

# **FIRM BROCHURE**

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This brochure provides information about the qualifications and business practices of Regan Capital, LLC. If you have any questions about the contents of this brochure, please contact us at 214-890-4159. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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

## **Item 2 - Material Changes**

This is the annual update to our brochure. Since our last annual update dated March 31, 2015, we have amended our brochure to provide disclosure regarding our new master-feeder fund structure, which includes Regan Credit Opportunities Fund, LP (the “Opportunities Onshore Feeder Fund”), Regan Credit Opportunities Fund International, Ltd. (the “Opportunities Offshore Feeder Fund”) and Regan Credit Offshore Operating Fund, LP (the “Opportunities Master Fund” and together with the Opportunities Onshore Feeder Fund and the Opportunities Offshore Feeder Fund, the “Opportunities Funds”). In addition, we have changed the name of the fund previously known as Regan Credit Opportunities Fund, LP to Regan Credit Proprietary Fund, LP, which is gradually being wound down. We have also added additional disclosure regarding our securities valuation policy and our securities allocation policy. Please see item 12 for a discussion of our Trading and Allocation Policy and please see Item 13 for a discussion of our Pricing Policy. We have also amended the disclosure regarding Client and investor referrals in Item 14(B).

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.

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

## Item 3-Table of Contents

Item 2 – Material Changes.....	2
Item 3 – Table of Contents.....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	5
Item 6 – Performance-Based Fees and Side-By-Side Management .....	6
Item 7 – Types of Clients.....	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	7
Item 9 – Disciplinary Information .....	13
Item 10 – Other Financial Industry Activities and Affiliations .....	13
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	14
Item 12 – Brokerage Practices .....	15
Item 13 – Review of Accounts.....	17
Item 14 – Client Referrals and Other Compensation.....	18
Item 15 – Custody.....	18
Item 16 – Investment Discretion .....	19
Item 17 – Voting Client Securities.....	19
Item 18 – Financial Information.....	19

## Item 4 - Advisory Business

### A. Principal Owners and Background

Regan Capital, LLC (the “Adviser”) was founded in 2011. The Adviser currently provides investment advisory services to five hedge funds, Regan Distressed Credit Fund, LP (the “Distressed Credit Fund”), Regan Credit Proprietary Fund, LP, f/k/a Regan Credit Opportunities Fund, LP (the “Proprietary Fund”), Regan Credit Opportunities Fund International, Ltd. (the “Opportunities Offshore Feeder Fund”), Regan Credit Offshore Operating Fund (the “Opportunities Master Fund”) and Regan Credit Opportunities Fund, LP (the “Opportunities Onshore Feeder Fund,” and together with the “Opportunities Offshore Feeder Fund” and the Opportunities Master Fund, collectively the “Opportunities Funds”), and several separately managed accounts (“SMAs”). The Distressed Credit Fund, the Opportunities Funds and the Proprietary Fund are collectively referred to as the “Funds,” and the Funds and the owners of the SMAs are collectively referred to as “Clients.” The Adviser is owned and controlled by Skyler Weinand (the “Principal”). The only investors in the Proprietary Fund are the Principal and his affiliates and the Proprietary Fund is not making new investments.

### B. Types of Advisory Services

The Distressed Credit Fund and the SMAs invest primarily in residential mortgage backed securities (“RMBs”). The Opportunities Funds have a broader investment strategy and will invest in a variety of fixed income securities including Municipal Bonds, commercial mortgage backed securities (“CMBS”), and SBA Loans, in addition to RMBS. The Opportunities Funds may also invest in exchange traded funds (“ETFs”) and other closed end funds. Furthermore, the Opportunities Funds have the ability to employ leverage and invest in derivative instruments at the discretion of the Adviser. The Distressed Fund and the SMAs generally do not use leverage.

### C. Tailoring of Advisory Services

Pursuant to the Investment Management Agreement with the Funds, the Adviser has broad investment discretion and does not tailor its advisory services to the needs of the individual investors in the Funds, and investors may not impose restrictions on the securities or types of securities in which the Funds invest.

For Clients with SMAs, the Adviser allows certain tailoring and restrictions for individual Clients’ specific preferences and objectives, set at the opening of the account and updated annually.

### D. Wrap Fee Programs

The Adviser does not participate in wrap fee programs.

### E. Assets Under Management

As of December 31, 2015, the Adviser had approximately \$281,800,000 of discretionary assets under management. The Adviser does not manage assets on a non-discretionary basis.

## Item 5 - Fees and Compensation

### A. Our Compensation

The Distressed Credit Fund and the Opportunities Funds pay the Adviser an annual management fee (the “Management Fee”), which is generally equal to one percent (1%) of the net asset value of each investor’s interest in such Funds. The Adviser may reduce or eliminate the Management Fee applicable to any investor in its sole discretion. The Opportunities Funds generally pay the Management Fee at the feeder funds level. In each case, the Management Fee is calculated and payable quarterly in advance.

The Proprietary Fund does not pay a management fee or performance allocation, as its only investors are the Principal and his affiliates.

Clients with separately managed accounts also pay the Adviser a Management Fee, the amount of which is negotiable.

Additionally, with respect to the Distressed Credit Fund and the Opportunities Funds, one or more affiliates of the Adviser will generally receive an annual performance-based allocation (the “Performance Allocation”) of twenty percent (20%) of each investor’s allocable share of net profits for the fiscal year of each Fund. In each case, the Performance Allocation is subject to a high-water mark. The Performance Allocation may be waived or reduced by the Adviser in its sole discretion.

The Adviser or one or more of its affiliates may receive a performance-based fee from separately managed accounts. However, not all separately managed accounts are charged such a fee.

Fees are negotiable.

As described above, Management Fees are based on the net asset value of each Fund and separately managed account and performance based fees, including the Performance Allocation, are based on the increase in the net asset value of our Client’s accounts, including unrealized gains on securities held in those accounts. These valuations are in turn based on the valuation of the securities held in those accounts, which will include over the counter securities that are difficult to value. The Adviser is responsible for determining the value of each security. We may have an incentive to value these securities at a higher price than could be achieved in the market to increase our fees. To manage and mitigate this conflict of interest, we have developed a valuation policy that we feel is fair and equitable to our Clients and the investors in our Funds. Our valuation policy is available to our Clients and investors upon request.

### B. How we collect fees

The Management Fee is payable by the Distressed Credit Fund and each of the Opportunities Onshore Feeder Fund and the Opportunities Offshore Feeder Fund to the Adviser in advance. The Performance Allocation is credited to the capital account of the general partner and/or one or more of the Adviser as of the close of each performance period for each of the Distressed Credit Fund, and the Opportunities Master Fund.

For the majority of the separately managed accounts, we automatically deduct the management fee from the account in advance. For certain accounts, the management fee is paid in arrears.

For separately managed accounts that are charged a performance-based fee, the fee will be deducted from the account after obtaining the Client's approval and paid to the Adviser as of the close of each performance period.

### **C. Other fees or expenses**

Generally, the Funds will bear all Fund expenses as defined in each Fund's private placement memorandum. For a more complete discussion of each Fund's fees and expenses, please refer to each Fund's private placement memorandum.

Each Client bears all costs and expenses related to its investment program, including expenses related to proxies, underwriting and private placements, research expenses, surveys, subscriptions, studies, brokerage commissions, interest on debit balances or borrowings, custody fees and any withholding or transfer taxes imposed on that Client. See Item 12 of this brochure for more information on our brokerage practices.

### **D. Advance Payment**

Management Fees are generally payable in advance. Some separately managed accounts may pay management fees in arrears.

### **E. Compensation for sales of Securities**

Neither the Adviser nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

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

As referenced above in Item 5, our affiliate, the General Partner or one or more of its affiliates, will be entitled to a Performance Allocation from the Distressed Credit Fund or the Master Fund. The use of performance-based compensation generally may create an incentive for us to choose an investment strategy that may carry a higher degree of risk to the Funds. In addition, we manage portfolios for Clients that are not charged a performance based fee, therefore, we may have an incentive to favor Client accounts which have a performance-based fee.

For a more complete discussion of the fees and compensation, please refer to each Fund's private placement memorandum.

## **Item 7 - Types of Clients**

The Adviser provides portfolio management services primarily for the Funds and for high net worth individuals and institutions through separately managed accounts.

The minimum initial investment in each Fund is one million dollars (\$1,000,000), though lesser amounts may be accepted at the sole discretion of the General Partner. Because each Fund, except for the Proprietary Fund, charges a performance allocation, each investor in those Funds must be a "qualified client" under the definition in Rule 205-3 of the Investment Advisers Act of 1940. Generally speaking, qualified clients include 1) a person or company with at least one million dollars (\$1,000,000) under management with the Adviser; 2) a person or company with a net worth of more than two million dollars (\$2,000,000), excluding the person's residence, or

an investor that is a qualified purchaser as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940 (“Qualified Purchaser”); and 3) certain key employees of the Adviser.

In addition, the Opportunities Funds are only open to investors who qualify as Qualified Purchasers.

The Adviser currently requires a minimum of \$15 million to open a SMA.

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

### A. Analysis and Strategies

The Adviser manages the Distressed Credit Fund, the Opportunities Fund and one of the SMAs that use similar trading strategies that use a combination of trading and buy and hold strategies (the “Trading Strategy”). Regan also manages other SMAs that follow a buy and hold strategy (the “Hold Strategy”) with less volume, while still taking advantage of periodic trading opportunities.

The Distressed Credit Fund and the SMAs invest primarily in residential mortgage backed securities (“RMBS”). The Opportunities Funds have a broader investment strategy and will invest in a variety of securities including Municipal Bonds, CMBS, and SBA Loans, in addition to RMBS. Furthermore, the Opportunities Funds have the ability to employ leverage, including through repurchase agreements on certain securities and may invest in derivative securities such as options and futures to hedge its positions.

The Opportunities Funds may also invest in ETFs and other closed end funds where the majority of the underlying holdings are mortgage, municipal, corporate and government credit; and the Adviser may sell these equity securities short.

The Adviser seeks to achieve its investment objective primarily through capitalizing on out-of-favor, analysis-intensive securities. The Adviser will focus on investments that have large margins of safety as a function of price paid versus future expected cash-flows. Positive absolute returns will be generated via use of high current income and defined appreciation catalysts.

The Adviser employs industry-standard analytical and research tools, such as Bloomberg and Intex to analyze individual investments.

### B. Material Risks

#### **General Risks**

***Potential Loss of Investment.*** An investment in securities involves a high degree of risk. There can be no assurance that the Adviser’s investment objectives will be achieved or that Clients will not lose all or substantially all of their investment. The accounts managed by the Adviser are not a complete investment program and should represent only a portion of an investor’s portfolio management strategy.

***Competition.*** The Adviser competes with numerous other private investment funds and financial institutions (both diversified and specialized funds), as well as other investors, many of which have substantially greater resources. The amount of capital committed to “alternative

investment strategies” has increased dramatically during recent years. The profit potential of our Clients may be materially reduced as a result of the increased competition within the alternative investment field.

### **Risks Relating to the Funds’ Strategies**

***Investment Due Diligence and Research; Reliance on Corporate Management and Financial Reporting.*** In certain instances, due diligence information available to the Adviser at the time of an investment decision may be limited and the Adviser may have neither access to adequately granular information nor adequate time to analyze the information necessary for a complete evaluation of the investment opportunity. It is also possible that the due diligence and research conducted may not reveal all the relevant facts and information that may be necessary to evaluate such investment opportunity. In the worst-case scenario, information may be manipulated or fraudulent. Clients could incur material losses as a result of the misconduct or incompetence of such individuals and/or a substantial inaccuracy in such information.

***Availability of Investment Opportunities.*** There can be no assurance that the Adviser will be able to find suitable opportunities consistent with its investment approach. Market conditions may limit the availability of investment opportunities. Such limitations may cause delays in deploying Client’s capital and may negatively impact Client’s returns.

### **Risks Relating to Portfolio Investments**

***Concentration.*** The risk that the performance of a Client’s account could be adversely affected by losses on the fixed-income investments may be increased to the extent that the Client’s portfolio is concentrated in any one issuer, industry, region or country. A Client account may also have disproportionate exposure to certain types of fixed-income investments. Investments in unrated fixed income instruments in which the Funds may invest, while generally providing greater opportunity for gain and income than investments in higher rated instruments, usually entail greater risk. The Adviser has no specified diversification policies as to the percentage of a Client’s assets that may be invested in any particular security. A Client’s portfolio may also consist of substantially fewer portfolio investments than anticipated if the Adviser is unable to identify or execute on appropriate opportunities.

***Illiquid Investments.*** The Adviser expects to invest Client accounts in and hold to maturity instruments that do not have a significant secondary market. Due to the illiquid nature of many of the positions, as well as the uncertainty of the success of their issuers, the Adviser is unable to predict with confidence what the exit strategy will ultimately be for any given portfolio investment, or that one will definitely be available.

***Specific fixed-income security risks.*** Fixed-income securities are subject to certain risks, including:

- ***Issuer Risk.*** The value of fixed-income securities may decline for a number of reasons which directly relate to the issuer, such as management performance, leverage, and reduced demand for the issuer's goods and services.
- ***Interest Rate Risk.*** When market interest rates rise, the market value of fixed income securities generally will fall. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected



prepayments. This may lock in a below-market yield, increase the security's duration and reduce the value of the security. Investments in debt securities with long-term maturities may experience significant price declines if long-term interest rates increase. Since the magnitude of fluctuations will generally be greater at times when a portfolio's average maturity is longer, under certain market conditions the Adviser may, for temporary defensive purposes, accept lower current income from short-term investments rather than investing in higher yielding long-term securities.

- **Prepayment Risk.** During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Adviser to reinvest the proceeds from such prepayment in lower yielding securities. This is known as call or prepayment risk. Debt securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer.
- **Reinvestment Risk.** Reinvestment risk is the risk that income from a portfolio will decline if the Adviser invests the proceeds from matured, traded or called bonds at market interest rates that are below the portfolio's current earnings rate.
- **Valuation Risks.** Unlike publicly traded common stock which trades on national exchanges, there is no central place or exchange for fixed-income securities trading. Fixed-income securities generally trade on an "over-the-counter" market which may be anywhere in the world where buyer and seller can settle on a price. Due to the lack of centralized information and trading, the valuation of fixed-income securities may carry more risk than that of common stock. The Adviser is responsible for determining the valuation of securities held in Client accounts. As valuation will affect the fees earned by the Adviser, and performance reporting, the Adviser may have an incentive to mark securities at a higher valuation. In addition, uncertainties in the conditions of the financial market, unreliable reference data, lack of transparency and inconsistency of valuation models and processes may lead to inaccurate asset pricing. As a result, a portfolio may be subject to the risk that when a security is sold in the market, the amount received by the Client is less than the value of such security carried by the Client.

**Asset-backed securities.** The fixed income securities in which the Adviser invests may include asset-backed securities, which represent direct or indirect participations in, or are secured by and payable from, pools of assets such as, among other things, debt securities, residential mortgages, commercial mortgages, corporate loans, motor vehicle installment sales contracts, installment loan contracts, leases of various types of real and personal property, and receivables from revolving credit (credit card) agreements or a combination of the foregoing. Payment of interest and repayment of principal on asset-backed securities may be largely dependent upon the cash flows generated by the assets backing the securities and, in certain cases, supported by letters of credit, surety bonds or other credit enhancements. Asset-backed security values may also be affected if the market for the securities becomes illiquid, there is difficulty valuing the underlying pool of assets or because of changes in the market's perception

of the creditworthiness of the servicing agent for the pool, the originator of the loans or receivables, or the entities providing the credit enhancement.

**Non Investment Grade Securities.** Certain of the fixed income securities in which the Adviser invests may be unrated by a recognized credit-rating agency or below investment grade, and as a result may be subject to greater risk of loss of principal and interest than higher-rated debt securities. The Adviser may invest Client accounts in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. The Adviser may invest in debt securities which are not protected by financial covenants or limitations on additional indebtedness. Client portfolios will therefore be subject to credit and liquidity risks. In addition, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments.

**Distressed and Bankrupt Companies.** The Adviser may invest Client accounts in securities, claims, and obligations of issuers which are experiencing (or may come to experience) significant financial or business difficulties. The Adviser is expected to invest in distressed securities and instruments (or securities and instruments that become distressed) of all kinds, none of which are publicly traded. In some cases, debt instruments purchased by the Adviser will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. Distressed securities and obligations are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to an investment in any instrument, and a significant portion of the obligations and securities in which the Adviser invests Client portfolios are expected to be less than investment grade. The level of analytical skill, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Adviser will correctly evaluate the value of the assets collateralizing a portfolio's loans or the prospects for a successful reorganization or similar action.

**Bank Loan Assignments and Participations.** In addition to the risks associated with a default by the borrowers, risks associated with these obligations include, without limitation, the following: (i) there may be an inadequate perfection of a loan's security interest; (ii) the possible invalidation or compromise of an investment transaction as a fraudulent conveyance or preference under relevant creditors' rights laws; (iii) lender liability claims by the issuer of the bank loan obligations; (iv) the validity and seniority of bank claims and guarantees; (v) depreciation in value and environmental (or other) liabilities that may arise with respect to collateral securing the obligations; (vi) adverse consequences resulting from participating in such instruments through or with other institutions with lower credit quality; (vii) limitations on the ability of the Adviser to directly enforce a Client's rights with respect to loans held via participation; (viii) increased counterparty risk due to uncertainty in the length of settlement periods; and (ix) conflicts of interest between and among Clients, the Adviser, the agents on such loans and other lenders that may compromise a Client's ultimate recovery.

Clients may acquire interests in loans either directly, by way of assignment or indirectly, for example, by way of participation. In the case of a participation, the Client would have the right to receive payments of principal, interest, and any fees to which it is entitled under the participation only from the selling institution and only upon receipt by the selling institution of such payments from the obligor. The Client may have to assume the credit risk of both the obligor and the selling institution. In addition, when the Client holds a participation in a debt obligation, the Client may not have the right to vote to waive enforcement of any default by an obligor. Selling institutions commonly reserve the right to administer the debt obligations sold by them as they see fit and to amend the documentation evidencing such debt obligations in all respects.

A selling institution voting in connection with a potential waiver of a default by an obligor may have interests different from those of the Client, and the selling institution might not consider the interests of the Funds in connection with its vote.

**Equitable Subordination.** Under common law principles that sometimes form the basis for lender liability claims, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors. The Adviser does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine. However, the Funds may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

**Private Debt.** Private debt obligations are generally unrated or below investment grade rated investments that have greater credit and liquidity risk than more highly rated debt obligations. Private debt obligations are typically issued in traditional private placements or in connection with acquisitions and other business combinations and have no trading market. Moreover, private debt obligations may be unsecured and subordinate to other obligations of the obligor and are subject to many of the same risks as those associated with high-yield debt obligations. Adverse changes in the financial condition of the issuer of private debt obligations, or in general economic conditions, or both may impair the ability of the obligor to make payment of principal and interest. Issuers of private debt obligations may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations.

**Participation on Creditors' Committees May Expose Clients to Other Sources of Liability.** The Adviser may participate in committees formed by creditors on behalf of Clients to negotiate the management of financially troubled companies that may or may not be in bankruptcy or the Adviser may seek to negotiate directly with the debtors with respect to restructuring issues. By participating on such committees, the Adviser may be deemed to have duties to other creditors represented by the committees, which might thereby expose Clients to liability to such other creditors who disagree with the Adviser's actions.

**Limited Hedging.** The Adviser does not, in general, attempt to hedge all of the risks of Client positions, but may only hedge foreign exchange risks and interest risks, and may only hedge such risks partially. Various directional market risks in a Client's portfolio will often remain entirely unhedged.

**Leverage.** The Adviser may use leverage for the Opportunities Funds. The use of leverage provides exposure to changes in price at a ratio greater than 1:1 in reference to the amount invested. The Adviser will attempt to limit leverage as a whole to less than one times equity, but

there can be no assurance that it will be able to do so. Leverage magnifies both the favorable and unfavorable effects of price movements in the investments made by the Fund, which may subject the Fund to substantial risk of loss. In addition, regardless of the price movements of the Fund's investments, the Fund will incur borrowing expenses whenever it uses leverage (such as fees, commissions, interest and taxes), which will reduce the return to the investors in the Fund.

**Short Sales.** The Opportunities Funds may enter into transactions, known as "short sales," in which the Fund sells a security it does not own in anticipation of a decline in the market value of the security. Short sales by the Fund that are not made "against the box" theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. The Fund may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the Fund might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

**Currency Exchange Exposure and Currency Hedging.** Although Client accounts will be denominated in U.S. Dollars, a Client's investments may be made in non U.S. currencies. The Adviser will generally seek to hedge (in whole or in part) investments denominated in non U.S. currencies to attempt to minimize the effect of fluctuations in the exchange rate with U.S. Dollars. As it is impossible to predict the future performance of the U.S. Dollar and any applicable non U.S. currency, it is likely that investments will always be over- or under-hedged against currency rate exchange risks. In addition, the Adviser may choose not to enter into hedging transactions with respect to some or all of its positions that are exposed to currency exchange risk.

### **Market-Related Risks**

**Market Risks in General.** The Adviser's strategies are subject to some dimension of market risk, including, but not limited to, changes in the regulatory environment, "flights to quality," and "credit squeezes." The particular or general types of market conditions in which a Client portfolio may incur losses or experience unexpected performance volatility cannot be predicted, and the portfolio may materially underperform other investment funds with substantially similar investment objectives and approaches.

**Reliance on Key Personnel.** The investment operations of the Adviser are substantially dependent upon the skill, judgment and expertise of Mr. Weinand. The death, disability or other unavailability of Mr. Weinand could be material and adverse to Clients.

### **Certain Risks Related to the Funds' Structure**

**No Ability to Liquidate an Investment in the Interests.** An investment in the Funds is illiquid. The interests the Funds offered have not been registered under the securities laws of any jurisdiction and are subject to restrictions on transfer. Interests are not transferable except with the prior written consent of the Adviser, which will not be withheld unreasonably. There is no market for the interests in the Funds and none is expected to develop.

**Possible Indemnification Obligations.** The Funds are generally obligated to indemnify the Adviser and its representatives and possibly other parties against any liability they or their respective affiliates may incur in connection with their relationship with the Fund.

For a more complete discussion of risks applicable to an investment in the Funds, please refer to the Funds' private placement memorandum.

## **Item 9 - Disciplinary Information**

The Adviser has no legal or disciplinary events that are material to your evaluation of this advisory business or to the integrity of our management to disclose.

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

### **A. Broker-Dealer Registration**

Neither the Adviser, nor its management persons, is registered as a broker-dealer or registered representative of a broker-dealer, nor do either have any pending application to register.

### **B. Futures and Commodities Registration**

Neither the Adviser nor its management persons is registered as a futures commission merchant, commodity pool operator, commodity trading advisor, or associated party of any of those, nor does either have any pending application to register as such.

### **C. Related Persons**

Neither the Adviser nor its management persons has any relationships that are material to the Adviser's advisory business or to the Adviser's Clients with any related person listed below:

1. broker-dealer, municipal securities dealer, or government securities dealer or broker;
2. investment company or other pooled investment vehicle (including mutual funds, closed-end investment company, unit investment trust, private investment company or "hedge funds," and offshore funds);
3. other investment adviser or financial planner;
4. futures commission merchant, commodity pool operator, or commodity trading advisor;
5. banking or thrift institution;
6. accountant or accounting firm;
7. lawyer or law firm;
8. insurance company or agency;
9. pension consultant;
10. real estate broker or dealer; or
11. sponsor or syndicator of limited partnerships.

### **D. Conflicts of Interest**

The Adviser is not compensated for recommending or selecting other investment advisers for its Clients. The Adviser also has no other business relationships with any other adviser that could create any material conflict of interest.

The investment activities conducted by the Adviser on behalf of any of its Client accounts may be directly or indirectly competitive with the interests of other Client accounts, and conflicts

March 2016

may arise concerning the allocation of investment opportunities among Client accounts. The Adviser has a fiduciary duty to exercise diligence and care in appropriately allocating investments among its Client accounts. To that end, the Adviser has adopted detailed investment allocation procedures that take into account each Client's investment objective and strategy that are set forth in its trading and allocation policy (the "Trading and Allocation Policy"). To ensure that investments are appropriately allocated in a manner consistent with the Adviser's fiduciary duty to treat each account in a fair and equitable manner, the Adviser will allocate investment opportunities consistent with the procedures documented in the Adviser's Trading and Allocation Policy. A copy of the Adviser's Trading and Allocation Policy is available to Clients and private fund investors upon request.

While advisory agreements between the Adviser and/or its affiliates and the Clients also require the Adviser and its affiliates to act in a manner that it considers fair, reasonable and equitable in allocating investment opportunities to the Client accounts, such advisory agreements do not otherwise impose any specific obligations or requirements concerning the allocation of time, effort or investment opportunities to each Client account or any restrictions on the nature or timing of investments for the proprietary account of the Adviser, its affiliates or their respective principals or for other accounts which the Adviser or its affiliates may manage. For example, Adviser professionals are not obligated to devote any specific amount of time to the affairs of a Client, and the Adviser and its affiliates are not required to accord exclusivity or priority to a Client in the event of limited investment opportunities.

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

The Adviser has a fiduciary responsibility to treat Clients fairly and avoid actual or potential conflicts of interest. The employees of the Adviser have an obligation to act solely in the best interests of Clients, and to make full and fair disclosure of all material facts, particularly where the Clients' interests may conflict with the interests of the Adviser or its employees.

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

We have adopted a code of ethics that complies with Rule 204A-1 under the Investment Advisers Act of 1940, as amended. We will provide you with a copy of our Code of Ethics upon request.

The Code of Ethics contains a policy designed to prevent the misuse of nonpublic information.

### **B. Participation or Interest in Client Transactions**

The Adviser may, to the extent permitted under applicable law, effect Client cross- transactions where the Adviser causes a transaction to be effected between one Client account and another account advised by it or any of its affiliates.

### **C. Personal Securities Investing**

On some occasions, the Principal may invest alongside the Funds or other Client accounts; however, the Principal will generally not invest in the same securities as the Funds or other Clients. The Principal does invest in similar securities through the Proprietary Fund; however,

the Proprietary Fund is not making new investments and its investment will be liquidated over time.

## **D. Personal Securities Trading**

The Adviser has adopted personal trading policies and procedures to prevent conflicts of interest with its Clients. Also, the Principal will invest in the Funds to align our interest with the Funds' Limited Partners.

## **Item 12 - Brokerage Practices**

### **A. Selecting and Recommending Broker-Dealers**

As part of its fiduciary duty to its Clients, the Adviser has an obligation to seek best price and execution for all trades, to trade assets in a manner that is fair to all Clients, and to exercise diligence and care throughout the trading process.

The Adviser has adopted policies and procedures (the "Trading and Allocation Policy") to ensure that it will place Client transactions with appropriate care and diligence, seek best execution, treat all Clients fairly, and disclose all material conflicts of interest. A copy of the Trading and Allocation Policy is available to all Clients and all investors in the Funds upon request.

The Adviser primarily trades bonds for its Clients that are purchased and sold by a single broker through a competitive bid process ("Bids Wanted in Competition" or "BWIC"). When the Adviser is purchasing bonds through BWIC, the Adviser has the ability to choose which broker to use to submit its bid, but when the Adviser is selling bonds through the BWIC process it receives bids from multiple brokers and will take the highest bid regardless of the broker. The Adviser cannot determine or negotiate the commission because it is built into both the bid and ask prices it receives from brokers.

The Adviser may also trade bonds through a "reverse inquiry" process where a broker will make an inquiry as to whether a bond is for sale. In this case, if the Adviser is selling a bond, it cannot choose the broker, and cannot determine or negotiate the amount of commission. The Adviser may also use the reverse inquiry process to purchase bonds, in which case it does choose the broker who will submit a bid for the Adviser, but the Adviser cannot determine the commission.

In selecting a broker, the Adviser looks at the following factors: 1) the expertise and execution history of the broker with a certain type of security and 2) the relationship of the broker with counterparties trading a certain type of bond.

Before the Adviser begins trading with a new broker, the Chief Compliance Officer will review, as applicable the broker's operational status and procedures.

The Adviser also trades closed-end funds and ETFs on behalf of Clients. Our portfolio managers communicate orders in these securities to the executing counterparty primarily via Bloomberg. Generally, the Adviser will choose brokers for equity trades based on their expertise in brokerage of closed-end funds and ETFs. In the case of equity securities, the Adviser can negotiate commissions.

## 1. Research and Other Soft Dollar Benefits

The Adviser does not use soft dollars generated by commissions from Client accounts to pay for research or brokerage products and services or “pay up” on Client transactions in order to receive such services.

## 2. Brokerage for Client Referrals

The Adviser may receive Client referrals from broker-dealers; however, the Adviser does not consider whether it receives Client referrals when selecting a broker-dealer.

## 3. Directed Brokerage

The Adviser does not allow its Clients to direct brokerage.

## B. Aggregation and Allocation of Orders

The Adviser generally seeks to aggregate Client trades when such aggregation is expected to be in the best interest of all participating Clients. The Adviser allocates trades and investment opportunities based on whether the security is being purchased or sold and if the security is being purchased, based on the trading and investment strategy of each Client account.

### 1. Sales

Typically if the Adviser is selling a security, the full position will be sold from all accounts that hold the security at the time of the sale; however, if only a percentage of a holding across multiple accounts is sold, the sale will be allocated on a pro-rata basis based on the relative holding of each account among all accounts that hold the security at the time of sale. Barring account liquidations, there is no circumstance where we would sell a bond in multiple accounts at a different time or price.

### 2. Purchases

The Adviser allocates security purchases and investment opportunities based on the trading and investment strategies of its Client accounts.

The Adviser manages the Distressed Credit Fund, the Opportunities Funds and one SMA using a combination of trading and buy and hold strategies (the “Trading Strategy”). The Adviser also manages other SMAs that follow a buy and hold strategy (the “Hold Strategy”) with less volume, while still taking advantage of periodic trading opportunities. Accounts managed pursuant to the Hold Strategy are designed to be closer to fully invested at any given time.

Securities purchased by the Adviser for Client accounts are classified as either “trading” securities or “hold” securities. Purchases designated as salable in less than six months are classified as “trading” securities as opposed to “hold” securities. We generally seek to allocate “hold” securities of smaller size to accounts in the Hold Strategy first. Once the accounts in the Hold Strategy have reached their target position size, we may seek to allocate these securities to accounts in the Trading strategy if appropriate and subject to cash availability. Larger size “hold” securities and all “trading” securities generally are not appropriate for the Hold Strategy, and typically will be allocated pro rata to accounts in the Trading Strategy. The pro rata



allocation to the Trading Strategy is subject to meeting minimum denomination requirements and cash availability. If the Adviser makes a new purchase of a security that is already owned by accounts in the Trading Strategy, it will be allocated in such a way as to make the holding amongst all accounts in the Trading Strategy pro rata as of our most recent purchase. If the new purchase is of a security that is already owned by accounts using the Hold Strategy, it will be allocated as cash allows amongst all accounts in the Hold Strategy.

Securities are also allocated based on investment strategy. The SMAs and the Distressed Fund invest primarily in residential mortgage backed securities (“RMBS”). The Opportunities Funds, on the other hand may invest in a broad array of fixed income securities including Municipal Bonds, CMBS, and SBA Loans, in addition to RMBS. The Opportunities Funds also invest in equity securities, including ETFs and other Closed End Funds. Furthermore, the Opportunities Funds have the ability to employ leverage on certain securities at the discretion of the Adviser. The Adviser reserves the right to fully allocate securities that can be leveraged to the Opportunities Funds.

Allocations may be determined after the trade is executed. Because the Adviser typically buys and sells securities for its Clients through a competitive bidding process, the Adviser cannot know for certain at the time of placing a bid for securities whether the bid will be accepted. Consequently, it is more practical for the Adviser to allocate purchases among Client accounts at the end of the day once the transactions have been confirmed and the Adviser is able to take into account any factors relevant to the allocation decision (such as cash availability that may have changed between the time the bid was placed and the time the trades are executed).

## **Item 13 - Review of Accounts**

### **A. Review of Client Accounts**

The Adviser periodically reviews Client portfolios for risk, performance, and suitability.

The Adviser recognizes the importance of appropriately valuing Client investments to ensure its Clients receive fair and accurate valuation. The Adviser acknowledges that conflicts of interest may arise due to the fact that valuations impact marketing activities, the use of track records in fund raising and Adviser compensation. Specifically, an inaccurate valuation can impact the management and performance fees payable by Clients. In order to minimize conflicts of interest, the Adviser values all Client investments in a manner consistent with the procedures outlined in a valuation policy adopted by the Adviser (the “Pricing Policy”). The Adviser’s Pricing Policy establishes comprehensive procedures for the valuation of all Client investments held by the Funds or other Client accounts based on investment type. Additionally, the Adviser’s Pricing Policy establishes procedures to correct valuations in the event of an inaccurate valuation. A copy of the Adviser’s Pricing Policy is available to Clients and investors in the Funds upon request.

### **B. Frequency of Review**

A review of each Client account will be done on at least a monthly basis.

## C. Content and Frequency of Regular Reports

The Adviser provides the Funds Limited Partners with written, quarterly unaudited performance information and annual financial statements audited in accordance with generally accepted accounting principles as in effect on the date thereof, consistently applied under the accrual basis of accounting ("GAAP").

## Item 14 - Client Referrals and Other Compensation

### A. Other Compensation

No person, other than the Clients, provides an economic benefit to the Adviser in exchange for providing investment advice or other advisory services to the Advisor's Clients.

### B. Client Referrals

The Adviser currently has arrangements with Emerson Equity, LLC, and Wells Nelson & Associates, L.L.C. ("Wells Nelson"), each an independent placement agent, for referring investors to the Funds and, for referring Clients who may be interested in a separately managed account. If a referred investor becomes an investor in a Fund or a Client of the Adviser, the placement agent will receive a finder's fee that is subject to future contingencies, including the performance of the amount invested by the investor or the Client as applicable. Paying placement agents may create an incentive to invest in riskier investments to make up for the lost revenue. For example, the Adviser's arrangement with Wells Nelson requires the Adviser to pay Wells Nelson 100% of the Management Fee payable by an investor referred by Wells Nelson to the Funds for the first two years of the relationship... In order to mitigate these conflicts of interests, the Adviser will seek best price and execution for all trades, trade assets in a manner that is fair to all Clients, and exercise diligence and care in selecting investment opportunities for all its Clients consistent with the Adviser's Trade and Allocation Policy and Pricing Policy and the applicable investment management agreement. A copy of the Adviser's policies is available to Clients and private fund investors upon request.

## Item 15 - Custody

Because the General Partner of each Fund is an affiliate, we may be deemed to have custody of the Funds' funds and securities. A qualified custodian will serve as the qualified custodian of the Funds' assets. The financial statements of the Distressed Credit Fund and the Opportunities Funds are audited by KPMG on an annual basis, and distributed to the Limited Partners within 120 days of the end of the Fund's fiscal year. Limited Partners are urged to carefully review these statements. The financial statements of the Proprietary Fund are not audited because its only investor is the Principal.

A qualified custodian will serve as the qualified custodian of each SMA. The qualified custodian for each SMA will send quarterly account statements to the owner of the SMAs. The Adviser may also send reports and account statements to the owners of each SMA. You are urged to carefully review and compare the account statements received from the qualified custodian with the reports and account statements received from the Adviser.

## **Item 16 - Investment Discretion**

The Adviser has investment discretion to manage its Clients' assets. The Adviser's management agreements typically provide the Adviser with the ability to select securities to be bought and sold and to determine the amount of the transactions. The Adviser exercises its discretion in a manner consistent with each Client's investment goals and objectives.

## **Item 17 - Voting Client Securities**

The Adviser generally does not invest Client accounts in securities with voting rights. In addition, the Adviser may not be able to vote proxies if the security has been leased or sold through a repurchase agreement. For securities that do have voting rights, the Adviser's policy is to exercise voting rights with respect to each specific security if it is in the Clients' or Funds' best interests. Generally, the Adviser expects to vote proxies only with respect to closed-end funds. If the Adviser determines that it is appropriate to exercise voting rights in a particular instance, the matters on which a vote is solicited will be evaluated in light of the Client's investment objectives for the security. A copy of the Adviser's proxy voting policies and procedures, together with information concerning the Adviser's proxy votes on their behalf are available to each Client and private fund investors upon request.

## **Item 18 - Financial Information**

### **A. Prepayments**

The Adviser does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance.

### **B. Potential Financial Impairment**

There is currently no financial condition which is reasonably likely to impair the Adviser's ability to meet its contractual commitments to its Clients.

### **C. Bankruptcy**

The Adviser has never been the subject of a bankruptcy petition.