

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

**August 15, 2014**

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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 contacts numbers listed above. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about 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 a registered investment adviser. Registration does not imply a certain level of skill or training.**

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

Since Strategos Capital Management, LLC's ("Strategos") last update to its Brochure on June 14, 2013, we have made the following material changes to our Brochure:

- In Item 6, Strategos has added summary information about how Strategos values client assets. One reason for this new disclosure being added to the Brochure at this time is because in January 2014 Strategos adopted a new valuation policy and the application of such new valuation policy significantly changed the manner by which client (i.e., Fund and Managed Account (if adopted by the particular Managed Account)) assets are valued. A copy of Strategos' valuation policy is available upon request.
- In Item 7, Strategos deleted (as a type of client) reference to certain Managed Accounts that were in the nature of 3rd party co-investment type Managed Accounts ("Co-Investment Accounts"). The reason for such deletion is that at the time of this Brochure update, all such Co-Investment Accounts had been liquidated.
- Further, Strategos notes that, as of June 1, 2013, Frederick Horton ceased to be a member, or otherwise involved in the operations of, Strategos. On such date, Alex Cigolle became the sole member of Strategos.

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**

Alex P. Cigolle, the sole member (since June 1, 2013) and chief investment officer of Strategos, along with Frederick H. Horton (a former member/principal of Strategos who ceased to be a member, or otherwise involved with, Strategos on such date), formed Strategos Investment Management Company, LLC in late 2010 to facilitate their 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”), of the right to provide investment management services to certain separately managed accounts and private U.S. investment limited partnerships and foreign limited partnerships (i.e., hedge funds) (the “Purchased Assets”). Upon the closing of the acquisition, the seller (Strategos Capital Management, LLC) changed its name to “Cira SCM, LLC”, and, shortly thereafter, we changed our name from Strategos Investment Management Company, LLC to “Strategos Capital Management, LLC”, which is the name we have used since.

Strategos currently employs Alex Cigolle, the sole principal, and certain individuals who had been employees of Cira SCM, LLC and who had been involved in providing investment advisory services for the Purchased Assets. Strategos’ Board of Managers, which consists of Alex 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 the firm. Descriptions of the educational background and employment history of Mr. Cigolle and all other advisory personnel of Strategos are included in the Brochure Supplement (Form ADV Part 2B), which is available from Strategos upon request.

In addition, Strategos assists IFMI in a sub-advisory capacity related to providing investment advice and assistance to several collateralized debt obligation entities (the “Sub-Advised CDOs”) that IFMI (through a subsidiary) manages. This advisory relationship is described in a separate Part 2A Brochure which is available 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) one or more private U.S. investment limited partnerships, foreign investment companies and/or foreign limited partnerships structured as an open-end hedge fund style investment vehicle (each, a “Fund” and, collectively, the “Funds”) and (ii) clients who retain Strategos to manage separately managed accounts (each, a “Managed Account” and, collectively, the “Managed Accounts”).

Strategos focuses on finding investment opportunities for its clients in credit sensitive U.S. residential mortgage backed securities (“RMBS”), commercial mortgage backed securities (“CMBS”) and asset backed securities (“ABS”). In analyzing these investment opportunities, Strategos employs an intensive bottom-up analysis of seasoned, off-the-run, and odd-lot

secondary offerings. In order to capitalize on the foregoing investment opportunities, Strategos currently employs two primary investment strategies related to investing in RMBS, CMBS and ABS: (i) an alternative investment strategy with aggressive return targets (the “Deep Value Strategy”), and (ii) an intermediate risk strategy which is generally more liquid than the Deep Value Strategy targeting intermediate risk adjusted spreads (the “Intermediate Fixed Income Strategy”, and together with the Deep Value Strategy, each, an “Investment Strategy” and, jointly, the “Investment Strategies”, which are described in further detail in Item 8 below). Strategos previously offered a lower risk, more liquid investment strategy (the “High Grade Fixed Income Strategy”), but currently has no clients who are investing in this strategy.

A copy of the Private Placement Memorandum for any Fund that Strategos advises is available from Strategos upon request.

Strategos’ Investment Strategies referenced in Item 4(B) above are generally 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.

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 February 28, 2014, Strategos managed assets related to the Investment Strategies totaling approximately \$509 million on a discretionary basis. Strategos does not manage any assets on a non-discretionary basis, other than for the Sub-Advisory CDOs (defined in the third paragraph of Item 4(A) of this Brochure).

**Item 5 Fees and Compensation** Because this Brochure is delivered only to “qualified purchasers” as defined under Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended (the “Investment Company Act”), Strategos is not required to provide its fee schedule or disclose how it is compensated or whether its fees are negotiable.

The custodian for each Fund to which Strategos provides investment management services deducts the advisory fee owed to Strategos directly from the account of the Funds upon direction of the general partner or investment manager of the particular Fund. Strategos does not allow direct billing for each investor in a Fund. In the case of Managed Accounts, Strategos bills each client directly for the advisory fee, but, upon a client’s request, Strategos may agree to deduct its advisory fee directly from the Managed Account.

Advisory fees for the Funds and Managed Accounts are charged and, as applicable, deducted or billed, quarterly in arrears (that is, payment is made in the quarter following the quarter in which the fee arises).

In addition to the advisory fee described above and the performance fee 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 that are typical for an investment in a private investment limited partnership. Full details regarding the possible fees, costs and expenses

related to an investment in a Fund are set forth in the offering memorandum and limited partnership agreement of each Fund, copies of which are available from Strategos upon request. The primary Fund fees, costs and expenses are:

- Payment to the applicable Fund of a 5% redemption fee if an investor redeems shares in such Fund within 12 months of purchasing such Shares;
- Transaction fees, costs and expenses relating to the evaluation, acquisition, holding and disposition of portfolio investments, which include brokerage commissions;
- Organizational expenses (that is, reasonable costs and expenses of Strategos that are incurred in the formation and organization of, and sale of interests in, a Fund, including, without limitation, legal, accounting, marketing, printing, consultation, travel, administrative and filing fees and expenses, in each case associated with the formation of a Fund);
- Travel costs, fees and other out-of-pocket expenses directly related to the investigation of a Fund's investment opportunities;
- In the event the general partner of a Fund (which general partner is an affiliate of Strategos) or Strategos, as its investment advisor, makes a claim for indemnity from any such Fund (which has not occurred to date, and there is no indemnification pending or currently foreseeable), indemnification expenses;
- Reasonable premiums for primary insurance for indemnifiable acts and events protecting the Fund, the general partner of the Fund, Strategos or other certain people and entities from liabilities to third parties in connection with the Fund's affairs;
- Administrative expenses (including fees paid to the administrator of the Fund);
- Legal expenses;
- Custodial expenses;
- Accounting expenses;
- Auditing expenses;
- Tax preparation expenses;
- Fees paid to Independent Directors;
- Taxes or other governmental charges (yearly entity registration fees, etc.) payable by the Funds; and
- Costs of printing and distributing reports to the investors in the Funds.

In addition to the advisory fee mentioned above and the performance fee described in Item 6, clients who invest through Managed Accounts may be charged 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 who invest in the Deep Value Strategy (see Item 4(B)), Strategos (or, with respect to Fund clients, the general partner of the respective Fund, which is an affiliate of Strategos) also charges performance-based fees or partnership profit allocations (“Performance Compensation”). Performance Compensation generally will be up to 20% of all net profits (defined as cash flow greater than original capital contribution) earned by the clients investing in the Deep Value Strategy through Managed Accounts or the investors of the Funds. Other than with respect to Strategos’ open-end Fund (for which no Performance Compensation hurdle exists), Performance Compensation for a Managed Account client may include repayment of, or attainment of, a preferred return before such Performance Compensation is earned by Strategos. 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 does not receive performance-based fees with respect to clients who invest in accordance with the Intermediate Fixed Income Strategy.

Strategos and its advisory personnel have a theoretical incentive to favor accounts that employ the Deep Value Strategy for which Strategos receives Performance Compensation. In the event that Strategos determines that a prospective investment is appropriate for both Investment Strategies (including particularly between an Investment Strategy that has clients who pay Performance Compensation and those that don't), Strategos will reasonably determine a pro rata allocation generally on the basis of the relative asset size of each account/client among the Investment Strategies and further subject to available cash of such clients while taking into account: 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.

In January 2014, Strategos adopted a new valuation policy to apply to assets held in the Funds and Managed Accounts (to the extent a particular Managed Account agrees to adopt such new valuation policy). A full description of the valuation policy is too lengthy for disclosure in this Brochure, however the following is a highlight of the primary terms of the new 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) Independently from the traders/portfolio managers of Strategos, a quantitative assessment is performed comparing the marks from the independent pricing source with the marks (that is, either the independent pricing source mark or the broker-dealer) chosen by the Strategos traders/portfolio managers against specific quantitative testing metrics. For each position that meets the testing, the independent pricing source mark is utilized to value the

security. To the extent an individual security is outside the quantitative metrics, , an additional mark is obtained from a second broker-dealer and 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 a Fund's private placement memorandum).

Strategos' compensation (that is management fees and incentive fees (if applicable)), including through its ownership interests in the Fund's general partner, is directly impacted by the valuation of the securities in Funds and/or Managed Accounts. One of the benefits of the new valuation policy described in the last paragraph, primarily the inclusion of the quantitative test, is to make any theoretical manipulation of the valuation of securities (which could theoretically increase Strategos' fees) very difficult.

Prior to the launch in August 2011 of Strategos' open end Fund (Strategos Deep Value Master Fund LP ("SDVF")), Strategos had a policy of not permitting or causing Strategos clients to sell or buy securities from one another (cross trades). However, with the launch of SDVF, Strategos changed such cross trade policy (as to SDVF and for other clients following the launch of SDVF who consent to such cross trade policy). Strategos' cross trade policy states that it 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. Any such trades will generally be crossed at a mid market price. Mid market is a price equal to the best bid in the market plus a margin that is less than the typical bid-ask spread in the Investment Manager's reasonable judgment. The Investment Manager believes this margin is likely to be 0.50% of par or less in most situations. In no event will Strategos purchase securities from or sell securities to Sub-Advised CDOs entities (as defined in Item 4 Paragraph 3).

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 (including favoring those that employ the Deep Value Strategy for which Strategos receives Performance Compensation or favoring a client that may continue to exist versus a client that may be liquidating), such conflict of interest is mitigated by the fact Strategos adheres to a strict cross trading policy and any such 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 each of the Investment Strategies to the following types of clients and investors:

- onshore private U.S. investment limited partnerships structured as an open-end hedge fund style investment vehicle (the investors of which are "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act);
- private foreign investment companies and foreign limited partnerships 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 of 1933, as amended), or (ii) tax-exempt U.S. entities that qualify as “qualified purchasers” (as defined in Section 2(a)(51) of the Investment Company Act)); and

- “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act or non-U.S. Persons (as defined in Regulation S of the Securities Act of 1933) who invest through our Funds or through a separately managed account relationship with Strategos.

Clients investing through a Managed Account are generally required to make a minimum capital commitment of \$10 million, and investors in Funds are generally required to make a minimum capital commitment of \$1 million; provided, however, that in either case, Strategos 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**

Strategos may obtain advice from attorneys, accountants, mortgage origination and servicing personnel and other experts to assist in its analysis of certain investments for clients who are Funds and/or clients investing through Managed Accounts. Strategos obtains information about securities 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;
- materials prepared by others including 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 Investment Strategy chosen by the client (either the Deep Value Strategy or the Intermediate Fixed Income Strategy) by using 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, refinance (cash out or no cash out)
- Lien status: 1st lien or 2nd lien (closed-end 2nd or HELOC) and silent seconds

- Documentation: full versus stated versus no documents
- DTI (debt to income) 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: ARM breakdown, hybrid ARM term
- Interest only (“IO”) loan concentration /IO term
- Initial Loan rate distribution, ARM initial, life cap
- Mortgage insurance: borrower versus 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 Mod, Cap Mod, Principal Forgiveness, Forbearance, government HAMP and modification impact
- Mortgage Servicing: Principal and Interest advances, Curtailments, Foreclosure Moratoriums and Timelines, Delinquency Roll Rates, Short Sales

Structural analysis: Structural features used to 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: cum loss and delinquency, effects on cash flows timing: “step down” cash flow, front pay, pass-through

- Breakeven analysis: prepayments, (CPR), defaults (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, 1month LIBOR
- Hedging: interest rate cap, basis swaps, timing swaps
- Loan modifications: rate modification impact on gross WAC / interest shortfalls, default/liquidation timeline impact on cash flow

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, 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 Managed Account may also invest in RMBS on an indirect basis through investments in open-end and closed-end mutual funds. . In addition, the Funds and Managed Accounts may invest in CMBS and other securities and debt secured by or relating to commercial real estate, as well as asset backed securities, including, but not limited to, those collateralized by auto loans, credit cards, aircraft and student loans ("ABS"). 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 Investment Strategy focuses on:

- Assets that are generally lower in the capital structure;
- An average purchase price that is at a substantial discount to the par value of the security being purchased;
- Assets with potentially volatile cash flows, prices, and liquidity conditions;
- Assets associated with a less liquid, inefficient market with generally wide bid/ask spreads.

The Intermediate Fixed Income Investment Strategy focuses on:

- Current pay first priority or second priority bonds with relatively low risk of ultimate principal loss;
- Assets primary located at or near the top of the capital structure
- Assets with an average purchase price at a moderate discount to par on average

- Assets generally with higher average life than that in the High Grade Investment Strategy;
- Assets whose characteristics compare, we believe, favorably with bonds bearing corporate credit, interest rate, or prepayment risk; and
- Assets that are generally more liquid and with relatively low bid offer spreads compared to the Deep Value Strategy.

Investing in securities, including investing in securities purchased on a client's behalf related to either Investment Strategy described above, involves the possible risk of loss of all or a significant portion of 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 the 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 an inherent part of the Investment Strategies will be to identify 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 including mortgage loan, housing and macro economic data, 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. Such positions do, however, 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 the 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 in exchange for 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 residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities (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 offering memorandum published by each Fund, which is available upon request from Strategos.

**Residential mortgage-backed securities ("RMBS").** An RMBS is a form of asset-backed security and is a general obligation of the issuer, which is typically secured by residential mortgages or residential mortgage-backed collateral. Mortgage-backed securities 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 mortgage-backed securities 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 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.

**Commercial Mortgage-Backed Securities ("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 of which (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 of which (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 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 assets, 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 will 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, in Funds or Managed Accounts, utilize repurchase agreements (“Repos”). In a Repo, the client would sell the securities to another party, usually a bank, broker-dealer or other financial institution, and agree to repurchase them at an agreed upon price and date. A Repo is equivalent to borrowing money and pledging the securities as collateral. Such transactions are only advantageous if the interest cost of the repurchase transaction is less than the cost of obtaining the cash otherwise. The use of Repos involves certain risks. For example, if the seller of securities under a repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, Strategos, on behalf of the client, will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, Strategos’ ability to dispose of the underlying securities may be restricted. If the seller fails to repurchase the securities, the client may suffer a loss to the extent proceeds from the sale of the underlying securities is less than the repurchase price.

Strategos may, on a client’s behalf, also enter into reverse repurchase agreement (“Reverse Repos”). Reverse Repos involve sales by a client of portfolio assets concurrently with an agreement by the client to repurchase the same assets at a later date at a fixed price. During the Reverse Repo period, the client continues to receive principal and interest payments on these securities. Reverse Repos involve the risk that the market value of the securities retained by the client may decline below the price of the securities sold but is obligated to repurchase under the agreement. In the event the buyer of securities under a Reverse Repo files for bankruptcy or becomes insolvent, use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the obligation to repurchase the securities.

**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, MBSs, CDOs, etc. (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 in an RMBS 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 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 RMBS 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 a client's 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 a great 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 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 may invest 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 persons or other 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 a manager to, or, through an affiliate, a general partner of certain Funds formed as limited partnerships or other corporate type entities. Investments in any of the Funds of which Strategos is a manager or one of Strategos' affiliates is a general partner are conducted on a private placement basis and prospective investors are solicited only by means of the current private placement memorandum 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 manager and/or an affiliate of Strategos acts as general partner:

- Strategos Deep Value Fund LP;
- Strategos Deep Value Fund Ltd.; and
- Strategos Deep Value Master Fund L.P.

Strategos does not believe that (i) acting as a manager to, or one of its affiliates acting as general partner of, any of the foregoing Funds, or (ii) providing investment management services to any of the foregoing Funds, creates any material conflicts of interest with Strategos' other clients. Because the Investment Strategies may be identical for each of the Funds or clients investing through Managed Accounts, Strategos adheres to an allocation policy between its clients, which generally provides that investments will be allocated pro rata on the basis of the relative asset size of each client and further subject to available cash of such clients while taking into account: relative exposure to market trends; investment programs/guidelines and portfolio positions such clients; concentration limits and other limitations of such clients; whether the 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.

## **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 first and foremost. Strategos takes seriously its compliance and regulatory obligations and requires all staff to comply with such rules and regulations as well as Strategos' policies and procedures. Furthermore, Strategos strives to handle clients' non-public information in such a way as to protect information from falling into hands of persons that have no reason to know such information and provides clients with a copy of its Privacy Policy. Strategos maintains a Code of Ethics for its advisory representatives, supervised persons and staff, which establishes Strategos' expectation 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, code violations reporting requirements, and 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**

Neither Strategos nor any of its related persons:

- recommends to clients, or buys or sells for client accounts, securities in which Strategos or a related person has a material financial interest;
- invests in the same securities (or related securities – e.g., warrants, options or futures) that Strategos or any of Strategos' related persons recommends to clients;
- recommends securities to its clients, or buys or sells securities for client accounts, at or about the same time that Strategos or any of Strategos' related persons buys or sells the same securities for Strategos' own (or the related person's own) account.

**Item 12 Brokerage Practices** Strategos does not permit clients to direct Strategos to execute transactions through a specified broker-dealer. Strategos' goal is to seek to provide best execution at all times. In selecting brokers to effect portfolio transactions and determining the reasonableness of such broker's compensation, Strategos will consider, to the extent consistent with Strategos' obligation to seek to obtain best execution, such factors as:

- price;
- the ability of such broker to effect the transaction;
- the broker's facilities, reliability and financial responsibility;
- the commissions charged for the services;
- the market niches served by such broker;
- the quality of execution provided; and



- the operational support provided and the financial ability of such broker to handle large orders in the market place.

In selecting brokers, neither Strategos nor any of its related persons receives client referrals from brokers 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 executing a particular amount of client transactions, and (ii) most if not all broker-dealers from whom Strategos purchases RMBS/CDO/ABS securities for the client provides the 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 the Strategos with indicative marks (free of charge) for RMBS/CDO/ABS 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 would 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 or 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.

In selecting brokers, neither Strategos nor any of its related persons receives client referrals from brokers or third parties

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.

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 buy a bond issue or security that will be allocated across accounts for multiple clients. Occasionally, a bond issue or security will be aggregated and sold out of various client accounts. The decision to aggregate a security for sale is generally made to maximize the return profile of that position within a specific market environment, because, typically, a larger position of a security for sale will enhance the execution price.

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 the opportunity exists to aggregate the purchase or sale of such securities for various client accounts. Any allocation of investment opportunities among Strategos’ clients will be subject to its allocation procedures, which generally provide that

investments will be allocated pro rata on the basis of the relative asset size of each client in the particular Investment Strategy and further subject to available cash of such clients while taking into account: relative exposure to market trends; investment programs/guidelines and portfolio positions such clients; concentration limits and other limitations of such clients; whether the 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.

Future costs to clients when trades are not aggregated cannot be exactly quantified. 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.

**Item 13 Review of Accounts** Strategos reviews each client account on a daily basis during the business work week (Monday – Friday) to determine if Strategos should buy or sell securities to attempt to optimize returns based primarily on trading activity in the RMBS, CMBS and ABS market. On a monthly basis, Strategos receives data related to the underlying RMBS, CMBS and ABS securities and analyzes this data to make decisions related to the securities held in a client’s account. Also on a monthly basis, Strategos calculates the net asset value determination for each client account (see Item 6 for further information on Strategos' valuation policy). Such valuation further assists Strategos in determining, on a monthly basis, what securities should continue to be held, and which should be sold, on behalf of a client. All such reviews are done by the following supervised persons of Strategos: Alex Cigolle, Chief Investment Officer; David Gregory, Director; and Zineb Ramadane, Director.

Because Strategos reviews client accounts on a periodic basis (as described above), there are generally no factors that trigger any additional non-periodic review.

On a monthly basis, Strategos provides a written monthly status report to current investors in the Funds, which includes updated RMBS and CMBS market commentary, detailed Fund performance numbers (reported as a composite for the Deep Value Strategy), current investment portfolio stratification of each Fund and other historical investment data.

On a monthly basis, Strategos may provide each client investing through a Managed Account 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 detailed performance numbers 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.

In February 2014, Strategos hired a United Kingdom entity to introduce possible clients/Fund investors to Strategos and, in the case of the Funds, to arrange sales of Fund interests to such prospective investors. The UK entity is an [Appointed Representative](#) as defined in the rules of the Financial Conduct Authority (the United Kingdom's version of the SEC). Introductions and arrangement of sales of Fund interests will occur only with respect to clients/investors who

reside (are domiciled) outside the United States, and no actions by the UK entity related to such introductions/Fund sales shall take place in the United States of America. As compensation, the UK entity shall receive (i) during the term of the agreement with such UK entity, a monthly retainer of \$25,000 from Strategos, and (ii) 20% of the management and/or incentive fees that Strategos earns with respect to the investment by an introduced investor, such payment coming from Strategos or the applicable Fund on Strategos' behalf (provided, however, that prior to any payment to the UK entity under this item (ii), all amounts paid to the UK entity as a monthly retainer will be offset from such 20% fee share).

Additionally, in July 2012, Strategos engaged a third party, SEC registered broker dealer to provide Fund marketing services and/or to introduce possible clients to Strategos for Managed Account relationships. Strategos will pay such marketing entity 20% of the management and/or incentive fees that Strategos earns with respect to the investment by an introduced investor.

Other than as described above, Strategos does not directly or indirectly compensate any other person or entity for client referrals.

**Item 15 Custody** Because Strategos (or an affiliate of Strategos) has access to Fund assets, Strategos has determined that, under Rule 206(4) of the Advisers Act, it has custody of the assets of the Funds. In compliance with Rule 206(4)-2 of the Advisers Act, for each Fund, Strategos is obligated to send audited year-end financial statements to each investor in the Fund within 120 days of the Fund's fiscal year-end. In addition, the qualified custodian for each Fund's assets sends account statements directly to the investors in each Fund on a monthly basis. The audited financial statements and the account statements should be closely reviewed by each investor.

Strategos does not have custody of the assets in the Managed Accounts, but it is Strategos' understanding that the qualified custodian for each Managed Account sends an account statement to the applicable client on a monthly basis, which should be closely reviewed by each client. Strategos urges its clients investing through Managed Accounts to compare the account statements they receive from the qualified custodian with those they receive (if any) directly from Strategos.

**Item 16 Investment Discretion** Under all its Investment Strategies, 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. There are generally no restrictions or limitations on Strategos' discretionary authority other than limitations included in the investment guidelines of the Funds and Managed Accounts, which may include the following:

- Prohibition against investing in debt, equity or other securities of issuers organized to invest primarily in non U.S. assets;
- Limitation on engaging in Short Sales;
- Prohibition (or limitation) on entering into credit default swap, options or futures contracts;
- Prohibition or limitation on entering into borrowing or leverage arrangements or pledging or hypothecating any securities against borrowings; and

- Prohibition on investing an amount in excess of 5% (or, for a couple client's, 7%) of the net asset value of a Fund or Managed Account in the securities of a single issuer).

Strategos assumes this discretionary authority pursuant to the terms of the relevant investment management agreement that is entered into between the client and Strategos (that is, the Investment Advisory Agreement for Managed Accounts and the Investment Management Agreements and/or Limited Partnership Agreements/Memorandum and Articles for the Funds).

## **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 debt 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 those 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 policies and procedures, one of the principals of Strategos (the "Program Administrator") is responsible for ensuring that all decisions with regard to 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 be voting 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 Managed Account 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 to its clients.