarterly or monthly, in advance or in arrears, as agreed on with the Client. Investors in the Funds who withdraw will generally not be refunded any portion of the management fee payable for that calendar quarter. For Separate Accounts that are terminated prior to the end of the period and where fees were paid in advance, the fees will be refunded only if agreed to by the parties or as specified in the respective contract.

*e) Sales-based Compensation*

Not applicable.

Neither the Adviser nor any of its employees or affiliates accepts additional compensation for the sale of securities or other services or other investment services or products other than from the respective client itself.

## **ITEM 6: PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Firm charges some clients Performance Fees (or Incentive Fees), i.e. a fee based on a share of capital gains or capital appreciation of the client's assets under management or a fee based on the realized IRR by the clients from the funds invested by the Firm. Performance-based compensation may create an incentive for the Firm to make investments that are riskier or more speculative than would be the case in the absence of the performance-based compensation. In addition, the performance on which performance-based compensation is calculated may in certain circumstances include unrealized appreciation and depreciation of investments that may not ultimately be realized.

The Performance Fee is charged by the Adviser (or its affiliate) in compliance with Rule 205-3 under the Investment Advisers Act of 1940. The Management Fee and Performance Fee are negotiable. DFG, in its sole discretion, may waive or reduce the Management Fee and/or the Performance Fee or amend any other restrictions with regard to investors that are employees or affiliates of the Adviser, relatives of such persons, and for certain strategic investors.

DFG believes that its compensation is competitive with compensation charged by other investment advisers for comparable services.

Performance fees are only charged to "qualified clients" in accordance with Rule 205-3 under the Advisers Act. In the future, not all compensation arrangements will necessarily include a performance component, and the rate and nature of the calculation of performance compensation and bonuses may vary.

Performance fee calculations and hurdle rates may differ from client account to client account which may result in certain conflicts of interest, such as motivating DFG to invest client funds in assets with heightened risk profiles that have the potential to produce relatively higher returns or causing DFG to favor certain clients over others.

In addition, DFG may compensate or provide discretionary bonuses to portfolio managers that are based on, among other things, the performance of client accounts they manage or are otherwise responsible for, or based on the outcome of the specific advisory/consulting project. DFG or its personnel or affiliates may have other pecuniary interests in the DFG Funds or Separate Accounts

### **SPECIFIC CONFLICTS OF INTEREST AND DFG'S PRACTICES DESIGNED TO MITIGATE SUCH CONFLICTS OF INTEREST**

Like all investment advisers who advise multiple accounts or funds having different fee structures, DFG and its personnel face actual and potential conflicts of interest, including an incentive to favor those accounts in which DFG or its personnel have greater pecuniary interests over other accounts. Such conflicts of interest and DFG's practices that are designed to mitigate such conflicts of interest are discussed below. As a general matter, DFG addresses such conflicts by following a thorough, detailed, and consistent investment decision-making process and by regular reviews of investments by the Adviser's investment staff.

- **Allocation of Investments.** DFG may have an incentive to allocate investment opportunities based on pecuniary interest. DFG and its personnel will face a conflict of interest when considering how to allocate limited investment opportunities among accounts having different fee structures or pecuniary interests, including DFG Funds and Separate Accounts in which an affiliate is an investor. Through its relevant policies and procedures, DFG seeks to promote fair and equitable treatment of accounts (including the allocation of investment opportunities), over time, based on considerations that are unrelated to pecuniary interests (as discussed in Item 12).
- **Compensation of DFG and its Personnel.** DFG and its personnel have an incentive to take on more risk when compensation is based on performance: The receipt of performance-based compensation and the payment of bonuses relating to performance of Client accounts creates an incentive to make riskier investments than might be made in the absence of performance-based compensation, as such compensation generally allows participation in gains in excess of exposure to losses. On the other hand, performance-based compensation encourages an alignment of long-term investment interests between the Client and DFG. Moreover, performance-based compensation may be subject to mechanisms designed to ensure that prior losses are recouped and/or a certain level of gains is achieved before any performance-based compensation accrues, such as loss carryforwards, hurdle rates, and/or high water marks. Furthermore, as discussed in more detail in Item 13, DFG reviews the Client accounts that it advises on a regular basis to monitor risk levels. In addition, engaging in high risk investment practices that cause adverse performance will have a negative impact on the receipt by DFG of performance-based compensation and the receipt of discretionary bonuses paid to portfolio managers.
- **Performance-based Fees for Adviser and Valuations.** When DFG's compensation is based on the value or performance of investments, DFG has an incentive to value a position at a price higher than it might otherwise be valued or to accelerate or defer realizations. To the extent that performance allocations may be based on increases in the net assets of a DFG Fund or Separate Account, DFG's compensation would be based upon unrealized appreciation as well as realized appreciation. This means that DFG may be compensated on performance that is ultimately not realized if positions decrease in value and are subsequently sold at a loss. The potential for inflated valuation of positions is increased when such positions are illiquid or otherwise lack a readily ascertainable market value. DFG seeks to mitigate this conflict by valuing assets in accordance with its valuation policy, which is reasonably designed to assure that valuations are performed in a consistent and thorough manner that insulates the conflict. In accordance with its valuation policy, DFG considers the views of outside experts, including third-party valuation firms, in determining the value of illiquid or other hard to value assets. DFG further seeks, on a best effort basis, to receive third party valuations from broker/dealers for security holdings of DFG's Separate Accounts or Funds.
- **Cross-Transactions.** When DFG engages in cross-transactions, it has an incentive to favor accounts in which it has a greater pecuniary interest: DFG may, from time to time,

enter into cross-transactions between the various accounts it advises. DFG will conduct such transactions in accordance with policies to promote fairness to all participating accounts (e.g., by assuring that an appropriate price is assigned to the security being crossed). Where required by law or the governing documents for a Client account, cross transactions are subject to Client consent prior to settlement and information about the transaction, including the nature of the rebalancing transaction, the price at which it will be effected and DFG's position as principal, if applicable, are provided to allow the Client to determine whether or not to consent.

- **Other Conflict Mitigation Practices.** Many of the conflicts resulting from performance-based fees and side-by side management are mitigated by DFG's relevant policies and procedures. As a general principle, DFG requires that potential conflicts of interest be addressed by placing Client interests before personal or proprietary interests. DFG also has instituted trading policies to promote fair treatment of DFG Funds and Separate Accounts based on considerations unrelated to pecuniary interests to ensure that, wherever possible and over time, opportunities are allocated in a fair and equitable manner.

## **ITEM 7: TYPES OF CLIENTS**

DFG provides discretionary and non-discretionary portfolio management/investment advisory services to institutional clients on an individually segregated/separate account basis or on a fund basis. The majority of these clients (the “Advisory Clients”) are corporations, banks and affiliates of insurance companies.

In addition, DFG may provide investment advisory services to private investment funds, organized as limited partnerships, limited liability companies, or other legal entities, in which investors are accredited investors or qualified clients. These private funds are not registered under federal securities laws and typically utilize sophisticated investment strategies and proprietary investment models.

DFG has no minimum dollar amount required connected to any of its advisory services.

In addition to its outright investment advisory business, DFG provides risk advisory and consulting services to clients which may include Advisory Clients. These services are focused on, but not limited to, structured credit portfolios and include, but are not limited, risk analysis, risk monitoring and valuation services.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### *a) Methods of Analysis and Investment Strategies*

DFG's team members have multifaceted expertise in the structured and alternative credit markets, and a shared investment philosophy centered on sound fundamental analysis, active portfolio management and risk monitoring.

DFG may use a variety of resources or services to form an investment idea or strategy. In general, DFG assesses investment opportunities by employing a quantitative process using various proprietary and/or commercially available tools together with a qualitative assessment derived from market information. The quantitative analysis applied may include full cash flow runs using various default, prepayment and recovery assumptions, analysis of the underlying portfolio, if any, as well as putting the investment idea into a market context. The qualitative analysis conducted by DFG may include detailed investment manager reviews, single name and industry assessments, amongst others. DFG subscribes to various research and data services specific to structured and alternative credit assets to support its efforts.

DFG primarily offers advice on collateralized debt obligations, with a focus on collateralized loan obligations and collateralized swap obligations as well as other structured and alternative credit investments. DFG may also offer, although to a lesser extent, advice on corporate loans, corporate and US or foreign government fixed income securities, preferred stocks, equity, credit default swaps, private investments in debt, equity and hybrid securities as well as structured products, alternative investments, and principal protected notes. DFG's CLO investment strategies seek absolute returns by exploiting relative value opportunities in tranches of Collateralized Loan Obligations ("CLOs") across the capital structure. DFG constructs CLO portfolios designed to achieve clients' individual risk/return objectives and desired portfolio parameters (minimum rating, limits on currency exposure etc.). They are primarily long-only buy and hold credit strategies which do not employ leverage. However, DFG may seek to opportunistically trade assets and redeploy investment income and sales proceeds based on client specifications. Investors receive in general full asset-level transparency and access to DFG's proprietary risk monitoring platform.

In addition, DFG provides a variety of independent advisory and consulting services with a focus on products of the structured credit markets. DFG actively monitors and prices portfolios of complex credit assets for global financial institutions. Additionally, DFG is frequently hired as a consultant to design advisory solutions to meet a variety of objectives.

### *b) Investing Risks*

Investing in securities in general involves the risk of loss that clients should be prepared to bear. Each DFG Separate Account or Fund, if any, has risks which are specific to its particular

investment strategies. For more information about the risks of each Fund, please see the offering memorandum for that particular fund. Generally, however, investors in DFG managed Separate Accounts or Funds are exposed to, including but not limited to, the following risks:

***Price Volatility Risk.*** The market value of the investments made by the Firm on behalf of Advisory Clients may decline unexpectedly with changes in market rates of interest, default risk, general economic or political conditions, industry of investment specific developments, or the condition of financial markets.

***Asset Selection Risk.*** The market value of the investments made by the Firm on behalf of Advisory Clients may decline due to the Firm's error in judgment as to the true value of the investment or adverse developments the Firm fails to anticipate.

***Foreign Investment Risk.*** Investments made by the Firm for Advisory Clients in assets based outside the US face the risks inherent in foreign investing. Adverse political, economic or social developments could undermine the value of the investments or prevent them from realizing their full value. Financial reporting standards for companies based in foreign markets differ from those in the US. Additionally, foreign securities markets generally are smaller and less liquid than US markets. With respect to investments in non-US dollar denominated foreign securities, changes in currency exchange rates may affect the US dollar value of foreign securities or the income or gain received on these securities. Foreign governments may restrict investment by foreigners, limit withdrawal of trading profit or currency from the country, restrict currency exchange or seize foreign investments. Investments may also be subject to foreign withholding taxes. Foreign transactions and custody of assets may involve delays in payment, delivery or recovery of money or investments.

***Credit Risk.*** The Firm actively seeks to make certain investments for Advisory Clients in securitized products, which may be backed by collateral comprised of debt securities consisting of both investment grade securities, rated Baa or higher by Moody's or BBB or higher by S&P, and lower-rated securities (non-investment grade), rated lower than Baa by Moody's or lower than BBB by S&P (or, if not rated, of comparable quality), including but not limited to "leveraged loans" and "high-yield" bonds. These securities are regarded as "high-yield" or "junk" and are seen as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments. Analysis of the creditworthiness of issuers/issues of lower-rated securities, loans or bonds, may be more complex than for issuers/issues of higher quality debt securities. The investments of the Firm might incur a loss due to losses of the collateral backing the investments.

***Nature of Investments — Illiquidity.*** Certain investments the Firm makes for Advisory Clients, e.g. investments into securitized products, are generally less liquid and subject to greater liquidity risk than other debt or equity obligations. This may have an adverse impact on the market value of certain investments the Firm makes on behalf of advisory clients, and the Firm's ability to exit them.

***Interest Rate Risk.*** Rising interest rates will cause the prices of existing bonds in the market to fall. Longer maturity bonds will typically decline more than those with shorter maturities. If the



Firm's clients hold longer maturity bonds and interest rates rise unexpectedly, their price could decline. Falling interest rates will cause a client's portfolio income to decline, as maturing bonds are reinvested at lower yields. Clients should expect their monthly income to fluctuate with changes in its portfolio and changes in the level of interest rates.

***Prepayment Risk.*** Most high-yield securities and structured credit investments may be fully or partially be prepaid by the issuer prior to final maturity. Clients may experience reduced income when an issuer prepays an instrument held by the client earlier than expected. This may happen during a period of declining interest rates.

***High Yield Security Risk.*** Investments, directly or indirectly, in high yield securities can involve a substantial risk of loss. These securities, which are rated below investment grade, are considered to be speculative with respect to the issuer's ability to pay interest and principal and they are susceptible to default or decline in market value due to adverse economic and business developments.

***Risks particular for investing into CLO securities.*** Any CLO securities may not be registered under the U.S. Securities Act of 1933, as amended and the Issuer will not register under the U.S. Investment Company Act of 1940, as amended. There will be no market for CLO securities and their transfer will be restricted. Investors must be prepared to hold such securities for an indefinite period of time. Any CLO issuer will be a newly formed special purpose vehicle with limited assets. Any CLO securities will be limited recourse obligations of their issuer. CLO Securities will not be guaranteed by any other person. Accordingly, investors must rely on available collections from a CLO issuer's portfolio investments and will have no other source for payment of their securities. The subordination of any class of CLO securities will affect their right to payment in relation to the more senior securities. Interruptions in payments to subordinated classes may occur. Any CLO securities issued by a CLO issuer designated as subordinated notes will be unsecured obligations of a CLO issuer. If any event of default occurs and more than one class of CLO securities is then outstanding, the controlling class (which will generally be the most senior class of securities) will be entitled to determine the exercise of remedies and could pursue remedies that are adverse to the interests of subordinate classes. However, some rights of the controlling class to cause liquidation of the issuer's assets will be limited. Following acceleration of CLO securities, payments of interest proceeds and principal proceeds from the CLO issuer's assets will generally be applied on a strict seniority basis.

The issuer of any CLO securities will be highly leveraged, which will increase risks to investors, particularly to investors in more subordinated classes of such securities. A CLO issuer's portfolio investments will possess inherent risks, including, among other things, credit, prepayment, liquidity and interest rate risk, the financial condition of the underlying obligors, general economic conditions, market price volatility, the condition of certain financial markets, political events and developments or trends in any particular industry. Most of a CLO issuer's portfolio investments will be rated below investment grade. Below investment grade investments are particularly susceptible to these risks. Insolvency, lender liability and equitable subordination considerations with respect to the CLO issuer's portfolio investments could adversely affect the issuer's rights with respect to its portfolio investments.



A CLO issuer's portfolio may be subject to concentration risk. The issuer's actual portfolio investments may differ from its expected portfolio investments. A CLO issuer's performance will depend, in part, on the portfolio manager's performance with respect to the purchase and sale of the issuer's portfolio investments. A portion of such portfolio investments may amortize or prepay. The reinvestment period may terminate early. The issuer may not be able to reinvest available funds in appropriate portfolio investments, and the longer the period before investment or reinvestment of its funds into portfolio investments, the greater the adverse impact may be on interest collections and distributions by the issuer. Illiquidity and market value volatility of the issuer's portfolio investments and its own investment restrictions may restrict its ability to dispose of investments in a timely fashion and for a fair price. CLO securities may be subject to optional or mandatory redemption under certain circumstances. In certain circumstances, a CLO issuer may amend the indenture relating to its CLO securities without the consent of the holders of its CLO securities. Reliable sources of statistics regarding prepayments, default and recovery rates and market value volatility may not exist for certain portfolio investments and existing information may not be indicative of future performance. The portfolio manager may have conflicts of interest as a result of the overall investment activities of it, its investment professionals and its affiliates. The portfolio manager's entitlement to fees may create incentives for it to make decisions that are contrary to the best interests of investors. The portfolio manager's performance history is no guarantee, and may not be indicative, of a CLO issuer's future results. Because of different portfolio restrictions, structures and market conditions, among other things, the issuer's performance may differ markedly from that of other vehicles whose portfolios are managed by the portfolio manager. No assurance can be given that any particular individual will be responsible for managing the issuer's portfolio for any length of time. The loss of key portfolio manager personnel could have a material adverse effect on the issuer.

Illustrative cash flows, yields or returns, scenario analyses, expected portfolio composition and other "forward-looking" statements are based on assumptions that are unlikely to be consistent with, and may differ materially from, actual events, and no assurance can be given as to actual results. Interest rate risk inherent in the structure, including interest rate mismatches between a CLO issuer's securities and its portfolio investments, could adversely affect the issuer's cash flows. The duration of more subordinated securities will be affected by the average life of more senior securities (which is expected to be shorter than their stated maturity).

The imposition of unanticipated withholding taxes on a CLO issuer's assets or tax on its net income (as a result of changes in law or other causes) could materially impair the issuer's ability to make payments in respect of the securities. Holders of CLO securities may be subject to withholding on payments from those CLO securities or forced transfer of those CLO securities for failure to provide the related CLO issuer with certain tax information. Ratings assigned to CLO securities only address credit risk and are not a guarantee of quality. In addition, rating agencies may change their published criteria relating to CLO securities or leveraged loans, resulting in a reduction of their ratings of the CLO securities.

The effect of recent regulatory actions in the United States and Europe is uncertain and may be materially adverse to holders of CLO securities. The Issuer does not intend to comply with Article 122a of the Capital Requirements Directive. In consequence, the CLO securities will generally not be a suitable investment for European credit institutions. A CLO issuer or its portfolio manager will be required to post information provided to rating agencies to an internet

site and make such site available to other rating agencies. Failure to do so could result in the withdrawal of the ratings of related CLO securities. Also, other rating agencies could assign unsolicited ratings to CLO securities, which may be lower than those assigned by the original rating agencies. No assurance can ever be given that any CLO securities will be listed on a securities exchange. No assurance can be given as to whether any rating agency requested to rate any CLO securities will issue its ratings or, if issued, what such ratings would be or how long they would remain in effect.

**Nature of Investments — Other Risks.** Investments in securitized products, structured or alternative credit products may be subject to a variety of risks not generally associated with other debt obligations, including but not limited to structural risk, lender liability and certain other risks.

THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF ALL OF THE INVESTMENT RISKS THE FIRM AND ITS CLIENTS ARE EXPOSED TO AS A PART OF THE FIRMS BUSINESS.

**ITEM 9: DISCIPLINARY INFORMATION**

The Adviser and its supervised persons have not been involved in any legal or disciplinary events that are material to a client's or potential client's evaluation of our advisory business or the integrity of the Adviser's management.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

DFG and its affiliates engage in a broad spectrum of activities, including wealth management, banking, capital markets and investment banking products, investment advisory services, risk advisory, risk monitoring and consulting services as well as valuation services. In the ordinary course of their businesses, DFG and its affiliates engage in activities where their interests or the interests of their clients may conflict with the interests of the Advisory Clients. DFG may consult or advise one client on certain securities and may invest for another client in similar or the same securities.

The members, officers, and employees of DFG and its affiliates may sit on the advisory boards for unaffiliated broker-dealers. Mr. Kym Anthony, a Canadian resident and Board Member of DFG, is a Director of Hardcastle Trading AG (“Hardcastle”), an unaffiliated broker-dealer registered in Switzerland. In light of Mr. Kym Anthony’s relationship with Hardcastle, please note that Advisory Clients of DFG will not conduct business with Hardcastle without prior notification of the Advisory Client.

Additionally, it should be noted that a minority shareholder of DFG, DWM Inc., is a corporation owned by affiliates of Bank of Nova Scotia, a Canadian bank. As a practical note, DWM Inc. does not have a controlling interest in DFG and does not influence the policies and procedures of the DFG.

Future investment activities by DFG, including the establishment of other investment funds, may give rise to additional conflicts of interest.

### *a) Registered Broker-Dealer or Registered Representative*

Not Applicable

### *b) FCM, CPO, CTA or Associated Person*

Not applicable.

### *c) Material Business Relationships with Certain Related Persons*

Not Applicable

### *d) Recommendation and Selection of Other Investment Advisers*

Not applicable.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### *a) Code of Ethics*

Securities industry regulations require that advisory firms provide their clients with a general description of the advisory firm's Code of Ethics. DFG has adopted a Code of Ethics in compliance with 204A-1 in reference to the Firm's controls over personal trading that sets forth the governing ethical standards and principles of the Adviser. It also describes DFG's policies regarding the protection of confidential information, including the review of the personal securities accounts of certain personnel of DFG for evidence of manipulative trading, trading ahead of clients, insider trading, trading restrictions, training of personnel and record-keeping. Clients or prospective clients may obtain a copy of the Code of Ethics by contacting us by e-mail at 212-488-1546 or [info@dfgia.com](mailto:info@dfgia.com).

### *b) Participation or Interests in Client Transactions*

DFG, its affiliates and employees may have relationships with a number of issuers of and investors in securities in which the Advisory Clients may invest. These relationships may be taken into consideration in the management of the Advisory Clients and may affect certain investments or tactics employed by the Advisory Clients.

DFG or its affiliates may in the future organize funds, fund like products or accounts, which may be managed by DFG or such affiliates and which may have investment objectives substantially similar to those of other Advisory Clients. DFG, its affiliates and the portfolio managers may manage other funds and accounts that may purchase or sell the same securities as its current Advisory Clients and may seek investment opportunities that may be of interest to other Advisory Clients. In managing such funds and accounts, conflicts of interest may arise. DFG's investment allocations are designed to provide a fair allocation of purchases and sales of securities among the various accounts managed by the DFG, while preserving incentives for the portfolio managers to find new investment opportunities, and to ensure compliance with appropriate regulatory requirements. DFG will, to the best of its ability, conduct itself in a manner it considers to be the most fair and consistent with its fiduciary obligations to all of its Advisory Clients.

DFG, its affiliates and employees may provide investment advisory and other services, e.g. consulting services, to other clients, including clients that may invest in the securities in which the Advisory Clients may invest or are invested into, and, in providing such services, may use information that is used in managing the Advisory Clients' portfolio.

The members, officers, and employees of DFG and its affiliates may buy and sell, for the account of other clients, securities and other financial instruments or related securities, in each case of the same or a similar type to those bought or sold on behalf of the Advisory Clients. It should also be noted that DFG and its affiliates may give advice and recommend the purchase or

sale of securities and other financial instruments or related securities, or buy or sell such securities, and instruments for that of other clients, which advice or instruments may differ from advice given to, or instruments recommended or bought or sold for, the Advisory Clients, even though their investment objectives may be similar.

To mitigate any risks or potential conflicts, the Firm's Code of Ethics requires each officer and employee of the Firm with access to clients investments or portfolio information (each an "Access Person") to report quarterly theirs and their immediate family member's securities transactions and their securities holdings annually. In addition, each Access Person must pre-clear certain personal transactions (e.g. securities on DFG's restricted list, and short term transactions) with the Chief Compliance Officer. It should be noted that most of the securities DFG's accounts invest in require a US investor to be a Qualified Institutional Buyer, thereby limiting the possibility that Access Persons of DFG can buy or sell the same securities DFG trades for its Separate Accounts or Funds.

The Firm's Chief Compliance Officer monitors the trading activity of the Firm's personnel in order to prevent violations of the Code of Ethics.

*c) Investment in Securities Recommended to Clients*

DFG's Supervised Persons are specifically prohibited from using their knowledge about pending transactions or investments currently being considered for personal profit, including by purchasing or selling such securities directly or indirectly. All Access Persons (as defined in the Code, and which includes Supervised Persons meeting certain further criteria) must submit quarterly transactions reports detailing personal securities transactions. Such reports will be reviewed by the CCO or the CCO's designee to ensure compliance with the Code.

*d) Investment in Securities at or about the Same Time Recommended to Clients*

See Part 11 C. above.

*e) Personal Trading*

DFG has adopted a Code of Ethics governing personal trading by its personnel. To mitigate any risks or potential conflicts, the Firm's Code of Ethics requires each officer and employee of the Firm with access to clients investments or portfolio information (each an "Access Person") to report quarterly theirs and their immediate family member's securities transactions and their securities holdings annually. In addition, each Access Person must pre-clear certain personal transactions (e.g. securities on DFG's restricted list, and short term transactions) with the Chief Compliance Officer.

## **ITEM 12: BROKERAGE PRACTICES**

### *a) Selecting or Recommending Broker-Dealers*

Consistent with its duty to obtain “best execution” for its Advisory Clients, DFG exercises this discretion by seeking the best information, research and other services available. DFG does not recognize an obligation to obtain the lowest priced execution regardless of qualitative considerations in selecting brokers or dealers to execute transactions, but will generally seek the most favorable total transaction costs under the circumstances. DFG does not solicit competitive bids on each transaction to seek the lowest available commission costs, but rather may take into account the full range and quality of services that benefit Advisory Clients when selecting a broker.

In selecting brokers and negotiating commission rates, DFG may take into account the financial stability and reputation of brokerage firms and the brokerage and research services provided by such brokers, although the Advisory Clients on whose behalf trades are entered may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or other services provided in return. Finally, it is noted that since commission rates are generally negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may result in higher transaction costs than would otherwise be obtainable.

### *b) Soft-Dollars Arrangement*

It is not the practice of DFG to exclusively negotiate “execution only” commission rates, thus the Advisory Clients may be deemed to be paying for research and other services provided by the broker which are included in the commission rate.

Section 28(e) of the Securities Exchange Act of 1934, as amended, is a “safe harbor” that permits an investment manager to use commissions or “soft dollars” to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. DFG will limit the use of “soft dollars” to obtain research and brokerage services to services which constitute research and brokerage within the meaning of Section 28(e).

Research services within Section 28(e) may include, but are not limited to, research reports (including market research); due diligence provided by third-party research providers and/or broker-dealers which DFG may or may not execute trades through; certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants’ advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an investment manager and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders;

software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services that may be required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

Brokers may sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker may be less than the suggested allocations or may exceed the suggestions because total brokerage is allocated on the basis of all the considerations described above. A broker will not be excluded from receiving business simply because it has not been identified as providing research services.

In some instances, DFG may receive a product or service that may be used only partially for functions within Section 28(e). In such instances, DFG will make a good faith effort to determine the relative proportion of the product or service used to assist DFG in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the product or service attributable to assisting DFG in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by DFG from its (or their) own resources.

DFG has the right, at its discretion, to change the brokerage arrangements described above without further notice to investors.

As of the date of this ADV, DFG does not use “Soft Dollars”.

*c) Brokerage for Client Referrals*

DFG does not consider, in selecting or recommending a broker dealer, whether DFG or a related person receives client referrals from that broker-dealer.

*d) Directed Brokerage*

The Firm does not accept clients who require DFG to execute transactions through a specified broker-dealer. Clients may recommend that DFG uses their preferred broker-dealer(s). The Firm will use such broker-dealer(s) subject to its determination that said broker-dealer provides best execution of the client transactions.

*e) Aggregation (Bunching) of Trades*

Securities transactions in investment advisory accounts are normally implemented on a consistent basis across accounts. In order to accomplish this, orders are aggregated (bunched)



and allocated pro-rata to the nearest round lot. In addition to considerations of equity, bunching avoids placing competing orders, improves order management, and may, because of larger order size, permit some degree of price improvement relative to a series of individually placed orders.

DFG may cause a Fund or Account to effect “cross” transactions – transactions in which securities or other portfolio holdings are bought and sold among and/or between the Funds and the Accounts. Such a transaction will only be carried out if the Adviser believes that the transaction will be beneficial to both parties and if it is done in accordance with applicable law and DFG’s cross transactions policies and procedures, which are designed to ensure compliance with all applicable laws. DFG has an allocation policy designed to ensure fair treatment between clients in respect of executed trades.

## **ITEM 13: REVIEW OF ACCOUNTS**

### *a) Periodic Account Review*

Volkan Kurtas, Managing Partner, Chief Executive Officer and Chief Investment Officer of DFG, and Moritz Hilf, Managing Partner, Chief Compliance Officer and Chief Financial Officer of DFG, serve as portfolio managers for the Advisory Clients and are ultimately responsible for the accounts. It should be noted that DFG may delegate certain portfolio management responsibilities to designated DFG employees.

The portfolio manager responsible for an Advisory Client ensures that account activity is reviewed on a regular basis and that account guidelines and certain account restrictions are being followed. The portfolio managers may designate other DFG employees to review accounts.

In addition, the Chief Compliance Officer will periodically review the trade policies and procedures to ensure that it represents DFG's current practices and (to the best of its reasonable knowledge and belief) is in conformity with applicable law and regulations. DFG has written trade allocation procedures in place which were designed to seek to ensure that all investors and Advisory Clients are treated fairly.

### *b) Client Reports*

Generally, Advisory Clients will receive monthly reports for their accounts. Depending on the contractual details of the engagement, DFG may provide performance reports, holding reports and/or market commentary on a regular basis.

#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

DFG may compensate third parties for client referrals (each a “Solicitor”). Before making payments for any referral, the Adviser requires each “solicitor” to enter into a written referral agreement. DFG may pay the solicitor a portion of its own fee received from clients introduced by that third-party marketer or salesperson for the length of the term of the client’s account with DFG. Typically, this fee is representative of a percentage of assets under management and as a percentage of any other fees earned by DFG calculated by an agreed-upon formula. The Adviser may also pay certain expenses incurred by the solicitor for services performed on behalf of the Adviser.

The solicitor is required to present to any prospective client (other than potential hedge fund or private investment fund investors) a document including: the name of the solicitor; the name of the investment advisor he represents (e.g. DFG); the nature of the relationship, including disclosure of any affiliation between the solicitor and DFG; a statement that the solicitor will be compensated by DFG, including the terms of that compensation arrangement; and the amount, if any, of the cost of obtaining the account that the client will be charged in addition to the DFG advisory fee, including the differential, if any, among clients with respect to the amount of advisory fees if such differential is attributable to the existence of any arrangement pursuant to which DFG has agreed to compensate the solicitor.

All arrangements will comply with the conditions and requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940.

**ITEM 15: CUSTODY**

If needed, DFG will maintain the assets of the Advisory Clients in accounts with a “qualified custodian” pursuant to Rule 206(4)-2 under the Advisers Act and notify clients in writing of the qualified custodian’s name, address and the manner in which the assets are maintained promptly when the account is opened and following any changes to this information. In regards to the services DFG provides currently to its Advisory Clients, DFG is of the view that it does not have custody of the assets of its Advisory Clients. DFG may have custody over Advisory Clients in the future and will maintain then such assets of the Advisory Clients in accounts with a “qualified custodian” pursuant to Rule 206(4)-2 under the Advisers Act.

## **ITEM 16: INVESTMENT DISCRETION**

DFG generally manages client assets in a discretionary basis with the authority to determine what investments are made for each client, as well as when and how they are made. For certain clients, their assets may be invested in one or more portfolios based on prior discussion in regards to a model portfolio, but clients also may impose reasonable restrictions, limitations or other requirements with respect to their individual accounts as outlined in the respective Investment Guidelines of the client's account.

## **ITEM 17: VOTING CLIENT SECURITIES**

### *a) DFG Proxy Voting Authority*

DFG understands and appreciates the importance of proxy voting and will generally manage the receipt of incoming proxies, maintain a log of all proxies, and place votes based on established policies and guidelines. In the course of exercising discretion to vote a proxy, DFG will vote any such proxies in the best interests of Advisory Clients and in accordance with the procedures outlined below (as applicable).

Prior to voting any proxies, DFG's Proxy Voting Committee will determine if there are any conflicts of interest related to the proxy in question. If a conflict is identified, the Proxy Voting Committee will then make a determination (which may be in consultation with outside legal counsel) as to whether the conflict is material or not. If no material conflict is identified pursuant to its set procedures, the Proxy Voting Committee will, following discussion with DFG's investment personnel, make a decision on how to vote the proxy in question.

DFG also has the flexibility to abstain from a particular proxy vote when it is determined to be in the best interest of investors.

Please let DFG's Chief Compliance Officer know if you have any questions about these procedures or if you would like detailed information of how any proxies were actually voted. The Chief Compliance Officer can be contacted at (212) 488-1544.

### *b) Client Proxy Voting Authority*

Clients who do not grant DFG discretion to vote proxies on their behalf are responsible for voting their own proxies and, if they desire to do so, must arrange to receive proxy materials from the relevant custodians or transfer agents. DFG does not provide any proxy related information, or advice as to how to vote proxies, to such clients.

## **ITEM 18: FINANCIAL INFORMATION OF THE ADVISER**

No financial events have occurred to DFG that would negatively affect the financial viability of the Adviser. There is no financial condition of DFG that is reasonably likely to impair DFG's ability to meet contractual commitments to clients.

### *a) Financial Disclosures*

Not Applicable.

### *b) Material Financial Impairment*

Not Applicable.

### *c) Bankruptcy Petitions*

Not Applicable.