

Item 1 – Cover Page

WMD Asset Management, LLC

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May 19, 2011

This Brochure provides information about the qualifications and business practices of WMD Asset Management, LLC (“WMD” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us at 805-969-6300 or dec@wmddaugherty.com. 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.

WMD is a registered investment adviser with the SEC. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Investment Adviser provide you with information based on which you determine to hire or retain an Investment Adviser.

Additional information about WMD also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated May 19, 2011 is a new document prepared according to the new requirements and rules (the “Rules”). As such, this document is materially different in structure and requires certain new information that the previous version of Form ADV brochures did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our Brochure.

Pursuant to the new Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, our Brochure may be requested by contacting Dennis E. Carlton, Managing Director and General Counsel at 805-969-6300 or dec@wmddaugherty.com.

Additional information about WMD is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with WMD who are registered, or are required to be registered, as investment adviser representatives of WMD.

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Item 4 – Advisory Business

A. WMD Asset Management, LLC, a Delaware limited liability company (“WMD” or the “Firm”), is the investment manager to the Clients, as defined below. WMD was formed in February 2008.

W.M. Daugherty & Company, LLC, a Delaware limited liability company, owns 100% of WMD Capital Markets, LLC, which is the 100% owner and manager of WMD. William M. Daugherty owns 99% and is the managing member of W.M. Daugherty & Company, LLC. William M. Daugherty is the Chief Investment Officer of WMD and serves as the Clients’ portfolio manager. Mr. Daugherty chairs WMD’s Investment Committee, which is responsible for all investment decisions pursuant to WMD’s discretion in making investments.

In 1998, William M. Daugherty founded W.M. Daugherty & Company, LLC, as a proprietary vehicle to create investment opportunities using his experience with real estate assets and lending. In 2005, as a result of growth in the scope of the company’s activities, WMD Capital Markets, LLC, was formed to acquire, manage, and advise with respect to real estate and whole loan assets. Mr. Daugherty serves as Chairman and Chief Executive Officer of this WMD Capital Markets, LLC. With increased specialization in the industry, WMD was organized in 2008 so as to direct the organization’s business focus to the review, acquisition, management, and disposition of real estate-related securities and to manage the same in funds sponsored or managed by WMD.

B. WMD provides investment advice and management to privately placed investment funds, including limited partnerships of which WMD is either the general partner or investment manager (“Partnerships”) and non-U.S. companies and partnerships (“Offshore Funds,” jointly with the Partnerships, the “Funds”), as well as separately managed accounts, primarily for institutions (“Separate Accounts”). Partnerships, Offshore Funds and Separate Accounts are collectively referred to herein as “Clients.”

WMD’s investment objective is to invest primarily in residential (including manufactured housing) or commercial whole loan mortgages (whether performing, sub-performing, non-performing or otherwise), pools of such loans, real estate owned properties REO and other mortgage-related assets and whole loan instruments such as mortgage-related securities and derivatives, including residential mortgage backed securities (“RMBS”) and commercial mortgage backed securities (“CMBS”), and asset backed securities (“ABS”), as well as other securities used for hedging purposes (collectively, the “Investments”). WMD seeks to identify, evaluate, acquire, finance, manage and sell whole loan mortgages and other assets, in order to deliver consistently superior performance that is non-correlated to major indices. The mix of Investments is expected to vary over time based on prevailing opportunities and market conditions as determined by WMD, and could include financing provided by the Clients to third parties to facilitate real estate investments. By investing in a wide array of Investments, WMD can be patient and wait for attractive pricing within each sector, which is predicated on the belief that pricing among these sectors is regularly desynchronized. Additional consideration will be given to the diversification of the

Investments, including, but not limited to, diversification by geography, servicers, originators and transaction size. WMD's strategies and the risks involved are described in response to Item 8, below.

The Funds are offering limited partnership interests (the "Limited Partnership Interest(s)" or the "Interest(s)") to certain qualified investors as described in response to Item 7, below; Separate Accounts may be offered on a similar basis (in all cases, such investors, limited partners or prospective limited partners are referred to herein as "Investors").

C. Advisory services are tailored to achieve the Clients' investment objectives. Generally, WMD has the authority to select which and how many securities and other instruments to buy or sell without consultation with the Clients or their Investors.

D. WMD does not participate in wrap-fee programs.

E. WMD manages the assets of the Clients. As of March 31, 2011, WMD manages \$117,774,785 in assets on a discretionary basis. It manages \$0 in assets on a non-discretionary basis.

Item 5 – Fees and Compensation

Management Fee.

The compensation payable to WMD is negotiable and varies among its Clients. However, the range of compensation is generally as follows:

- *Partnerships.* From each Partnership, WMD typically receives (in some cases through its related persons), as to each Investor, a management fee equal to 2.0% per annum of the balance in the Investor's capital account, payable monthly in advance.
- *Offshore Funds.* From each Offshore Fund, WMD typically receives a management fee equal to 2.0% per annum of the net asset value attributable to each Investor's interest in the Fund, payable as of the beginning of each calendar month.
- *Separate Accounts.* From Separate Accounts, WMD generally receives fees similar to those paid by the Partnerships and Offshore Funds.

Expenses. The Clients are responsible for their operating expenses, including the management fee, legal, audit and accounting expenses (including third party accounting services), insurance expenses (including director and officers liability coverage), investment related service contracts (including Bloomberg and Intex), organizational expenses, investment expenses such as commissions, due diligence expenses, research and consulting fees and expenses (including research-related travel, market research, investment-related regulatory, legal and technical consulting services), interest on margin accounts and other indebtedness, custodial fees, and any other expenses reasonably related to the purchase, management, sale or transmittal of Investments. It should be noted that

WMD may pay fees to persons (whether or not affiliated with WMD) who are instrumental in the sale of interests in the Clients. Any such fees will in no event be payable by or chargeable to the Clients or any Investor.

WMD's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the Client. Such charges, fees and commissions are exclusive of and in addition to WMD's fee, and WMD generally will not receive any portion of these commissions, fees, and costs.

The management fees, incentive fees and incentive allocations (see Item 6, below) and expenses are deducted from Client assets. WMD will pro rate the management fee for Interests held for less than a full month, however, Investors will not receive a refund of the management fee if they withdraw capital prior to the end of a month.

Item 12 further describes the factors that WMD considers in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

Item 6 – Performance-Based Fees and Side-By-Side Management

In addition to the management fees described in response to Item 5, WMD also receives an incentive allocation. The incentive allocation is negotiable and varies among its Clients. However, the range of compensation is generally as follows:

- *Partnerships.* WMD generally receives (in some cases through its related persons) a general partner incentive allocation of 20% of the net profits allocated to each Investor (including realized and unrealized gains and losses) but only to the extent net profits allocated to that partner exceed any cumulative losses that were allocated to that partner for earlier periods and that have not been recovered (a "high water mark"). This special allocation is typically made at the end of each calendar year.
- *Offshore Funds.* WMD generally receives an incentive fee equal to 20% of the increase in the net asset value of each investor's interest in the Fund, calculated and paid annually in a manner similar to the special general partner allocation described above in the "Partnership" section.
- *Separate Accounts.* From Separate Accounts, WMD generally receives fees similar to those paid by the Partnerships and Offshore Funds.

The foregoing responses to Items 5 and 6 represent WMD's basic compensation arrangements. The management fees and incentive allocations described above are structured to comply with Rule 205-3 under the Investment Advisers Act of 1940. Fees and other compensation are negotiable in certain circumstances and arrangements with any particular Investor may vary. Although the Firm believes its fees are competitive, lower fees for comparable services may be available from other investment advisers.

Item 7 – Types of Clients

WMD provides investment advice and management to the Partnerships, Offshore Funds and Separate Accounts. Separate Account clients may include banks or thrift institutions, trusts, estates or charitable organizations, corporations or other business entities and high net worth individuals and family offices.

WMD may in the future provide the same or similar services to other privately placed investment funds and/or separately managed accounts.

Prospective Investors in the Funds must meet eligibility criteria as set forth below, and are subject to certain withdrawal requirements and limitations. Prospective Investors are encouraged to thoroughly review the Funds' offering documents and any other materials provided by WMD, which set forth all of the terms in detail. Though the Clients generally pursue the same strategy, offering terms may differ. Terms for Separate Accounts are generally similar to the Funds, but can be negotiated on a case by case basis and may differ from those of the other Funds.

- *Partnerships.* Limited Partnership Interests are offered to “accredited investors” (as defined in Regulation D under the Securities Act of 1933). The minimum initial investment is \$1,000,000, and the minimum additional investment is \$250,000, subject to waiver at the discretion of the general partner.
- *Offshore Funds.* Interests are offered to non-U.S. persons and a limited number of U.S. persons who are: qualified purchasers, accredited investors, and exempt from U.S. federal income taxation. The minimum initial subscription is \$1,000,000 and the minimum additional subscription is \$250,000. The Fund reserves the right to waive or to increase or decrease these minimum subscription amounts in its discretion, subject to a minimum investment of \$100,000, or such other minimum as may be required by regulation in their country of domicile.
- *Separate Accounts.* Generally, similar terms will apply to Separate Accounts, though clients in such separate accounts may negotiate terms that differ or are more favorable than those for the Partnerships and Offshore Funds.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Investing in securities involves risk of loss that Clients and their Investors should be prepared to bear.

INVESTMENT STRATEGY

WMD invests primarily in residential (including manufactured housing) or commercial whole loan mortgages (whether performing, sub-performing, non-performing or otherwise), pools of such loans, real estate owned properties REO and other mortgage-related assets and whole loan instruments such as mortgage-related securities and derivatives, including residential mortgage backed securities (“RMBS”) and commercial mortgage backed securities (“CMBS”), and asset backed securities (“ABS”), as well as other securities used for hedging purposes (collectively, the “Investments”). WMD seeks to identify, evaluate, acquire, finance, manage and sell whole loan mortgages and other assets, in order to deliver consistently superior performance that is non-correlated to major indices. The mix of Investments is expected to vary over time based on prevailing opportunities and market conditions as determined by WMD, and could include financing provided by WMD (including through affiliates of WMD) to third parties to facilitate real estate investments. By investing in a wide array of Investments, WMD can be patient and wait for attractive pricing within each sector, which is predicated on the belief that pricing among these sectors is regularly desynchronized. Additional consideration will be given to the diversification of the Investments, including, but not limited to, diversification by geography, servicers, originators and transaction size.

WMD will seek to exploit pricing inefficiencies as banks, insurance companies, hedge funds, finance companies, servicing companies, broker dealers and Wall Street firms liquidate a variety of Investments. WMD will employ direct solicitation, face-to-face meetings and other marketing methods to identify forced sellers, including, but not limited to discontinued businesses or companies in bankruptcy. WMD anticipates that Investments will be sold due to redemptions, capital requirements, margin calls, forced liquidations, court ordered liquidations and as a result of management decisions which may be based on economic or non-economic reasons.

WMD will use its resources and experience to source and evaluate Investments, conduct due diligence, and manage the Investments post-closing. For whole loans, WMD will retain a third party servicer to perform certain administrative and collection activities on behalf of WMD.

WMD incorporates a co-investment strategy with strategic partners whereby the Funds can purchase a portion of a specific Investment as opposed to all of the Investment in order to manage risk associated with concentration of the Investments by sector, industry, issuer, counterparty, servicer, country, asset class or otherwise.

The Funds' governing documents do not impose any limits on the types of investments in which the Funds may invest, the types of positions they may take, the concentration of Investments by sector, industry, issuer, counterparty, servicer, country, asset class or otherwise. Further, depending on conditions and trends in securities, credit and other markets, the Funds may pursue other strategies or employ other techniques that WMD considers appropriate and in the Funds' best interests. WMD generally has similarly broad discretion over Separate Accounts; however, the possibility of negotiation on the investment strategy may result in limits being imposed.

GENERAL RISK FACTORS

No guarantee or representation is made that WMD will achieve its investment objective. Investment with WMD involves significant risks and conflicts of interest, including, but not limited to, the risks and conflicts of interest set forth below and in response to Item 11. The risks set out below do not purport to be exhaustive. Additional risks and uncertainties that are currently unknown or currently deemed immaterial may become material factors that affect WMD. Prospective Investors should carefully consider the risks involved in an investment with WMD, including but not limited to those discussed below. Prospective Investors should consult their own legal, tax and financial advisers as to all these risks and as to an investment with WMD generally.

INVESTMENT RISKS

All Investments Risk the Loss of Capital. WMD believes that its investment program and its research and risk-management techniques moderate this risk through a careful selection of mortgage loans, securities and other financial instruments and investment assets. No guarantee or representation is made that the investment program will be successful, and investment results may vary substantially over time. WMD may change its investment strategy, asset allocation and/or operational policies without Investor consent, which may result in riskier investments.

General Economic and Market Conditions. The success of WMD's activities may be affected by general economic and market conditions, such as interest rates, currency exchange rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. None of these factors are within the control of WMD. These factors may affect the level and volatility of securities or real estate prices and the liquidity of the Clients' investments. Unexpected volatility or illiquidity could impair the Clients' profitability or result in losses.

Concentration of Investments. The Funds' governing documents do not limit the amount of the Funds' capital that may be committed to any single investment, industry or sector. WMD will attempt to spread the Funds' capital among a number of investments. However, the Funds' governing documents impose no limits on the concentration of the Funds' investments and at times the Funds may hold a relatively small number of Investments. Losses incurred in any of those positions could have a materially adverse effect on the

Funds' overall financial condition. WMD generally has similarly broad discretion over Separate Accounts; however, the possibility of negotiation on the investment strategy may result in limits being imposed.

Limited Liquidity of Some Investments. Some of the Investments in which the Clients invest may be relatively illiquid because they are thinly traded, because they are subject to transfer restrictions, or because there is no ready market for the investments. Clients may not be able to liquidate those Investments promptly if the need should arise, and their ability to realize gains, or to avoid losses in periods of rapid market activity, may therefore be affected. The value assigned to thinly-traded investments or non-marketable securities for purposes of determining Investors' ownership percentages and determining gains and losses may differ from the value Clients are ultimately able to realize.

Use of Leverage. WMD has discretion to leverage the Clients' investment positions by borrowing funds from securities broker-dealers, futures commission merchants, banks, or others. Leverage, if employed, would increase both the possibilities for profit and the risk of loss.

Third-Party Involvement. WMD may co-invest with third parties through partnerships, joint ventures, or other entities. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that a third-party co-venturer or partner may at any time have economic or business interests or goals which are inconsistent with those of the Clients, or may be in a position to take action contrary to the investment objectives of the Clients.

Third-Party Financing. WMD may engage in financing transactions for third party buyers of whole loans and real estate. Such financing subjects the Clients to certain counter-party risks, including, but not limited to, the risk that a counter-party may: (i) cease to be an entity in good standing in its state of organization or otherwise cease to exist; (ii) commit fraud or engage in activity that constitutes gross negligence; (iii) fail to comply with applicable state, federal, and local laws; and/or (iv) fail to disclose litigation that impacts financing; (v) misrepresent or misstate certain financial statements and statements of conditions.

Whole Loan Transactions. Investment in distressed mortgages has special risks that may adversely affect the Clients.

- *Delays in Liquidation.* There could be substantial delays in the liquidation of defaulted mortgages purchased by the Clients and corresponding delays in receiving the proceeds of liquidation.
- *The Mortgage Portfolio May Not be Geographically Diversified.* Property in any state having a significant concentration of properties underlying the mortgage loans may be more susceptible than homes located in other parts of the country to certain types

of uninsured hazards, such as earthquakes, floods, mudslides, other natural disasters and acts of terrorism.

- *Underwriting Guidelines.* Mortgages purchased may or may not conform to Fannie Mae or Freddie Mac guidelines. As a result, the mortgages may experience rates of delinquency, foreclosure and borrower bankruptcy that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in strict compliance with Fannie Mae or Freddie Mac guidelines.

- *Modification to Terms.* Modifications of a defaulted mortgage loan agreed to by the related servicer in order to maximize ultimate proceeds of a mortgage loan may extend the period over which principal is received on the mortgages.

- *Decline in Value.* Certain economic conditions, including increased interest rates and lower home prices, could result in a decline in the value of the properties underlying the mortgage loans, as well as declines in the value of the collateral underlying the Investments.

- *Bankrupt and Non-Performing Servicers.* If a servicer becomes bankrupt, a bankruptcy trustee or receiver may have the power to prevent the appointment of a successor servicer. Any related delays in servicing could result in increased delinquencies or losses on the related mortgage loans.

- *Second Lien Mortgages.* Second lien mortgages carry special risks. The proceeds from any liquidation, insurance or condemnation proceedings will be available to satisfy the outstanding balance of such mortgages only to the extent that the claims of the related senior mortgages have been *satisfied in full*, including any related foreclosure costs.

- *Recording in MERS.* The mortgages or assignments of mortgage for some of the mortgage loans which may be purchased have been or may be recorded in the name of Mortgage Electronic Registration Systems, Inc. ("MERS"), solely as nominee for the sponsor and its successors and assigns. Subsequent assignments of those mortgages are registered electronically through the MERS system. However, if MERS discontinues the MERS system and it becomes necessary to record an assignment of mortgage to the trustee, then any related expenses will be paid by the trust and will reduce the amount available to pay principal of and interest on the certificates.

- *The Service Members Civil Relief Act.* The Service Members Civil Relief Act of 2003, as amended (the "Relief Act") and similar state or local laws provide relief to borrowers who enter active military service and to borrowers in reserve status who are called to active military service after the origination of their mortgage loans. The ongoing military operations of the United States in Iraq and Afghanistan have caused an increase in the number of citizens in active military duty, including those citizens previously in reserve status. Under the Relief Act, the interest rate applicable to a mortgage loan for which the related borrower is *called to active military service* will be reduced from the percentage stated in the related mortgage note to 6.00%, if applicable. This shortfall will not be paid by the borrower on future due dates or advanced by the related servicer and, therefore, will reduce the amount available to pay the Clients.

Residential Mortgage-Backed Securities. The Clients' investment portfolios may also include residential mortgage-backed securities ("RMBS"). The loans underlying these

securities have had in many cases higher default rates than those loans that meet government underwriting requirements.

It is likely that the servicers of RMBS transactions in which the Clients invest may find it necessary or desirable to foreclose on some, if not many, of the underlying collateral properties. The foreclosure process is often lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses, including, without limitation, numerous lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong foreclosure actions and force lenders into a modification of the loans or a favorable buy-out of the borrowers' positions.

Asset-Backed Securities. The Clients intend to invest in asset-backed securities other than RMBS that are backed by consumer debt ("ABS"). ABS represent interests in pools of consumer debt and most often are structured as pass-through securities such as shares or certificates of interest in a pool of debt obligations that have been repackaged by an intermediary, such as a bank or broker-dealer). Interest and principal payments ultimately depend on payment of the underlying loans by individuals, although the securities may be supported by letters of credit or other credit enhancements. The value of these securities may change because of changes in the market's perception of the creditworthiness of the servicing agent for the pool, the originator of the pool, or the financial institution providing the credit support or enhancement.

Commercial Mortgage-Backed Securities. The Clients expect to invest in Commercial Mortgage-Backed Securities ("CMBS") issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or private issuers such as banks, insurance companies, and savings and loans. Some of these securities, such as Government National Mortgage Association certificates, are backed by the full faith and credit of the U.S. Treasury while others, such as Federal Home Loan Mortgage Corporation ("Freddie Mac") certificates, are not.

These securities are often subject to more rapid repayment than their stated maturity dates would indicate as a result of principal prepayments on the underlying loans. This can result in significantly greater price and yield volatility than with traditional fixed-income securities. During periods of declining interest rates, prepayments can be expected to accelerate which will shorten these securities' weighted average life and may lower their return. Conversely, in a rising interest rate environment, a declining prepayment rate will extend the weighted average life of these securities which generally would cause their values to fluctuate more widely in response to changes in interest rates.

The value of these securities also may change because of changes in the market's perception of the creditworthiness of the federal agency or private institution that issued them. In addition, the CMBS market in general may be adversely affected by changes in governmental regulation or tax policies.

Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on any classes of the related CMBS are likely to be adversely affected.

Subordinated and Residual Interest Securities. Investments in subordinated and residual interest securities involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of securities evidencing an interest in a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity.

Reliance on Corporate Management and Financial Reporting. WMD may select Investments for the Clients in part on the basis of information and data filed by issuers of securities with various government regulators or made directly available to WMD by the issuers of securities or through sources other than the issuers such as collateral pool servicers. Although WMD will evaluate all such information and data and seek independent corroboration when it considers it appropriate and reasonably available, WMD will not be in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information will not be readily available.

Recent Developments in the Residential Mortgage Market. There have been and continue to be severe disruptions in the mortgage market in the United States. Recently, delinquencies, defaults and losses on residential mortgage loans have increased and may continue to increase, which may affect the performance of whole loans and RMBS, particularly Investments that are backed by subprime mortgage loans. Subprime mortgage loans are generally made to borrowers with lower credit scores. Accordingly, such mortgage loans are more sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans.

Limited Liquidity in the Secondary Markets. The secondary markets recently experienced unprecedented disruptions resulting from reduced investor demand and increased investor yield requirements for loans and securities. As a result, the secondary market is experiencing extremely limited liquidity. These conditions may continue or worsen in the future.

Investments in Distressed Assets Generally. Clients may invest in distressed or troubled assets which involve a substantial degree of risk. Clients may lose their entire investment in a distressed asset, may be required to accept cash or securities with a value less than the Clients' investment and may be prohibited from exercising certain rights with respect to such investment. Distressed Investments may not show any returns for a considerable period of time. There may be very long-term limited markets, if any, for the Clients'

holdings. There is no assurance that the Investments in the Clients' portfolios will resume trading or have a ready market at all.

Derivatives and Hedging. The Clients may invest and trade in a variety of derivative instruments, to hedge their portfolios. Clients' ability to avoid risk through investment or trading in derivatives will depend on WMD's ability to anticipate changes in the underlying assets, reference rates or indices. Hedging strategies in general are usually intended to limit or reduce investment risk, but they can also be expected to involve transaction costs and may inherently limit or reduce the potential for profit.

Investment for Control. WMD may become an active participant in the management of certain Investments. If the Clients elect to participate in management, they may be deemed to have duties, which could expose the Clients to liability if they breach such duties. Additionally, parties could seek damages based on allegations of wrongdoing in the course of exercising such influence and control.

Portfolio Turnover. The Clients may have higher portfolio turnover than other investment funds. If that occurs, the brokerage commissions, other commissions and other fees incurred by Clients may be higher than those incurred by a fund with a lower portfolio turnover rate.

Competition and Supply; Ability to Make Investments. The Clients likely will compete in the acquisition of its Investments with other individuals and entities engaged in acquiring assets within the Clients' investment program. There may be intense competition in obtaining assets in which the Clients intend to invest. Competition may result in increased costs of suitable Investments or a reduction in the available supply of qualifying Investments. The effect of competition and other factors may result in a delay in the Clients deploying available capital, which could result in lower returns on investment.

Insolvency of Brokers and Others. The Clients will be subject to the risk of failure of the custodians that maintain custody of the Investments, the brokerage firms that execute their trades, the clearing firms that such brokers use, the clearing houses of which such clearing firms are members, or other counterparties to transactions. The Clients' custodians and prime brokers may also utilize subcustodians (both U.S. and non-U.S.), and therefore expose the Clients to additional risks, particularly for subcustodians that are non-U.S. institutions.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment with WMD. Prospective Investors should read the entire Brochure, including the potential conflicts of interest described in Item 11 as well the relevant Fund's offering documents, other materials that may be provided by WMD and consult with their own advisers before deciding to subscribe for Interests.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of WMD or the integrity of WMD's management. WMD has no information applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

WMD is the investment adviser to the Clients, and is affiliated with the general partners of the Funds. The Funds are offering Limited Partnership Interests in the Funds to certain qualified investors, as described more fully in response to Item 7, above.

W.M. Daugherty & Company, LLC (WMD Co.) and WMD Capital Markets, LLC (WMD CM) are affiliates of WMD as described in response to Item 1, above. WMD Co. and WMD CM manage private equity funds which acquire and manage fixed income portfolios in the ABS, RMBS and CMBS markets.

WMD CM also operates WMD Realty, Inc., a licensed California real estate broker with membership in various California regional realtor associations and provides in-house sales, finance and legal expertise as well as asset resolution services.

Item 11 – Code of Ethics

Code of Ethics. WMD has adopted a Code of Ethics (the "Code") to govern its ethical obligations regarding personal securities transactions pursuant to Rule 204A-1 under the Advisors Act. A copy of the Code will be provided to advisory clients upon request. The Code covers a range of topics which may include: (1) basic principles; (2) policies against illegal activities, insider trading, frontrunning and scalping; (3) specific rules regarding personal accounts, service as a director, gifts and entertainment; and (4) duties of confidentiality. The Code sets forth procedures to monitor compliance with its policies and rules, requires recordkeeping and reporting, and establishes sanctions for violations. With respect to insider trading, the Code sets forth (1) a policy statement and general principles, including definitions, bases for liability and penalties; (2) procedures to implement the policy, including identifying inside information, personal securities trading, restricting access to material nonpublic information, and resolving issues concerning insider trading; and (3) supervisory procedures, including prevention and detection of insider trading, special and annual reports to management and recordkeeping.

With respect to personal accounts, the Code covers the following: disclosure of holdings, pre-clearance of securities transactions, new issues securities, private placements, private fund investments and distributions. The Code requires monitoring of employees' personal securities transactions and receipt of reporting from broker-dealers.

Conflicts of Interest.

Generally. WMD does not have any clients other than the Funds and the Separate Accounts, although it may advise additional funds or other clients in the future. WMD does not expect to be engaged to advise clients as to the appropriateness of investing in the Funds or through any Separate Account, nor will it receive any compensation for doing so.

The Clients will incur third party fees, including fees related to servicing and administering assets of the Fund, in the regular course of business, and such fees may include fees to affiliates of their general partners.

From time to time, WMD may cause a client to buy or sell a security or other instrument of the same class as, or issued by the same issuer as, or otherwise related to a security or other instrument in which the Firm or a person associated with the Firm has an ownership position. The Firm or a person associated with the Firm may buy a security or other instrument of the same class as, or issued by the same issuer as, or otherwise related to, a security or instrument that is held by the Clients. The governing documents of Clients permit WMD, and its associated persons to engage in those activities, and will not impose any particular restrictions on them. The Code addresses potential conflicts of interest that could arise out of these or similar activities. Potential conflicts of interest are described below.

WMD will use its best efforts in connection with the purposes and objectives of the Clients and will devote as much of its time and effort to the affairs of the Clients as it deems necessary and appropriate to accomplish the purposes of the Clients. Under the terms of the Clients' investment management agreements, WMD and its directors, members, partners, shareholders, officers, employees, agents and affiliates (hereinafter referred to as the "Affiliated Parties") may conduct any other business, including any business within the securities industry, whether or not such business is in competition with the Clients. Without limiting the generality of the foregoing, the Affiliated Parties may act as investment adviser or investment manager for others, may manage funds, separate accounts or capital for others and may serve as an officer, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms. In this regard, it should be noted that WMD and the Affiliated Parties intend to act as investment manager to a parallel fund with a substantially similar investment program and method of operation to that of the Clients, and WMD and the Affiliated Parties may, in the future, also serve as the general partner, respectively, for other private investment partnerships with a substantially similar investment program and method of operation to that of the Clients. Such other entities or accounts may have investment objectives or may implement investment strategies similar or different to those of the Clients. In addition, the Affiliated Parties may, through other investments, including other investment funds, have interests in investments which the Clients invest as well as interests in investments in which the Clients do not invest. As a result of the foregoing, the Affiliated Parties may have conflicts of interest in allocating their time and activity between the Clients and other entities, in allocating investments among the Clients and other entities and in effecting

transactions for the Clients and other entities, including ones in which the Affiliated Parties may have a greater financial interest.

Investment Opportunities. Neither WMD nor the Affiliated Parties is obligated to make any particular investment opportunity available to the Clients and may take advantage of any opportunity, either for other accounts WMD manages or for themselves.

Allocations. The Affiliated Parties may give advice or take action with respect to such other entities or accounts that differs from the advice given with respect to the Clients. To the extent a particular investment is suitable for both the Clients and other clients of the Affiliated Parties, such investments may be allocated between the Clients and the other clients in some manner that the Affiliated Parties determine is fair and equitable under the circumstances to all clients, including the Clients. When it is determined that it would be appropriate for the Clients and one or more other investment accounts managed by WMD or its affiliates to participate in an investment opportunity, WMD will seek to execute orders for all of the participating investment accounts, including the Clients, on an equitable basis, taking into account such factors as the relative amounts of capital available for new investments, relative exposure to short-term market trends, and the investment programs and portfolio positions of the Clients and the affiliated entities for which participation is appropriate. Orders may be combined for all such accounts, and if any order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, securities may be allocated among the different accounts on a basis which WMD or its affiliates consider equitable. Due to the nature of the Clients' investments, allocations may not be made on a pro-rata basis.

Cross-Transactions. Situations may arise where certain assets held by one or more funds and investment accounts managed by WMD may be transferred to other funds and investment accounts managed by WMD, including for the purpose of rebalancing the portfolios of such funds and investment accounts. Such transactions will be conducted in accordance with, and subject to, WMD's fiduciary obligations to the Clients and other investment vehicles.

Calculation of NAV. WMD has the responsibility for calculating the net asset value of capital accounts, upon which the management fee and incentive allocation are based.

Fees to Third Parties. WMD or its affiliates pay a fee representing a portion of the management fee or incentive allocation to third parties for soliciting Investors in the Clients. Such fee is paid out of WMD's revenues from the Clients, and do not result in an increase in expenses paid by the Clients over the amount that would be paid to WMD in the absence of such fee.

Soft Dollars. WMD's strategy does not generally involve equity securities, and therefore, WMD is unlikely to use soft dollars.

The foregoing description of conflicts of interest does not purport to be a complete list of potential conflicts. Other present and future activities of WMD and its affiliates may give rise to additional conflicts of interest. If a conflict of interest arises, WMD will attempt to resolve such conflicts in a fair and equitable manner.

Item 12 – Brokerage Practices

Investment Discretion. Generally, WMD has the authority to select which and how many securities and other instruments to buy or sell without consultation with any Clients or any Investors.

Brokerage and Custody. WMD is authorized to determine the broker or dealer, if any, to be used for each Investment for the Clients. Where best price and execution may be obtained from more than one broker or dealer, WMD may purchase and sell Investments through brokers or dealers who provide research, statistical and other information, although the Clients may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research services provided. Research and related services furnished or paid for by brokers or dealers may include, but is not limited to, written information and analyses concerning specific Investments, companies or sectors; market, financial and economic studies and forecasts; financial publications; statistic and pricing services; and discussions with research personnel. In selecting brokers or dealers and negotiating commission rates, WMD will take into account the financial stability and reputation of brokerage firms and the brokerage and research services provided by such dealers and brokers, although the Clients may not, in any particular instance, be the direct or indirect beneficiary of the research services provided. WMD may also consider the referral of investors, consistent with best execution.

WMD reserves the right, in its sole discretion, to change custodians or add prime brokers without notice to the Investors.

Item 13 – Review of Accounts

The Chief Compliance Officer participates as a non-voting member in WMD's investment committee, and in that forum reviews the portfolios of WMD's Clients to confirm that they are maintained consistently with the investment objectives established for the Clients.

The Chief Compliance Officer or his designee will periodically review the portfolios of each Client to ensure that they comply with any restrictions, including, but not limited to restrictions relating to the use of illiquid securities, leverage, or asset class. It is WMD's policy that any issues regarding restrictions shall promptly be brought to the attention of the Chief Compliance Officer. The Chief Compliance Officer will take any necessary steps to address the matter and will maintain a record of his actions.

In consultation with the Clients' portfolio managers, William M. Daugherty, Chief Investment Officer/Chief Executive Officer, Michael D. Thomas, Chief Financial Officer and WMD's

administrator generally calculate the net asset value of the assets in Client accounts for fee calculation, sale, redemption and other purposes on the last business day of each month. It is the general policy of WMD that securities for which market quotations are readily available be valued at their market value and that other assets be valued in good faith at their fair value. WMD has procedures in place related to SFAS 157.

Investors will generally receive unaudited reports of the performance of the Clients quarterly and will receive annual year-end financial statements.

Item 14 – Client Referrals and Other Compensation

Registered investment advisers are required to disclose all material facts regarding any compensation or other benefits it receives, directly or indirectly, for client referrals. WMD has no information applicable to this Item.

Item 15 – Custody

A rule under the Investment Advisers Act provides that, because WMD or its related persons are the general partners of the Partnerships, WMD is considered to have “custody” of those Partnerships’ assets, even though independent custodians (Prime Brokers) actually hold those assets. That rule generally requires investment advisers that have “custody” of Client assets to cause certain account statements detailing holdings and transactions to be sent to Clients, and imposes certain other obligations. However, advisers to investment funds like the Partnerships need not comply with those requirements if, among other things, the Partnerships provide Investors with audited financial statements by a specified time each year and those financial statements meet certain requirements. WMD satisfies those conditions and therefore is not subject to reporting and other obligations.

Item 16 – Investment Discretion

WMD is authorized to invest and trade the Clients’ assets in a broad range of investments, to be selected at WMD’s sole discretion, with no specific limitations as to type, amount, concentration, or leverage. Further, WMD may enter into any type of investment transaction and employ any investment methodology or strategy it deems appropriate.

Pursuant to each Client’s governing documents, the Investors designate WMD as their attorney-in-fact to execute, certify, acknowledge, file, record and swear to all instruments, agreements and documents necessary or advisable to carrying out the Client’s business and affairs, including execution of a Fund’s limited partnership agreement. An Investor’s execution of a subscription agreement constitutes its execution of a Client’s governing documents.

Item 17 – Voting Client Securities

The Clients do not trade in equity or equity-based securities that would involve the voting of shares held in the portfolio. Accordingly, WMD does not have any authority to and does not vote proxies on behalf of Clients.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide investors with certain financial information or disclosures about WMD's financial condition. WMD has no financial commitment that is reasonably likely to impair its ability to meet contractual commitments to Clients.

Item 19 – Requirements for State-Registered Advisers

Not applicable.