

**STRATEGOS CAPITAL MANAGEMENT, LLC  
PART 2A OF FORM ADV: FIRM BROCHURE**

**March 23, 2016**

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**This Brochure provides information about the qualifications and business practices of Strategos Capital Management, LLC. If you have any questions about the contents of this Brochure, please contact us at one of the contact numbers listed above. 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 Strategos Capital Management, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Strategos Capital Management, LLC is registered as an investment adviser with the SEC. Registration does not imply a certain level of skill or training.**

## **Item 2      Summary of Material Changes**

This Brochure dated March 23, 2016 has been prepared in connection with Strategos Capital Management, LLC's ("Strategos") annual updating amendment of its Form ADV and replaces the previous version dated October 22, 2015. The last annual updating amendment to Strategos' Brochure was as of March 31, 2015. Since the last annual updating amendment, the following material changes have been made to the Brochure:

- Effective October 21, 2015, Cameron Silbert was appointed and assumed responsibility as the Chief Compliance Officer of Strategos. Accordingly, the contact information provided on the cover page of this Brochure was updated to reflect this change.
- We have updated Item 5 herein to include additional disclosures regarding Strategos' fees and compensation.

We may further provide other ongoing disclosure information about material changes as necessary. All such information will be provided to you free of charge.

Currently, our Brochure may be requested by contacting any of the individuals listed on the cover page of this Brochure.

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## **Item 4     Advisory Business**

### **A. Generally**

Strategos Investment Management Company, LLC was formed in 2010 to facilitate its purchase from Strategos Capital Management, LLC (as explained below, now known as Cira SCM, LLC), a wholly-owned subsidiary of Institutional Financial Markets Inc. (formerly known as Cohen & Company, Inc.)(“IFMI”), the right to provide investment management services to certain separately managed accounts and private pooled investment vehicles (the “Purchased Assets”). Upon the closing of the acquisition on March 28, 2011, the seller (Strategos Capital Management, LLC) changed its name to “Cira SCM, LLC” and, shortly thereafter, Strategos Investment Management Company, LLC changed its name to “Strategos Capital Management, LLC”, which is the name we have used since.

Strategos Capital Management, LLC (“Strategos” or the “Firm”) is owned by Alex Cigolle (who also serves as the Firm’s Chief Investment Officer and a Portfolio Manager). Strategos’ board of managers (the “Board of Managers”), which currently consists of Mr. Cigolle, is responsible for major decisions with respect to investment strategy matters as well as matters relating to the overall administration and business strategy of Strategos. Descriptions of the educational background and employment history of Mr. Cigolle and certain advisory personnel of Strategos are included in the Firm’s Form ADV Part 2B (the “Brochure Supplement”), which is available from Strategos upon request.

Strategos’ principal office and place of business is located at 2929 Arch Street, 17<sup>th</sup> Floor, Philadelphia, PA 19104. Regular business hours are from 9:00 a.m. to 5:00 p.m., Monday through Friday.

### **B. Advisory Services Offered and Assets Under Management**

Strategos provides discretionary investment management primarily in its capacity as an investment adviser to (i) the private pooled investment vehicles listed in Item 10 (each, a “Fund” and, collectively, the “Funds”) and (ii) clients who retain Strategos to manage separate accounts or to sub-advice other private pooled investment vehicles (each, a “Managed Account” and, collectively, the “Managed Accounts”).

Strategos focuses on sourcing investment opportunities for its clients primarily in credit sensitive U.S. residential mortgage backed securities (“RMBS”), commercial mortgage backed securities (“CMBS”) and other asset backed securities (“ABS”) including, without limitation, trust preferred securities (“TruPs CDOs”). In analyzing these investment opportunities, Strategos employs an intensive bottom-up analysis of what we consider ‘seasoned’, ‘off-the-run’, and/or ‘odd-lot’ secondary offerings. In order to capitalize on the foregoing investment opportunities, Strategos currently employs a single primary investment strategy on behalf of the Funds and the Managed Accounts related to investing generally in RMBS, CMBS and ABS with aggressive return targets (the “Deep Value Strategy”). Strategos previously employed on behalf of certain former clients (i) an intermediate risk strategy targeting intermediate risk adjusted spreads (the “Intermediate Fixed Income Strategy”) and (ii) a lower risk, more liquid investment strategy (the “High Grade Fixed Income Strategy”). The Deep Value Strategy, the Intermediate Fixed Income Strategy and

the High Grade Fixed Income Strategy are referred to herein collectively as the “Investment Strategies”. For the avoidance of doubt, there are no clients who are currently invested in the Intermediate Fixed Income Strategy or the High Grade Fixed Income Strategy.

Full details regarding the Firm’s advisory services to the Funds are set forth in the each Fund’s private placement memorandum or prospectus (as applicable). A copy of the private placement memorandum or prospectus for any Fund is available from Strategos upon request. Investors must review the relevant Fund offering documents carefully, and consider their own needs and objectives, prior to making an investment in any Fund.

Strategos’ Investment Strategies referenced above generally are not tailored for each advisory client. However, primarily for clients who invest through Managed Accounts, Strategos has tailored and in the future would consider tailoring its Investment Strategies if a client specifically requested, and Strategos determined that it had the required expertise to provide, a tailored investment strategy. Strategos does not tailor the advice it provides to a Fund to the individual needs of any particular investors in the Funds.

On a case-by-case basis and with Strategos’ consent, Strategos permits clients to impose restrictions on investing in certain securities or certain types of securities.

As of December 31, 2015, Strategos had approximately \$556,076,000 in regulatory assets under management, all of which are managed on a discretionary basis. Strategos does not manage any assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

The Funds generally pay Strategos on a quarterly basis a management fee of up to 0.375% (1.5% per annum) of the net asset value (as set forth in the relevant private placement memorandum or prospectus) of each capital account or class of shares (as applicable) of each Fund as well as (in some cases) a performance fee as described in Item 6.

The custodian for each Fund deducts the management fee owed to Strategos directly from the account of the Fund upon Strategos’ (or an affiliate thereof) direction. Strategos does not allow direct billing for each investor in a Fund. In the case of Managed Accounts, Strategos bills each client directly for any management fee.

The management fees described above are also referred to hereinafter as “advisory fees.” Strategos may, in its sole discretion, reduce or waive the advisory fees otherwise payable by certain investors in the Funds or certain of the Managed Accounts without entitling any other investor in the Funds or Managed Account to a waiver or reduction and without notice or the consent of any other investor in the Funds or Managed Account.

Advisory fees for the Funds and the Managed Accounts are generally payable quarterly in arrears (i.e., payment is made in the quarter following the quarter in which the fee arises).

In addition to the advisory fees described above and the performance fees described in Item 6, the Funds (and, therefore, the investors in the Funds on a flow-through basis) may be charged what Strategos believes are customary fees and expenses for a private pooled investment vehicle. Full

details regarding the possible fees, costs and expenses related to an investment in a Fund are set forth in the private placement memorandum or prospectus of each Fund, copies of which are available from Strategos upon request. The Funds will generally bear all organizational expenses as well as: (i) all fees, costs and expenses related to the purchase, holding and sale of investments (to the extent not reimbursed); (ii) expenses incurred in connection with investment transactions not consummated; (iii) insurance premiums (including a reasonable expense reimbursement for a portion of the D&O insurance premiums for Strategos and/or its affiliates); (iv) taxes; (v) fees and expenses of legal counsel, consultants, accountants, auditors, administrators and custodians; (vi) fees and expenses of the independent members of the board of directors (as applicable); (vii) statutory/governmental fees payable, including any fees payable to any regulatory authority in any country or territory; (viii) data, data forecasting, modeling, and other expenses; (ix) finder's fees and brokerage commissions relating to the sourcing and purchase and sale of securities and interest expense related to the use of leverage; (x) bookkeeping, recordkeeping, appraisal and valuation expenses (including a reasonable expense reimbursement of such costs incurred by Strategos), including those paid to third party valuation services (which shall encompass any payments to independent third party broker-dealers for *secondary* pricing marks); (xi) expenses related to investor meetings and preparation of resolutions; (xii) litigation and indemnification expenses; (xiii) expenses associated with the preparation and distribution by third party service providers of reports to investors; (xiv) expenses associated with attending review meetings with investors; and (xv) other extraordinary expenses. In the case of any Fund that is compliant with the AIFMD (as defined in Item 7), the Fund will bear its share of any fees paid to the "Alternative Investment Fund Manager," along with any other fees and expenses associated with being AIFMD compliant (and which are fully disclosed in the applicable prospectus). In addition, investors in the Funds are subject to a 5% redemption fee in the event that the investor redeems its interest in the Fund within 12 months of the date of purchase of such interest.

In addition to the advisory fees mentioned above and the performance fees described in Item 6, clients who invest through Managed Accounts may bear the following third-party fees, costs and expenses:

- All reasonable transaction expenses related to the purchase and sale of securities or other investment products, including brokerage commissions;
- Custodial fees;
- Administration fees;
- Bank service fees; and
- Transfer taxes relating to the investments in the Managed Account.

See Item 12 of this Brochure for a discussion of Strategos' brokerage practices.

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

With respect to clients that employ the Deep Value Strategy (see Item 4.B), Strategos (or an affiliate thereof) may be entitled to be paid performance-based fees or incentive allocations ("Performance Compensation"). Performance Compensation generally will be up to 20% of all net realized and unrealized profits earned each fiscal year by the clients participating in the Deep Value Strategy. Performance Compensation for a Managed Account may include repayment of, or attainment of, a preferred return before Strategos is entitled to be paid Performance

Compensation. Performance Compensation will be charged in compliance with all applicable requirements of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”).

Strategos may, in its sole discretion, reduce or waive the Performance Compensation otherwise payable by certain investors in the Funds or certain of the Managed Accounts without entitling any other investor in the Funds or Managed Account to a waiver or reduction and without notice or the consent of any other investor in the Funds or Managed Account (unless otherwise agreed to in writing).

Strategos and its advisory personnel have an incentive to favor accounts that pay Strategos Performance Compensation or higher fees. Strategos has adopted and implemented policies and procedures to address such conflicts of interest relating to the management of multiple accounts including the fair and equitable allocation of investment opportunities. Please refer to Item 10 or Item 12 in this Brochure for information regarding Strategos’ allocation procedures.

Strategos has a valuation policy which it applies to assets held in the Funds and the Managed Accounts (to the extent a particular Managed Account agrees to adopt such valuation policy). A full description of the valuation policy is too lengthy for disclosure in this Brochure. However, the following information highlights the primary terms of the valuation policy:

(i) To the extent possible, a mark/quote is obtained from an independent pricing source and from a broker-dealer for each position/security. Both sets of marks are evaluated by Strategos’ traders/portfolio managers to determine which mark is most indicative of fair value based on their knowledge of the security, the conditions of the market, yields and other applicable factors.

(ii) Once the Strategos traders/portfolio managers have chosen the most indicative mark/quote as described in item (i) above (i.e., either the independent pricing source mark or the broker-dealer mark)(the “Initial Trading Desk Mark”), a quantitative assessment is independently performed comparing the Initial Trading Desk Mark to the independent pricing source mark using specific quantitative testing metrics. For each position that falls within the quantitative testing metrics, the independent pricing source mark is used to value the security. To the extent the Initial Trading Desk Mark falls outside the quantitative testing metrics, an additional mark is obtained from a second broker-dealer and, unless the average of the two broker-dealer marks falls within the quantitative testing metrics (in which case the independent pricing source mark is used to value the security), the average of the two broker-dealer marks is used to value the security.

(iii) The valuation policy has certain exceptions and other provisions that impact the brief description above. A copy of Strategos’ valuation policy is available upon request (and is also set out in full in each Fund’s private placement memorandum or prospectus).

Strategos’ compensation (i.e., any advisory fees and/or Performance Compensation), including through its ownership interests in a Fund’s general partner, is directly impacted by the valuation of the securities held by the Funds and the Managed Accounts. The valuation policy described above is designed to help mitigate the risk of any theoretical manipulation of the valuation of securities (which could theoretically increase Strategos’ compensation).

Strategos has a cross trade policy that applies to the Funds and to certain Managed Accounts who have adopted it. The cross trade policy sets forth that Strategos may cause clients to purchase securities from or sell securities to other clients when Strategos believes such transactions are appropriate and in the best interests of each applicable client. Cross trades may be deemed appropriate for a variety of reasons including (without limitation) to account for cash flows or to accomplish rebalancing, where clients have different investment objectives, risk tolerances, liquidity needs or to reduce transaction costs or impacts on price that may arise in an open market transaction. Any cross trades will generally be executed at what Strategos believes to be the prevailing “mid-market” price. Strategos considers the “mid-market” price to be equal to the best bid available in the market plus a margin that is less than the typical bid-ask spread as determined in the Investment Manager’s reasonable discretion. Strategos believes this margin is likely to be 0.50% of par value or less in most situations. This “mid-market” price may not necessarily be the mid-point between the bid-ask spread. The Firm will not receive any commission in connection with the execution of such cross trades.

Although Strategos and its advisory personnel have a theoretical incentive to conduct cross trades in such a manner that may favor one account over another account, such conflict of interest is mitigated by Strategos’ adherence to the cross trade policy described above. Moreover, any cross trades are closely monitored by both Strategos’ advisory personnel and by Strategos’ compliance department to ensure that, as the policy states, any such transactions are appropriate and in the best interests of each applicable client.

## **Item 7     Types of Clients**

Strategos offers the Deep Value Strategy to the following types of clients and investors:

- private U.S. investment limited partnerships structured as open-end, hedge fund style investment vehicles (the investors of which are (i) “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Company Act”), and/or (ii) “accredited investors” or “knowledgeable employees” as defined in Regulation D under the United States Securities Act of 1933, as amended (the “Securities Act”));
- a private foreign investment company structured as an open-end, hedge fund style investment vehicle (the investors of which are either (i) “non-U.S. Persons” as defined in Regulation S of the Securities Act or (ii) tax-exempt U.S. entities which are qualified purchasers or are beneficially owned by knowledgeable employees;
- an Irish public limited company and an Irish investment collective asset-management vehicle structured as open-end hedge fund style investment vehicles constituted as “Alternative Investment Funds” for the purpose of the Alternative Investment Fund Managers Directive (“AIFMD”) in Europe (the investors of which are located in the EEA, but only if such EEA investor is a “Qualifying Investor” which is generally defined as a professional client within the meaning of Annex II of Directive 2004/39/EC); and
- qualified purchasers or non-U.S. Persons who retain Strategos to provide discretionary advice through a Managed Account.



Clients investing through a Managed Account are generally required to make a minimum capital commitment of \$10 million, and investors in the Funds are generally required to make a minimum capital commitment of \$1 million; provided, however, that in either case, Strategos or the applicable board of directors may accept capital commitments of lesser amounts on a case-by-case basis.

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

### **A. Methods of Analysis and Investment Strategies**

The Funds' and the Managed Accounts' general investment strategy is to acquire, aggregate, manage and exit investments in securities secured by, or related to, residential and commercial real estate including U.S. Government Agency, Sub-Prime, Alt-A, Prime Non-Agency, Home Equity Line of Credit ("HELOC") and other securitized RMBS, collateralized mortgage obligations ("CMOs"), equity and debt investments in collateralized debt obligations ("CDOs") that are collateralized mainly by RMBS or CMBS, senior and subordinated mortgage notes, interest only and principal only strips, inverse floating rate securities, preference shares and whole loans secured by or related to residential real estate and other related securities and derivatives referencing the foregoing.

The Funds and, where consistent with contractual arrangements and stated objectives and restrictions, Managed Accounts may also invest in any of the foregoing (as well as any real property and whole loans) on an indirect basis through investments in (i) certain open-end and closed-end investment companies which are registered under the Company Act and/or (ii) a United States real estate investment trust, as defined under applicable legislation, or an entity structured and operated in a manner similar to a real estate investment trust ("REIT"). In addition, the Funds and Managed Accounts may invest in ABS, including, but not limited to, those collateralized by auto loans, bank debt (i.e., TruPs CDOs), credit cards, aircraft and student loans. Finally, various financial instruments such as derivatives, options, swaps, swaptions, futures and forward agreements (both listed and over-the-counter) may be used to create long or short positions in some or all of the above investment types or their related indexes, for hedging and/or investment purposes.

The Deep Value Strategy focuses specifically on:

- Assets that are generally considered more junior within the capital structure;
- Assets with an average purchase price that Strategos considers a substantial discount to the par value of the security being purchased;
- Assets with potentially volatile cash flows, prices, and liquidity conditions; and
- Assets associated with a less liquid, inefficient market with generally wide bid/ask spreads.

Strategos may obtain advice from attorneys, accountants, mortgage origination and servicing personnel and other experts to assist in its analysis of certain investments for the Funds and/or Managed Accounts. Strategos generally obtains information about investment opportunities from the following sources:

- inspections of origination and servicing activities;

- monthly servicer/trustee reports and payment detail;
- monthly mortgage loan level data on a market wide basis;
- investment bank research reports, broker-dealer trading commentaries and financial periodical articles;
- rating agency analysis; and
- annual reports, prospectuses, filings with the Securities and Exchange Commission, press releases and other issue-prepared information.

Strategos employs quantitatively-based financial/analytical models to aid in the selection of investments for its clients, to allocate investments across various asset classes and types, including but not limited to sector, style, size and risks and to determine the risk profile of its clients. In addition, Strategos determines the suitability of RMBS, CMBS and ABS securities for the client by considering the following methods of analysis:

Collateral Analysis - Loan Features That May Be Considered to Estimate Collateral Performance Characteristics:

- FICO score, average and distribution;
- Loan to value (“LTV”) & combined loan to value (“CLTV”): at origination and current mark-to-market using Office of Federal Housing Enterprise Oversight (“OFHEO”) metropolitan statistical areas (“MSA”) house price index (“HPI”) data;
- Loan purpose: purchase or refinance (cash out or no cash out);
- Lien status: 1st lien or 2nd lien (closed-end 2nd or HELOC) and silent seconds;
- Documentation: full vs. stated vs. no documents;
- Debt to income (“DTI”) ratios;
- Sources of collateral: wholesale/retail origination;
- Property type: single family, 2-4 family, manufactured housing, planned unit development (“PUD”), condo, multi-family;
- Occupancy status: owner occupied, 2nd home, investor property;
- Amortization term, weighted average loan age (“WALA”);
- Loan size, loan count, “tail risk” of quality borrower burnout;
- Fixed/floating mix: adjustable rate mortgage (“ARM”) breakdown, hybrid ARM term;
- Interest only (“IO”) loan concentration/IO term;
- Initial loan rate distribution, ARM initial, life cap;
- Mortgage insurance: borrower vs. issuer paid, coverage to LTV;
- Home price appreciation by MSA, mark-to-market LTV;
- Employment statistics by region;

- Delinquency performance: 30 day, 60 day, 90+ day, bankruptcy, foreclosure, real estate owned (“REO”);
- Delinquency history: individual loan history string by Office of Thrift Supervision (“OTS”) and Mortgage Bankers Association (“MBA”) methodology;
- Loan modifications: rate modifications, cap modifications, principal forgiveness, forbearance, the Home Affordable Modification Program (“HAMP”) and the modification impact;
- Mortgage servicing: principal and interest advances, curtailments, foreclosure moratoriums and timelines, delinquency roll rates, short sales.

Structural Analysis - Structural Features Used to Help Project Cash Flows:

- Capital structure: senior vs. mezzanine;
- Interest and principal waterfall: distribution to trust;
- Credit enhancement: subordination, excess spread, insurance;
- Over-collateralization (“OC”)(upfront and ongoing) and target levels, OC floor & deficiency;
- Loan level mortgage insurance: impact on loss severity;
- Bond insurance guarantee/wrap: corporate monoline risk, timely vs. ultimate pay, impact of insurance premium to waterfall;
- Pool policy insurance: loss coverage, issuer/monoline payment;
- Performance triggers: cumulative loss and delinquency, effects on cash flows timing (i.e., “step down” cash flow, front pay, pass-through);
- Breakeven analysis: prepayments, constant prepayment rates (“CPR”), defaults, constant default rates (“CDR”), loss severity;
- Available funds cap, interest shortfall, fixed vs. floating collateral and liability composition;
- Principal writedowns: absolute vs. implied, impact on senior vs. mezzanine classes;
- Interest rates: implied forward curve, 1 month LIBOR;
- Hedging: interest rate cap, basis swaps, timing swaps;
- Loan modifications: rate modification impact on gross weighted average coupon (“WAC”)/interest shortfalls and default/liquidation timeline impact on cash flow.

Investing in securities, including investing in securities purchased by Strategos on a client’s behalf, involves the possible risk of loss of all or a significant portion of the value of such securities that clients should be prepared to bear. Strategos in no way guarantees performance or results.

## **B. Material Risks Associated with Methods of Analysis and Investment Strategies**

Strategos provides below a list of the material risks related to the methods of analysis and Investment Strategies described above.

***Highly Volatile Markets.*** The prices of assets in the RMBS, CDO, CMBS and ABS (“Securitization Securities”) market are highly volatile. Price movements of Securitization Securities are influenced by, among other things, interest rates, housing price changes, unemployment, wage growth, availability and cost of credit, complexity of the assets and their associated legal documentation, loan level performance data, structuring and performance models, counterparty risk including, but not limited to, supply and demand in the housing market, changing supply and demand relationships for these assets, level of available leverage for these assets, trade, fiscal, monetary, regulatory and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in the markets where Securitization Securities trade. Such intervention often is intended directly to influence prices and may, together with other factors, materially impact asset prices in unpredictable ways or in a direction harmful to the performance of a Fund or Managed Account.

***Institutional Risk.*** The institutions, including brokerage firms, banks, originators, servicers, mortgage insurers, bond insurers, rating agencies, and other entities, with which Strategos will trade, invest or rely upon for the performance of the Securitization Securities and underlying mortgage loans, have in many instances encountered and may encounter further financial difficulties, including insolvency, that could materially impair the operational capabilities or the capital position of Strategos' clients.

***High Risk Investments.*** Strategos may acquire, on its clients behalf, assets secured by real property interests, including distressed residential mortgages, liens on high-risk collateral, or notes or pledges made by high-risk borrowers, including sub-prime and non-performing loans. Such assets generally carry below-investment grade credit ratings, or lack credit ratings altogether. These assets and/or the loans underlying these types of assets may be in default or may have a greater than normal risk of future defaults, delinquencies, bankruptcies or fraud losses. There can be no assurance that the assets will perform, the borrowers will pay as expected, or, if defaulted, that the underlying assets will be able to be foreclosed upon and liquidated in a cost effective manner. In addition to the risks of borrower default, clients will be subject to a variety of risks in connection with such debt instruments, including risks arising from mismanagement or a decline in the value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury laws and the imposition of common law or statutory restrictions on Strategos' exercise of contractual remedies for defaults on such investments.

***Lack of Asset Diversification.*** The Investment Strategies are subject to limited diversification requirements and Strategos may invest a significant portion of a client's assets in the securities of a small number of issuers or indirectly in similar assets. As a result, a client may be more susceptible to risks associated with a single economic, housing, contract law, political or regulatory occurrence than a more diversified portfolio might be.

**Competition.** Because the objectives of the Investment Strategies involve identifying securities that provide for attractive risk adjusted yield, competitive investment activity by other firms may reduce a client's opportunity for profit by reducing mispricing in the market as well as the margins available on such mispricing as can still be identified.

**Reliance on Industry Data Sources and Structuring Models.** The Investment Strategies of Strategos often rely on the financial information made available (on a non-confidential basis) by the issuers, servicers, third party modeling firms, third party data providers and trustees of Securitization Securities. Events in the United States and around the world since the financial crisis of 2008 have demonstrated the material losses that investors in Securitization Securities can incur as a result of the difficulty in creating useable data to create adequate models. In addition, the unprecedented deterioration of mortgage loan performance and home price movements since the financial crisis of 2008 have demonstrated the material losses that investors in Securitization Securities can incur as a result of unexpected performance changes.

**Quantitative Model Risks.** As mentioned above, Strategos will employ quantitatively-based financial/analytical models to aid in the selection of investments for its clients. The success of Strategos' investment and trading activities will depend, to some degree, on the viability of these analytical models. There can be no assurance that the models are currently viable, or, if the models are currently viable, that they will remain viable during the existence of Strategos' relationship with any particular client. In fact, these models are based upon historical performance data and there is no relevant data set to provide performance data in an environment similar to the current housing and mortgage environment, including credit availability conditions and governmental intervention, where deterioration has been unprecedented. As such Strategos utilizes this data and creates models based upon their best estimate of the impact of the unprecedented housing decline on mortgage loan performance, lack of mortgage credit availability, and the impact of governmental intervention on borrowers, originators, servicers, and other deal related counterparties, and the related impact on the performance of RMBS assets. Also, there can be no assurance that the investment professionals of Strategos utilizing the models will be able to (i) determine that any model is or will become not viable, or not completely viable, (ii) ensure that the models will accurately capture these relationships between asset classes and types and continue to do so over time or (iii) notice, predict or adequately react to any change in the viability of a model. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of investment return of a client.

**Leverage.** Strategos may employ leverage in the Funds or Managed Accounts. The amount of leverage which may be employed by Strategos on behalf of a client at a given time will be determined by Strategos consistent with its clients' investment policies, as well as market conditions and other factors.

The effect of leverage will amplify the performance of a client's investment return – both the upside performance and the downside performance.

In addition, Strategos may invest, on behalf of a client, in equity and subordinated debt investments of securitization vehicles, which, by their nature, exhibit a high degree of leverage inherent in their respective deal structures.

***Spread and Credit Term Trading Risks.*** Strategos may, on behalf of a client, purchase one asset and short another asset in the same or differing securitizations. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. However, there may be material financing costs associated with maintaining the corresponding short position, which would adversely impact performance. In addition, such positions do entail a substantial risk that the price differential could change unfavorably.

***Derivatives Risk and Short Sales.*** Derivatives are financial contracts in which the value depends on, or is derived from, the value of an underlying asset, reference rate or index. Strategos may, on behalf of a client, use derivatives for any purpose including, among other things, as a substitute for taking a position in the underlying asset or as part of a strategy designed to reduce or increase exposure to other risks, such as interest rate, credit risk, prepayment speed risk, housing, or other related risks. Strategos' use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. If Strategos invests, on behalf of a client, in a derivative instrument it could lose more than the principal amount invested. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that Strategos will engage in these transactions on behalf of clients to reduce exposure to other risks when that would be beneficial.

Strategos may, but is not required to, engage in Short Sales (as defined below) to the extent Strategos deems it advisable in connection with a client's investments or as opportunistic investments. Strategos may use futures, options, equities and equity options, single name and index credit default swaps, forward sales or other transactions to create short exposure in a client's portfolio ("Short Sales").

***Credit Default Swaps.*** Strategos, on its client's behalf, may enter into credit default swap agreements. The "buyer" in a credit default contract is obligated to pay the "seller" a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred. If an event of default occurs, the seller must pay the buyer the full notional value, or "par value," of the reference obligation. A client may be either the buyer or seller in a credit default swap transaction. If a client is a buyer and no event of default occurs, the client will lose its investment and recover nothing. However, if an event of default occurs, the client (if the buyer) will receive the full notional value of the reference obligation that may have little or no value. As a seller, a client receives a fixed rate of income throughout the term of the contract provided that there is no default event. If an event of default occurs, the seller must pay the buyer the full notional value of the reference obligation. Credit default swap transactions involve greater risks than if a client had invested in the reference obligation directly. Swaps are subject to the risk of non-performance by the swap counterparty, including risks relating to the financial soundness and creditworthiness of the swap counterparty. Also the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") includes provisions that would significantly alter the regulation of swaps and comprehensively regulate the over-the-counter derivatives markets for the first time in the United States.

***Risk of Counterparty Default.*** The stability and liquidity of repurchase agreements, swap transactions, credit default swaps, indices, forwards and other over-the-counter derivative

transactions depend in large part on the creditworthiness of the parties to the transactions. It is expected that Strategos will monitor on an ongoing basis the creditworthiness of firms with which it will enter into repurchase agreements, reverse repurchase agreements, interest rate swaps, caps, floors, collars or other over-the-counter derivatives. If there is a default by the counterparty to such a transaction, Strategos will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs, which could result in the net asset value of the investment being less than if Strategos had not entered into the transaction.

***Credit Risk.*** A client also is subject to credit risk, i.e., the risk that an issuer of securities will be unable to pay principal and interest when due, or that the value of the security will suffer because investors believe the issuer is less able to pay. This is broadly gauged by the credit ratings of the securities in which a client invests. However, ratings are only the opinions of the agencies issuing them, may change less quickly than relevant circumstances and are not absolute guarantees of the quality of the securities. Also, credit ratings and ratings agencies have recently been criticized for credit ratings which did not fully reflect the risks of certain securities or which did not reflect such risks in a timely manner. In the event that such ratings are inaccurate, otherwise misleading or untimely, the value of a client's portfolio may be adversely affected. Furthermore, a client's investments may not be rated by any rating agency or may be below investment grade. Clients will be more dependent upon the judgment of Strategos as to the credit quality of such unrated securities. A default, downgrade or credit impairment of any of its investments could result in a significant or even total loss of the investment.

***Liquidity Risk.*** A client's investments may at any given time be illiquid such that either no market exists for them or they are restricted as to their transferability under federal and state securities laws. Thus, the sale of these investments may be made at substantial discounts, delayed or impossible. In addition, the illiquidity of a security or other instrument held by a client may also make it difficult for Strategos to value such investments. For example, during the RMBS market dislocation, there were periods during which the majority of market participants did not provide mark to market quotes, engage in active market making, or maintain traditional inventory levels, and they effectively charged wide bid ask spreads for clearing bond purchases and sales between investors. During these periods, the ability to receive reliable, independent third party mark to market on assets and the ability to either buy or sell in a short period, if at all, at reasonable execution costs is severely challenged.

### **C. Material Risks Associated with investing in RMBS, CMBS and ABS**

Strategos lists below a non-exhaustive list of the material risks relating to investing in RMBS, CMBS and ABS (as well as certain other types of securities) that Strategos primarily recommends to its clients. A more detailed list of such risks is also included in the current private placement memorandum or prospectus published by each Fund, which is available upon request from Strategos.

**RMBS.** An RMBS is a form of mortgage-backed security and is a general obligation of the issuer, which is typically secured by residential mortgages or residential mortgage-backed collateral. RMBS may be either (i) issued or guaranteed by U.S. government agencies or instrumentalities or (ii) issued (but not guaranteed) by private entities such as banks, savings and loans, mortgage

bankers and other nongovernmental issuers. The material risks involved with investing in RMBS include:

- **Prepayment Risk.** Clients may invest, directly or indirectly, in RMBS and receive payments, generally, from the payments that are made on mortgage loans securing the RMBS. The yield and payment characteristics of RMBS differ from traditional debt securities. Interest and principal prepayments are made more frequently, usually monthly, over the life of the mortgage loans and principal may be prepaid at any time because the underlying mortgage loans generally may be prepaid at any time. Faster or slower prepayments than expected on underlying mortgage loans can dramatically alter the yield to maturity of an RMBS, thus affecting the profitability of the Fund or the Managed Account.
  - Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, general economic conditions and the relative interest rates on fixed-rate and adjustable-rate mortgage loans.
- **Interest Rate Changes.** The value of most RMBS, like traditional debt securities, tends to vary inversely with changes in interest rates (i.e., as interest rates increase, the value of such securities decrease). RMBS, however, may benefit less than traditional debt securities from declining interest rates because prepayment of mortgages tends to accelerate during periods of declining interest rates. Prepayments shorten the life of the security and the time over which the Fund or the Managed Account receives income at the higher interest rate. Additionally, when mortgage loans underlying RMBS are prepaid, the prepaid amounts are generally re-invested in other income yielding securities which will reflect the lower interest rates prevailing at the time.
  - Alternatively, during periods of rising interest rates, RMBS are often more susceptible to extension risk than traditional debt securities (i.e., rising interest rates could cause property owners to prepay their mortgages more slowly than expected when the security was purchased, which may further reduce the market value of such security and lengthen the duration of the security).
- **Valuation.** RMBS are not traded on an organized exchange and may, therefore, be difficult to value.
- **Credit Risk.** Investment in RMBS is subject to credit risk, i.e., the risk that an issuer of an RMBS will be unable to pay principal and interest when due, or that the value of the security will suffer because investors believe the issuer is less able to pay. A default, downgrade or credit impairment of any of these securities could result in a significant or even total loss of the investment.

**CMBS.** A CMBS is a form of mortgage-backed security which is typically secured by commercial mortgages or commercial mortgage-backed collateral. Commercial mortgage loans underlying commercial mortgage-backed securities are generally secured by income producing property, such



as offices, malls, stores, industrial properties, multi-family housing or other commercial property, and may entail risks of delinquency and foreclosure.

CMBS are often backed by an underlying mortgage pool of only a few mortgage loans. A failure in performance of any one commercial mortgage loan in the underlying mortgage pool will have a much greater impact on the performance of the related CMBS. Credit risk relating to commercial mortgage-backed transactions is, as a result, property-specific. In this respect, commercial mortgage backed transactions resemble traditional non-recourse secured loans.

Rates of defaults and losses on commercial mortgage loans, and the value of any commercial property, may be adversely affected by risks generally incident to interests in real property, including various events which the related borrower and/or manager of the commercial property, may be unable to predict or control, such as: changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; acts of God; environmental hazards; and social unrest and civil disturbances. If a commercial mortgage loan is in default, foreclosure of such commercial mortgage loan may be a lengthy and difficult process, and may involve significant expenses and potential liabilities.

Prepayments on the underlying commercial mortgage loans in an issue of CMBS will be influenced by the prepayment provisions of the related mortgage notes such as prepayment penalties and defeasement and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related mortgage loans, the rate of prepayment on the underlying mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related CMBS issue.

Concentrations of CMBS of a particular type, as well as concentrations of CMBS issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the CMBS to additional risk. CMBS issues may be subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In general, subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

**Resecuritization of Real Estate Mortgage Investment Conduit (“Re-REMIC”).** A Re-REMIC is an investment vehicle that is backed by a static pool of subordinated CMBS and/or RMBS. The vehicle holds commercial and residential mortgages in trust, and issues securities representing an undivided interest in those mortgages. The risk factors that apply to CMBS and RMBS, as outlined above, also apply to Re-REMICs.

**Collateralized Debt Obligations.** Strategos may invest client monies in collateralized debt obligations (including without limitation collateralized loan obligations and collateralized bond obligations, collectively, “CDOs”). CDOs may be fixed pools or may be “market value” or

managed pools of collateral which entitle the holders thereof to receive payments that depend primarily on the cash flow from the pool of assets, which may include commercial loans, high yield and investment grade debt, Structured Securities (as defined below) and derivative instruments relating to debt. Holders of CDOs bear various risks, including credit risk, liquidity risk, interest rate risk, market risk, operations risk, structural risk and legal risk. The pools of assets of CDOs are typically separated into tranches representing different degrees of credit quality, with lower rated tranches being subordinate to senior tranches. The senior tranches of CDOs, which represent the highest credit quality in the pool, have the greatest collateralization and pay the lowest spreads over LIBOR. Lower rated CDO tranches represent lower degrees of credit quality and pay higher spreads over LIBOR to compensate for the attendant risks. The bottom tranches specifically receive the residual interest payments (i.e., money that is left over after the higher tiers have been paid) rather than a fixed interest rate. The returns on the junior tranches of CDOs are especially sensitive to the rate of defaults in the collateral pool. In addition, the exercise of redemption rights, if any, by more senior CDO tranches and certain other events could result in an elimination, deferral or reduction in the funds available to make interest or principal payments to the junior tranches. Clients may acquire mezzanine or equity tranches of CDOs which are the most susceptible to these risks.

**Collateralized Mortgage Obligations.** Strategos may invest client monies in collateralized mortgage obligations (“CMOs”). CMOs are debt instruments issued by special purpose entities which are secured by pools of mortgage loans or other mortgage-related securities. Similar to a bond, interest and prepaid principal is paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans or private mortgage bonds, but are more typically collateralized by portfolios of mortgage pass-through securities guaranteed by Ginnie Mae, Freddie Mac or Fannie Mae, and their income streams.

CMOs are structured into multiple classes, often referred to as “tranches,” with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including pre-payments. Actual maturity and average life will depend upon the pre-payment experience of the collateral. In the case of certain CMOs (known as “sequential pay” CMOs), payments of principal received from the pool of underlying mortgages, including pre-payments, are applied to the classes of CMOs in the order of their respective final distribution dates. Thus, no payment of principal will be made to any class of sequential pay CMOs until all other classes having an earlier final distribution date have been paid in full.

In a typical CMO transaction, a corporation (“issuer”) issues multiple series (e.g., A, B, C, Z) of CMO bonds (“Bonds”). Proceeds of the Bond offering are used to purchase mortgages or mortgage pass-through certificates (“Collateral”). The Collateral is pledged to a third party trustee as security for the Bonds. Principal and interest payments from the Collateral are used to pay principal on the Bonds in the order A, B, C, Z. The Series A, B and C Bonds all bear current interest. Interest on the Series Z Bond is accrued and added to principal and a like amount is paid as principal on the Series A, B or C Bond currently being paid off. When the Series A, B and C Bonds are paid in full, interest and principal on the Series Z Bond begins to be paid currently. CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage- or asset-backed securities. In addition, investment in CMOs is subject to prepayment risk and interest rate risk.

**Stripped Mortgage-Backed Securities.** Strategos may invest client monies in non-agency, stripped mortgage-backed securities (“SMBS”), which are derivative multi-class mortgage securities. Non-agency SMBS may be issued by private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage bankers, commercial banks, investment banks and special purpose subsidiaries of the foregoing.

There are generally two classes of SMBS: (i) one (the interest only or “IO” class) entitles the holder thereof to receive distributions consisting solely or primarily of all or a portion of the interest on the underlying pool of mortgage loans or mortgage-related securities (“Mortgage Assets”) and (ii) the other (the principal only or “PO” class) entitles the holders thereof to receive distributions consisting solely or primarily of all or a portion of the principal of the underlying pool of Mortgage Assets. PO classes may generate income through the accretion of the deep discount at which such securities are purchased and while PO classes do not receive periodic payments of interest they receive monthly payments associated with scheduled amortization and principal payments from the Mortgage Assets underlying the PO classes. The cash flows and yields on IO and PO classes are extremely sensitive to the rate of principal payments (including prepayments) on the related underlying Mortgage Assets. For example, a rapid or slow rate of principal payments may have a material adverse effect on the market value and yield to maturity of IOs or POs, respectively. If the underlying Mortgage Assets experience greater than anticipated prepayments of principal, an IO investor may incur substantial losses. Conversely, if the underlying Mortgage Assets experience slower than anticipated prepayments of principal, the market value and yield on a PO class will be affected more severely than would be the case with a traditional mortgage-related security. In the current distressed market for legacy RMBS, Strategos expects that, in the case of deeply discounted principal and interest RMBS, bond principal payments will act in a manner similar to PO classes. If prepayment speeds accelerate the overall return may increase. In addition, in the current distressed market for legacy RMBS assets, on principal and interest bonds where Strategos does not expect any principal payments, the timing of losses and the overall payment of underlying mortgage interest, including the impact of modifications by servicers, will be the primary drivers of bond performance.

**Adjustable Rate Mortgage-Backed Securities.** Strategos may invest client monies in adjustable rate mortgage-backed securities. Adjustable rate mortgage-backed securities are generally collateralized by or represent interests in mortgage loans with variable rates of interest. Such variable rates of interest reset periodically to align themselves with market rates. The value of adjustable rate mortgage securities may vary to the extent that current yields on adjustable rate mortgage securities are different than market yields during interim periods between coupon reset dates or if the timing of changes to the index upon which the rate for the underlying mortgages is based lags behind changes in market rates.

**Economic Residuals.** Strategos may invest client monies in the economic residuals from underlying mortgage-backed deals where excess interest and over-collateralization is used as a form of credit enhancement. These investments represent the difference of the underlying mortgage loan cash flows, including but not limited to principal, interest, servicing advances, and recoveries, less deal obligations including bond principal, interest, unpaid obligations, maintenance of required enhancement, and losses.

**Repurchase Agreements.** Strategos may, for the Funds or Managed Accounts, utilize repurchase agreements (“Repos”). Repos generally involve the sale of a security by a client to another party, usually a bank, broker-dealer or other financial institution, concurrently with an agreement by the client to repurchase the same security at an agreed upon price and date. A Repo is functionally equivalent to borrowing money and pledging the security as collateral. The use of Repos involves certain risks. Repos involve the risk that the client is obligated to repurchase a security at a time when the market value of the security has declined below the agreed upon repurchase price of the security. Additionally, in the event that the counterparty to a Repo becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, Strategos’ ability to reacquire the underlying security may be restricted.

**Structured Securities Generally.** Strategos may invest client monies in interests in securitization vehicles organized and operated solely for the purpose of restructuring the investment characteristics of other debt securities (collectively, “Structured Securities”). This type of restructuring generally involves the deposit with or purchase by an entity, such as a corporation or trust, of specified instruments and the issuance by that entity of one or more classes of securities backed by, or representing interests in, the underlying instruments. The cash flow on the underlying instruments may be apportioned among the newly issued security to create securities with different investment characteristics such as varying maturities, payment priorities and interest rate provisions, and the extent of the payments made with respect to such securities is dependent on the extent of the cash flow on the underlying instruments. Certain classes of such securities may be subordinated to the right of payment of another class. Subordinated structured investments typically have higher yields and present greater risks than unsubordinated structured investments.

Many Structured Securities are highly complex instruments and may be sensitive to changes in interest rates, prepayment rates or both. There is no guarantee that a liquid market will exist for any Structured Security that Strategos, on behalf of a client, may wish to sell.

Structured Securities generally are limited or non-recourse obligations payable solely from underlying assets or collateral securities or the proceeds thereof. Consequently, holders of Structured Securities must rely solely on distributions on the underlying assets or collateral securities or proceeds thereof for payment in respect of the Structured Securities. The underlying assets are subject to, among other things, credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks and may fluctuate with the financial conditions of the underlying issuers and obligors. In the event that issuers of the underlying collateral securities or obligors on the underlying assets default on their obligations, or distributions on the underlying assets or collateral securities are insufficient to make payments in respect of the Structured Securities, no other assets will be available for the payment of the deficiency. There is no guarantee that liquidation of underlying assets and collateral securities will be sufficient to repay investors for their investment in such Structured Securities.

In addition, Structured Securities may involve risks different from those of the assets or securities underlying or backing such Structured Securities. The failure by a servicer, sponsor or manager of a Structured Security to perform adequate credit review scrutiny of underlying assets or collateral securities or to otherwise fulfill its obligations with respect to a Structured Security may lead to the liquidation of, or default on, such Structured Security. Such failures and defaults may

have a negative impact on the return of the Structured Security and the performance of a client's investment return.

**Servicing Risk.** Under certain circumstances, including a failure to perform its servicing obligations or a bankruptcy of the servicer or certain loss and/or delinquency triggers being exceeded, investors may be entitled to remove and replace the existing servicer. There is no guarantee, however, that a suitable servicer could be found to assume the obligations of the existing servicer or, if found, on the same terms as the prior servicer, and the transition of servicing responsibilities to a replacement servicer could have an adverse effect on performance of servicing functions during or following a transition period and could result in increases in delinquencies and losses and decreases in recoveries as a result. The loss by a servicer of its right to service a mortgage loan portfolio would decrease servicing revenues and may result in reputational damage as a servicer.

A portion of the RMBS to be purchased by clients of the Company may be RMBS which were originated or are serviced (or both) by mortgage companies who have filed bankruptcy proceedings or had regulatory enforcement actions against them which may affect their ability to continue to service or subservice mortgage loans. Servicers who have sought bankruptcy protection may, due to the application of applicable law, also no longer be required to make servicer advances. Servicer discretion to modify existing loans in securitization can negatively impact certain bonds in the securitization capital structure. Their actions are meant to benefit the trust in the long term, however, in the short term a securitization could see immediate losses due to modifications that hurt the most subordinate tranches. Also, their behavior can be difficult to predict from a cash flow perspective because their servicing agreements allow them to stop advancing on certain loans that are deemed non-recoverable. This reduces the excess spread in the securitization and takes away certain immediate senior cash flows but also enhances the recoveries on those loans in the long term.

Since 2008, servicers have been merging and consolidating. This consolidation brings an increased lack of diversification in the servicer market which exposes the securitizations to more servicer specific risks as a greater percentage of the portfolio is serviced by a smaller number of companies. For example, in 2013 many servicers have reached settlements with regulators regarding improper handling of the borrowers' loans specifically regarding foreclosures and principal modifications. In these settlements, the effect to the bonds or securitizations can be both positive or negative depending on how the settlement is reached. In cases where the servicer is required to contribute or pay, many times the securitization can get increased recovery which results in more cash flow. However, in certain cases where borrower relief is the settlement the securitizations can end up taking more loss writedowns.

**Monetary Policy Risk.** Since the financial crisis of 2008, the U.S. Federal Reserve has taken unprecedented steps to reduce interest rates to extremely low levels, in an effort to stimulate borrowing and economic growth and reduce U.S. unemployment rates. In the event that the U.S. Federal Reserve scales back such efforts in the future, a resulting increase in interest rates could adversely affect the value of Strategos' clients holdings of fixed income securities.

In addition, the U.S. Federal Reserve has taken additional unprecedented steps over the years since 2008 to provide liquidity to the system through asset purchases, direct lending and emergency repo facilities, known commonly as "Quantitative Easing." These steps have provided stabilization to the overall market and the Federal Reserve recently has recognized that the labor market appears to be self-sustaining. In addition, the Federal Reserve has announced and effected some tapering to their asset purchases. It remains to be seen how the bond markets react to the gradual steps the Federal Reserve takes to exit these programs over the coming months and years.

**Synthetic Securities.** Strategos may invest client monies in synthetic securities. Synthetic securities are securities in which the value is determined by reference to changes in the value of specific currencies, interest rates, bonds (or bond portfolios), commodities, indices, or other financial indicators (a "Reference") or the relative change in two or more References. The interest rate or the principal amounts payable upon maturity or redemption may be increased or decreased depending upon changes in the applicable Reference. Synthetic securities may be positively or negatively indexed, so that appreciation of the Reference may produce an increase or decrease in the interest rate or value of the security at maturity. In addition, changes in the interest rates or the value of the security at maturity may be a multiple of changes in the value of the Reference. Consequently, synthetic securities may present a greater degree of market risk than other types of securities and may be more volatile, less liquid and more difficult to value accurately than less complex securities.

**Preferred Shares.** Strategos may invest client monies in non-convertible preferred shares issued by securitization vehicles, which may have fixed or variable dividend rates. Preferred shares generally have a preference as to dividends and liquidation over an issuer's common shares but rank junior to debt securities in an issuer's capital structure. Unlike interest payments on debt securities, preferred share dividends are payable only if declared by an issuer's board of directors. Preferred shares may be subject to optional or mandatory redemption provisions and may be illiquid. The ability of preferred shares to generate income is dependent on the earnings and continuing declaration of dividends by the issuers of preferred shares.

## **Item 9     Disciplinary Information**

Neither Strategos nor any of its management personnel have any legal or disciplinary events to disclose that are material to a client's or prospective client's evaluation of Strategos' advisory business or the integrity of Strategos' management.

## **Item 10    Other Financial Industry Activities and Affiliations**

Strategos acts as an investment manager or a general partner (through an affiliate) to certain Funds formed as limited partnerships or other corporate type entities (see Item 7 above). Investments in any of the Funds for which Strategos acts as an investment manager or a general partner (through an affiliate) are conducted on a private placement basis and prospective investors are solicited only by means of the current private placement memorandum or prospectus of the relevant Fund. The following is a list of limited partnerships or offshore entities for which, as of the date hereof, Strategos acts as an investment manager or a general partner (through an affiliate):

- Strategos Deep Value Fund LP;

- Strategos Deep Value (AI) Fund LP;
- Strategos Deep Value Fund Ltd.;
- Strategos Deep Value Master Fund, ICAV; and
- Strategos Deep Value Fund Europe, PLC.

In the event that Strategos determines that an investment opportunity is appropriate for more than one client, Strategos will reasonably determine a pro rata allocation generally on the basis of the relative asset size of each client and further subject to available cash of such clients while taking into consideration: relative exposure to market trends; investment programs/guidelines and portfolio positions of such clients; concentration limits and other limitations of such clients; whether any particular client has an outsized AUM compared to the remaining clients and the impact of such disparity; the applicable tax, legal and regulatory restrictions of such clients; and other factors and considerations. Strategos may also allocate investment opportunities in such a manner as necessary to avoid creating “odd lots” as long as such allocations are equitable among the applicable accounts.

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

### **A. Code of Ethics**

Strategos has a fiduciary duty to its clients to act in the best interest of the clients and to always place the clients’ interests before its own. Strategos takes its compliance and regulatory obligations seriously and requires all staff to comply with applicable law as well as Strategos’ policies and procedures. Furthermore, Strategos maintains a Privacy Policy and strives to handle clients’ non-public information in such a way as to protect information from falling into hands of persons that have no legitimate business reason to know such information. Strategos maintains a Code of Ethics for its advisory representatives, supervised persons and staff which establishes Strategos’ expectations for business conduct and contains provisions for, among other things, standards of business conduct in order to comply with federal securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, violations reporting requirements, and the safeguarding of material non-public information about client transactions.

Strategos will provide a copy of its Code of Ethics to any client or prospective client upon request.

### **B. Participation or Interest in Client Transactions and Personal Trading**

Strategos and its access persons must give priority on all prospective investments to the clients of Strategos prior to the execution of transactions for any: (i) personal account of Strategos or such access person or for which such access person maintains beneficial ownership; (ii) securities account maintained for any person that is not a client of Strategos in which such access person exercises control or provides investment advice; and (iii) proprietary securities accounts (if any) maintained for Strategos or its access persons, as applicable.

Accordingly, trading for such accounts must be conducted so as not to conflict with the interests of any client of Strategos. Whether a specific transaction or other action represents a conflict will vary based on the relevant facts and circumstances of each transaction or other action. However,

an inherent conflict of interest exists in each of the following situations, each of which is prohibited by Strategos' Code of Ethics:

- contemporaneously purchasing the same securities for a client account and an account of a Strategos access person without making an equitable allocation of the securities to the client first, on the basis of such considerations as available capital and current positions, and then to the account of the access person;
- knowingly purchasing or selling securities, directly or indirectly, in such a way as to cause an adverse effect on the value of a client's account;
- using knowledge of securities' transactions by a client to profit personally, directly or indirectly, by the market effect of such transactions; and
- giving to any person information not generally available to the public about contemplated, proposed or current purchases or sales of securities by or for a client, except to the extent necessary to effectuate such transactions.

## **Item 12 Brokerage Practices**

Strategos does not permit clients to direct Strategos to execute transactions through a specified broker-dealer. Strategos seeks to obtain best execution at all times. In selecting broker-dealers to effect portfolio transactions and determining the reasonableness of such broker-dealer's compensation, Strategos will consider such factors as:

- price;
- the ability of such broker-dealer to effect the transaction;
- the broker-dealer's facilities, reliability and financial responsibility;
- the commissions charged for the services;
- the market niches served by such broker-dealer;
- the quality of execution provided; and
- the operational support provided and the financial ability of such broker-dealer to handle large orders in the market place.

In selecting broker-dealers to effect portfolio transactions, neither Strategos nor any of its related persons receives client referrals from broker-dealers or third parties.

Other than as set forth below, Strategos presently has no soft dollar arrangements in place. To the extent the following are deemed to constitute soft dollar arrangements, then the following are hereby disclosed as soft dollar arrangements: (i) certain broker-dealers that execute client transactions may provide Strategos with over-the-transom, proprietary research at no stated cost or requirement of execution, and (ii) generally broker-dealers from whom Strategos purchases securities for a client provide Strategos and/or the client at each month-end following such purchase, free of charge, an indicative mark (valuation) on such purchased security (and at times certain broker-dealers may provide Strategos with indicative marks (free of charge) for securities that the client did not purchase through such broker-dealer).



In the event Strategos initiates a soft dollar service arrangement, the Chief Compliance Officer must first approve the arrangement. Soft dollar service arrangements could give rise to a conflict of interest because client brokerage commissions could be used to pay for research, execution and other services that Strategos would have otherwise been required to pay for out of its own expenses. Furthermore, Strategos would have an incentive to select a broker-dealer that provides such research, execution and other services over those that do not provide such services. However, notwithstanding such incentive, Strategos remains obligated to seek to obtain best execution in executing portfolio transactions on behalf of clients.

As described below, Strategos may, at its discretion, aggregate orders for a client's account with orders for other clients' accounts and allocate the investments or proceeds acquired among the participating accounts in a manner that we believe is fair and equitable. Each client that participates in an aggregated order will participate at the average price for such transaction.

Strategos manages Funds or Managed Accounts that may follow the same Investment Strategy (and/or there may be investment opportunity overlap between Investment Strategies), and, within the mandates of the applicable strategy, Strategos may purchase or sell a security through aggregated or batched transactions and then allocate such transactions across multiple accounts. The decision to aggregate a security for purchase or sale is generally made to promote more efficient execution or to provide for fair and equitable treatment among accounts over time.

Notwithstanding the foregoing, other factors influence the purchase of a security on behalf of a Fund or Managed Account or the sale of a security out of a Fund or Managed Account and the determination of whether to aggregate the purchase or sale of such securities for various client accounts. Future costs to clients when trades are not aggregated often cannot be quantified with precision at the time a transaction is being considered for execution. Strategos always seeks to obtain best execution in the sale or purchase of securities for its various clients and strives to minimize costs and maximize the return objectives of each client.

In the event that Strategos determines that an investment opportunity is appropriate for more than one account, Strategos will reasonably determine a *pro rata* allocation generally on the basis of the relative asset size of each client and further subject to available cash of such clients while taking into consideration: relative exposure to market trends; investment programs/guidelines and portfolio positions of such clients; concentration limits and other limitations of such clients; whether any particular client has an outsized AUM compared to the remaining clients and the impact of such disparity; the applicable tax, legal and regulatory restrictions of such clients; and other factors and considerations. Strategos may also allocate investment opportunities in such a manner as necessary to avoid creating "odd lots" as long as such allocations are equitable among the applicable accounts.

### **Item 13    Review of Accounts**

Strategos reviews the transactions, portfolio securities, and cash balances of each client account on a regular basis in an effort to optimize returns. Strategos generally receives and analyzes monthly remittance data from third-party data providers related to certain portfolio securities. Strategos also reviews the net asset values prepared for each client account on a monthly basis (see Item 6 for further information on Strategos' valuation policy). The reviews described above are

intended to assist Strategos in making investment decisions on behalf of its client accounts. All such reviews are done by the following supervised persons of Strategos: Alex Cigolle, Chief Investment Officer and a Portfolio Manager; David Gregory, Deputy Chief Investment Officer and a Portfolio Manager; and Matthew Nannen, Director and a Trader.

On a monthly basis, Strategos provides a written status report to current investors in the Funds, which includes current market commentary, unaudited performance figures (reported as a composite for the Deep Value Strategy), certain investment portfolio characteristics and other historical investment data.

On a monthly basis, Strategos may provide each Managed Account client with an account statement (depending on the underlying contractual agreement), which includes a detailed list of holdings with market valuations and account activity, as well as unaudited performance figures for the time period covered by the statement.

#### **Item 14 Client Referrals and Other Compensation**

Strategos receives no economic benefit from any non-clients for providing investment advice or other advisory services to its clients.

Strategos has engaged (and may in the future engage) certain third parties (e.g., promoters, arrangers or placement agents) to refer prospective clients to the Manager and/or prospective investors to the Funds. Such third parties may be entitled to receive a portion of the advisory fees or Performance Compensation otherwise payable to Strategos. Strategos may also pay certain retainer amounts to such third parties. For the avoidance of doubt, any fees paid to such third parties do not result in an increase in the fees or expenses otherwise paid by the Managed Accounts or the investors in the Funds.

#### **Item 15 Custody**

In general, the assets of the Funds are maintained by unaffiliated broker-dealers or banks acting in the capacity of “qualified custodians”. Notwithstanding, under Rule 206(4)-2 of the Advisers Act (the “Custody Rule”), Strategos (or an affiliate thereof) may be deemed to have custody of the assets of the Funds due to Strategos’ or an affiliate’s role as general partner of the Fund or where it or an affiliate acts in a similar capacity with respect to a Fund that is not organized as a limited partnership.

In order to satisfy compliance with the Custody Rule, (i) the Funds are audited in accordance with U.S. generally accepted accounting principles on an annual basis by an independent public accountant that is registered with and subject to regular inspection by the Public Company Accounting Oversight Board and (ii) Strategos distributes each Fund’s audited year-end financial statements to each investor in the relevant Fund within 120 days of the Fund’s fiscal year-end. The audited financial statements should be closely reviewed by each investor.

## **Item 16 Investment Discretion**

Strategos provides investment advisory services on a discretionary basis to the Funds and Managed Accounts in a manner consistent with their investment objectives and restrictions as set forth in the relevant contractual arrangements entered into between the client and Strategos. Strategos has discretionary authority to determine, without obtaining specific client consent, the securities, and amount of securities, to be bought and sold for the Funds and Managed Accounts and the executing broker-dealer for any transaction.

Strategos has historically accepted certain investment guidelines or restrictions over the management of the Funds and/or Managed Accounts that may serve to limit Strategos' investment discretion. These include (but are not limited to):

- Prohibitions against investing in the debt, equity or other securities of issuers organized to invest primarily in non-U.S. assets;
- Limitations on engaging in Short Sales;
- Prohibitions (or limitations) on investing in certain derivatives contracts;
- Prohibitions (or limitations) on the use of leverage; and
- Adherence to certain concentration limits.

Notwithstanding the foregoing, the relevant contractual arrangements shall dictate whether or not any of the investment guidelines or restrictions described above (or any other investment guidelines or restrictions) are currently in effect for a particular client account.

## **Item 17 Voting Client Securities**

### Generally

As required under Rule 206(4)-6 of the Advisers Act, Strategos has adopted and implemented written policies and procedures that: (i) are reasonably designed to ensure that Strategos vote client securities in the best interests of clients and (ii) address material conflicts of interest that may arise between the interests of clients and the interests of Strategos.

Strategos' proxy voting policies and procedures do not mandate that Strategos vote every proxy that it receives in regard to securities held in client accounts. There may be circumstances when refraining from voting a proxy is in a client's best interest, such as when and if Strategos determines that the cost of voting the proxy exceeds the expected benefit to the client. Further, Strategos will not vote proxies for which a client has expressly retained voting authority. Accordingly, when Strategos has the discretionary authority to vote the proxies of its clients and determines that it is in the best interests of its clients to do so, it will vote those proxies in the best interest of its clients and in accordance with its proxy voting policy (as described below).

Strategos serves as the manager of Funds as well as the adviser to the Managed Accounts and, in that capacity, invests primarily in RMBS, CMBS and ABS or debt like instruments for such clients. Such instruments are not typically the subject of proxies or securities voting matters. However, while not the subject of a proxy, there could be instances in which Strategos, having discretionary authority over client accounts, would be asked, and would accept the

authority, to vote the securities of clients on such matters as removing or amending applicable covenants set forth in an indenture or similar document. Therefore, Strategos' written policies and procedures relate specifically to limited instances in which Strategos may be in a position to be voting the securities held in the accounts of clients.

For purposes of Strategos' voting of client securities, one of the principals of Strategos (the "Program Administrator") is responsible for ensuring that all decisions with regard to the voting of securities on behalf of clients are made in accordance with these policies and procedures.

### Voting Matters

The Program Administrator will track each securities position held by clients and will maintain a log of upcoming events, if any, that would require Strategos to vote securities of clients. The Program Administrator is responsible for ensuring that he or she has received all relevant disclosure materials and such proxies or consents such that he or she is in possession of all documentation and information necessary to cast votes in a timely manner.

### Voting Process

The Program Administrator will determine whether there is, or appears to be, a material conflict of interest that could influence the voting decision in a manner that would be adverse to the interests of any client.

### Identifying Material Conflicts of Interest

It is not possible for Strategos to enumerate all potential conflicts of interest which may be material, but the following relationships are illustrative of conflict potential and are issues (among others) that the Program Administrator considers each time a vote arises:

- Strategos has a business or financial conflict of interest in voting the securities in a manner adverse to any client because:
  - Strategos or an affiliate manages a separate account or currently performs financial services for the issuer that is the subject of the voting matter, or for an affiliate of such issuer, or for any member of the senior management or any pension plan of such issuer, or is actively seeking such party(s) as a client;
  - The issuer that is the subject of the proxy or voting matter, or an affiliate of such issuer or any member of the senior management of such issuer is a client or a substantial investor in a Fund; or
  - An employee (or spouse) of Strategos:
    - Is a director or a member of the senior management of the issuer that is the subject of the voting matter; or
    - Owns a substantial interest in the shares of the issuer that is the subject of the voting matter or otherwise has a substantial financial interest in the outcome of the vote.

If the Program Administrator determines there is no material conflict of interest, then the Program Administrator will make the voting determination and will be responsible to take the required voting action. The Program Administrator must ensure that voting action takes place on a timely

basis and will maintain a written record of the actual voting action and the basis of the voting determination.

#### Resolving Material Conflicts of Interest

If the Program Administrator has identified a material conflict of interest, he or she must determine:

- whether the conflict involves Strategos, an affiliate or an employee;
- whether the Program Administrator himself or herself is a conflicted party and, if so, whether an alternative senior employee could be assigned to be responsible for voting, who would not be so conflicted; and
- whether Strategos or any senior employee is capable of making an independent determination as to the voting decision.

If the Program Administrator determines due to conflicts of interest that no senior employee is capable of making an independent determination as to the voting decision, then the voting decision will be that recommended by the investment committee of Strategos or, if none, a special securities voting committee as determined by the Program Administrator for the purpose of recommending the voting decisions.

#### Client Participation

Generally, clients do not have the authority or ability to direct how securities held in their accounts are voted, provided that, clients investing through a Managed Account may have the right to vote the securities in their account upon written notice to Strategos.

#### Available Information

Clients may request information from Strategos about how Strategos voted client securities by contacting any of the individuals listed on the cover page of this Brochure or any of Strategos' advisory personnel assisting the client. In addition, clients may obtain a copy of Strategos' proxy voting policies and procedures upon request.

#### **Item 18 Financial Information**

There are no financial conditions of Strategos that are reasonably likely to impair Strategos' ability to meet its contractual commitments or financial obligations to its clients as of the date hereof.