

# Canopy Investment Advisors LLC

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This brochure provides information about the qualifications and business practices of Canopy Investment Advisors LLC. If you have any questions about the contents of this brochure, please contact us at the phone number 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. Please note, where this brochure may use the terms "registered investment adviser" and/or "registered", registration itself does not imply a certain level of skill or training.

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

Item 2: Material Changes
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Canopy Investment Advisors LLC is a registered investment adviser completing its first full year of operation. This brochure contains several changes, to Item 4, from the previous filing. The firm has updated the value of its assets under management and they are managed on a non-discretionary basis versus a discretionary basis. On May 15, 2012, a principal of the firm, Brent Morris, terminated his employment with Canopy Investment Advisors. Questions related to this brochure may be addressed directly with the firm. Please note, additional information about Canopy Investment Advisors is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Item 3: Table of Contents
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Topic	Page #
Item 1: Cover Page	1
Item 2: Material Changes	2
Item 3: Table of Contents (this page)	2
Item 4: Advisory Business	3
Item 5: Fees & Compensation	4
Item 6: Performance-based Fees and Side by Side Management	4
Item 7: Types of Clients	4
Item 8: Methods of Analysis, Investment Strategies, & Risk of Loss	4
Item 9: Disciplinary Information	6
Item 10: Other Financial Industry Activities & Affiliations	6
Item 11: Code of Ethics, Participation or Interest in Client Transactions, & Personal Trading	6
Item 12: Brokerage Practices	7
Item 13: Review of Accounts	8
Item 14: Client Referrals & Other Compensation	9
Item 15: Custody	9
Item 16: Investment Discretion	9
Item 17: Voting Client Securities	9
Item 18: Financial Information	10

Item 4: Advisory Business
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Canopy Investment Advisors LLC (“Canopy”), currently serves as a consultant to Capmark Structured Real Estate Partners, L.P., a Delaware limited partnership (the “Fund”) and as sub-adviser to the Capmark VII CRE-CDO, a collateralized debt obligation trust (“CDO”). Canopy’s management team was formerly members of the portfolio management team at Capmark Investments LP, the Fund’s former sponsor.

Services rendered to the Fund include monitoring Fund assets, coordinating asset management activities with other managers, reviewing financial statements, maintain communications with borrowers, and providing recommendations to the Fund’s investment manager regarding liquidity, cash positions, and distributions. Canopy also prepares drafts of portfolio valuations, projections, and quarterly reports for each of the Fund’s affiliated entities. Canopy retains no authority over Fund assets. All decisions regarding such assets are made by the investment manager.

Canopy’s sub-advisory services on behalf of the CDO include identifying assets for possible sale, providing valuations, and coordinating disposition processes. The firm also participates in update conference calls with rating agencies and investors and coordinates its activities with various other asset managers. While the firm maintains the ability to implement certain investment transactions on behalf of the principal investment manager, all decisions are made by the CDO’s investment committee<sup>1</sup>.

The firm also provides similar services via a contractual agreement with Waterfall Asset Management, LLC (“Waterfall”), a manager of several limited partnerships based in the Cayman Islands. The firm’s primary responsibility as a consultant to Waterfall is to provide bond sourcing and upfront collateral analysis relative to the purchase and subsequent acquisition of certain bond obligations. The firm also renders ongoing monitoring and collateral management services to the bond portfolio on behalf of Waterfall.

The principal owners of Canopy are Jacqueline V. Brady and Margaret S. Blakey, both of whom were previously associated with Capmark Investments LP and Urdang Capital Management, Inc. The firm is organized as a limited liability company under the laws of the State of Delaware.

Assets Under Management: As of December 2012 the assets of the CDO totaled \$320,160,945. All assets are managed on a non-discretionary basis.

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<sup>1</sup> Canopy Managing Principal and CCO Jacqueline Brady serves as a voting member of the CDO’s Investment Committee.

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Item 5: Fees and Compensation
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Pursuant to the consulting agreement between the Fund's investment manager and Canopy, Canopy is paid a percentage of the management fee payable to the investment manager. This fee is paid on a quarterly basis in arrears.

As sub-adviser to the CDO, Canopy is paid a percentage of the management fee payable to the investment manager as calculated in the investment management agreement with the CDO. This fee is paid monthly in arrears and remains subject to change according to the terms and conditions of the agreement between Canopy and the investment manager. Additionally, Canopy receives a portion of modification and workout fees related to underlying assets in the CDO. These fees are paid after completion of deal closing.

For its services on behalf of Waterfall and its affiliates, Canopy is paid a percentage of any value earned on the acquisitions made by Waterfall. Such payments are made on a quarterly and annual basis.

Supervised personnel do not accept compensation for the sale of securities or other investment products. Where the firm is compensated in arrears, refunds and other rebates will generally not apply. All services are rendered according to the terms and conditions of a written agreement between the firm and its client.

Item 6: Performance-based fees and Side-by-Side Management
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Canopy may receive performance-based fees where certain pre-determined conditions have been met. Such fees are generally separate and distinct from any base management fee the firm receives. Incentive-based fee arrangements are described in detail within the respective agreements. Performance based fee arrangements may create an incentive for Canopy to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Where the firm applies an incentive-based model to each of its accounts side by side management does not apply to those services rendered by the firm.

Item 7: Types of Clients
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Canopy's advisory services are rendered to the managers of commingled funds and other similarly organized entities. Canopy does not provide direct advisory services to any natural person. Although Canopy has no requirements with respect to minimum account values, it is expected that new clients will have sizable accounts/assets under management.

Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss
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Canopy provides investment services related to both public and private real estate-related instruments. Such investments include:

- Commercial Real Estate (“CRE”) Mortgages• CRE Mezzanine Debt
- Non-performing loans
- Commercial Mortgage Backed Securities (“CMBS”)
- Collateralized Debt Obligations (“CDOs”)
- Preferred equity

Canopy may utilize various hedging instruments to mitigate capital market risks. These include the following:

- Credit default swaps
- Total rate of return swaps
- Credit linked notes

Canopy evaluates the macroeconomic outlook relative to the various real estate debt products that it recommends or invests in on behalf of its advisory accounts. Economic growth trends, employment trends, real estate supply/demand movements in interest rates and other factors are evaluated to determine which real estate investment strategies are appropriate relative to any predetermined objectives. Canopy utilizes real estate research reports, white papers, and other research materials drafted by third party research firms.

Market and sub-market data are analyzed for rent and tenant allowance trends, sale comparables, capitalization rates, new construction activity, vacancy and absorption trends, tenant and industry concentrations, and other related factors.

Individual real estate debt investment opportunities are evaluated taking into account the above information as well as an assessment of the project’s overall competitive position in the market and sub-market, project leases, project cost of operation, third-party reports including environmental and structural analysis, pre-and post acquisition appraisals, sponsorship and site inspections by Canopy and others. Real estate capital markets are also analyzed and monitored to determine financing strategies as well as to continually assess the viability of various investment exit strategies. For investment strategies outside the United States, Canopy utilizes third party asset management services including research materials and surveillance reports drafted by asset managers.

#### Risk of Loss:

All investment strategies concentrate their assets in the real estate industry and all investments are closely linked to the performance of the real estate markets. Investing in the debt securities of real estate companies carries certain risks and uncertainties. Such companies experience the risks of investing in real estate directly. Real estate is a cyclical business, highly sensitive to general and local economic developments and characterized by intense competition and periodic overbuilding. Real estate income and values may also be greatly affected by demographic trends, such as population shifts or changing tastes and values. Companies in the real estate industry may be adversely affected by environmental conditions. Government actions, such as tax increases, zoning law changes or environmental regulations, may also have a major impact on

real estate. Changing interest rates and credit quality requirements will also affect the cash flow of real estate companies and their ability to meet capital needs.

Many managed investments are illiquid and without a readily available resale market. In addition, certain structured finance securities may include interests that have not been registered under applicable securities laws, resulting in a prohibition against transfer, sale, pledge or other disposition of those securities except in a transaction that is exempt from the registration requirements of, or otherwise in compliance with applicable laws.

The firm will invest in subordinated tranches of structured finance securities with “embedded” leverage arising in classes of securities or financial structures that carry junior priorities with respect to payments generated by a collateral asset or pool of assets. These subordinated tranches effectively obtain leverage, and derive enhanced returns, from the senior tranches at the cost of an elevated exposure to the performance of an underlying collateral asset or asset pool. The embedded leverage of assets that constitute structured instruments can increase exposure to leverage-related risks and compound the exposure to loss. Investments in securities and other financial instruments involve risk of loss that investors must be prepared to bear.

<b>Item 9: Disciplinary Information</b>
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Investment advisers are required to disclose all material facts regarding any legal or disciplinary events deemed material to an investor’s evaluation of the investment adviser or the integrity of its management. Canopy has no such events to report pursuant to this Item.

<b>Item 10: Other Financial Industry Activities and Affiliations</b>
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Canopy’s management team may maintain interests within the entities under management. Where such arrangements may present the potential for conflict of interest, Canopy is required by federal law to maintain its obligation as a fiduciary and to ensure that each account is treated fairly. Accordingly, firm personnel are required to acknowledge and adhere to the firm’s Code of Ethics which mandates this policy and others similarly designed to promote a standard of care. Please see Item 11 below for further information related to the Code of Ethics.

<b>Item 11: Code of Ethics, Participation/Interest in Client Transactions &amp; Personal Trading</b>
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Canopy’s Code of Ethics requires firm personnel to maintain a high standard of business conduct and professionalism. The Code includes provisions related to, among other things: the confidentiality of client information; prohibitions on insider trading, “pay-to-play” concerns and political contributions, rumor mongering, restrictions on the acceptance of significant gifts, reporting of certain gifts, outside activities and personal securities trading procedures. All supervised persons at Canopy must acknowledge the terms of the Code of Ethics and the firm’s Compliance Manual annually or as modified. Clients and investors may request a copy of Canopy’s Code of Ethics and excerpts of the Compliance Manual by contacting the firm’s Chief Compliance Officer directly at (610) 440-4913.

Canopy and its personnel do not engage in any transaction where the firm and personnel have a material financial interest. Any and all relationships and other material arrangements remain fully disclosed within the respective agreements. Canopy does not engage in any principal or agency cross/cross transactions with clients. Canopy has no proprietary trading accounts. Accordingly, the firm takes no position opposite or in addition to any client interests.

However, it is possible that firm personnel and/or related parties might hold an interest that clients purchase/sell for their own portfolios. In such cases, said employees must be granted permission to sell such a security from their personal account by the Chief Compliance Officer, who would make a determination at that time as to whether the employee's sale of such security could adversely affect clients or their portfolio interests.

Canopy has adopted procedures to address conflicts of interest arising from personal account trading (such as front-running or personal trading having an effect on price of a security). In particular, employees are prohibited from owning for their personal accounts: (i) securities of any issuer listed on Canopy's restricted list, or (ii) any "covered securities" issued by, or related to, a company which is currently held in client portfolios. All transactions in "covered securities" (if not prohibited), require pre-clearance by the Chief Compliance Officer. The term "covered securities" is specifically defined in the Code of Ethics and generally includes all debt and equity securities (including fixed income securities), as well as options, futures and commodities, with certain limited exceptions pursuant to SEC rules and regulations.

The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of Canopy's employees will not interfere with making decisions in the best interests of advisory clients. Employee trading is monitored quarterly to ensure compliance with the Code of Ethics. Questions regarding these policies may be addressed directly with the firm's Chief Compliance Officer.

Item 12: Brokerage Practices
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Where selecting which broker or dealer to use, Canopy looks at the character of the market for the security, including, but not limited to the security's price, volatility, and liquidity, as well as the size and type of transaction. Specifically, in making any such determination, Canopy may consider a number of factors, including, without limitation:

- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any);
- the operational efficiency with which transactions are effected and the efficiency of error resolution, taking into account the size of order and difficulty of execution;
- the financial strength, integrity and stability of the broker;
- special execution capabilities;
- clearance;
- settlement;
- reputation;
- on-line pricing;



- block trading and block positioning capabilities;
- willingness to execute related or unrelated difficult transactions in the future;
- order of call;
- on-line access to computerized data regarding clients' accounts;
- performance measurement data;
- the quality, comprehensiveness and frequency of available research and related services considered to be of value;
- provision of the opportunity to participate in capital introduction events sponsored by the broker-dealer.

Canopy is not required to weigh any of these factors equally. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, Canopy is not required to solicit competitive bids and is not required to seek the lowest available commission cost. Canopy does not negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate.

Canopy does not engage in the practice of obtaining research and/or other services from third party service providers in exchange for client-based brokerage credits (soft dollars). During the past fiscal year, neither Canopy nor any of its related persons acquired any products and services with client brokerage commissions (or markups or markdowns). Furthermore, Canopy does not direct brokerage or consider, in selecting or recommending broker-dealers, whether the firm or any of its related persons receives client referrals from a broker-dealer or third party.

Where Canopy determines to buy or sell the same security on behalf of more than one client account it may, but shall be under no obligation to, aggregate (to the extent permitted by statute) the securities to be purchased or sold in order to seek more favorable prices, lower brokerage commissions or more efficient execution. In such cases, Canopy's trading personnel will place an aggregate order with the broker of record on behalf of each participating account in order to ensure fairness. However, trading shall also be reviewed periodically to ensure that participating accounts are not disadvantaged by this policy. Trading personnel will determine the appropriate number of shares to place with brokers and select the appropriate brokers based upon the determination of who will likely provide best execution.

Item 13: Review of Accounts
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The portfolio management team is responsible for the routine review of accounts. Accounts are regularly monitored and reviews are conducted on an on-going basis. Team members conduct periodic reviews of the accounts and the underlying securities and properties held within those accounts or funds. The portfolio management team typically receives monthly financial reporting from each of its investments.

At its own discretion, the team has also placed assets in various forms of financial distress on a watch list. These assets typically receive higher scrutiny which may include obtaining updated estimates of value, scheduling on-site visits and undertaking other property level due diligence and monitoring activities. Clients receive monthly and/or quarterly unaudited financial statements and investor reports. On an annual basis, certain clients receive an audited financial statement (fund assets).



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

Canopy does not compensate others or receive compensation for the referral of clients. Should this practice change, Canopy will ensure that such practices follow any applicable disclosure and regulatory requirements.

#### Item 15: Custody

Where Canopy maintains control over certain client accounts, the firm is deemed to have custody of client assets for purposes of Rule 206(4)-2 of the Investment Advisers Act of 1940. However, all applicable assets are maintained at a qualified custodian and as noted previously in Item 13, investors are sent monthly statements directly. However, Canopy strongly encourages its clients and their investors to review each disclosure item, financial statement, and any other similar material for a full rendering of terms and account value/activity.

#### Item 16: Investment Discretion

Canopy maintains the unlimited discretion to select broker-dealers and execute portfolio trades for certain client accounts. The firm also has the discretionary authority to determine the investments to be made, the amounts of investments to be made, and the price and timing of purchases and sales. Such authority is subject to compliance with the terms and conditions of the applicable agreement and/or offering memorandum which also sets forth the investment objectives, guidelines, and any client imposed limitations on said authority.

#### Item 17: Voting Client Securities

Canopy generally selects investments that do not issue voting securities. Accordingly, Canopy does not often receive proxies and is therefore not called upon to vote said proxies. However, if a company in which Canopy invests solicits proxies from its investors, the firm's primary consideration in voting portfolio proxies would be the financial interests of the client.

One of the primary factors Canopy considers when making a determination about the desirability of investing in an issuers securities is the quality and depth of its management. Accordingly, Canopy believes that the recommendation of management on any issue should be given substantial weight in determining how proxy issues are resolved. As a matter of practice, Canopy will vote on most issues presented in a proxy statement in accordance with the position of the company's management. When Canopy determines that voting in accordance with management's recommendation would adversely affect the investment merits of owning the stock, Canopy may not vote in accordance with management's recommendation. However, Canopy will consider each issue on its own merits, and will not support the position of the company's management in any situation where, in Canopy's judgment, it would not be in the best interest of the client to do so.

In reviewing the proxy statements, Canopy identifies any potential conflict of interests with the company. A conflict of interest may be presented in certain situations, for example, where Canopy maintains a significant business relationship with the company, or where Canopy and/or its personnel have significant personal or family ties to the company. Once identified, Canopy determines on a case-by-case basis if the conflict is material. If material, Canopy determines, in

light of all the facts then currently available, the manner by which to proceed in the best interest of the client. This may, or may not, include abstention from voting such proxy. Canopy documents its decision making process with respect to resolving material conflicts of interest.

Item 18: Financial Information
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Canopy does not maintain any financial obligations or other hardships that might prevent the firm from meeting its contractual obligations with clients/investors. The firm does not impose any prepayment of fees, maintain any bankruptcy obligations, or otherwise present a risk to the investing public.