

# BLUE WATER FINANCIAL TECHNOLOGIES LLC

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December 9, 2020

**This brochure provides information about the qualifications and business practices of Blue Water Financial Technologies LLC (“Blue Water” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at (866) 217-0246. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Blue Water also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration does not imply a certain level of skill or training.**

**Item 2: Material Changes**

Since Blue Water's last Form ADV Part 2A brochure (the "Brochure") annual update dated March 19, 2019, the Firm has updated information related to its affiliation with Blue Water Financial Technologies Services, LLC; see Item 10 for additional information. Blue Water's holding company participated in the Payroll Protection Program; see Item 18 for more information. In addition, the Firm's address has changed.

Our new address is:

1600 Utica Avenue S., Suite 725

St. Louis Park, MN 55416

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Our Brochure may be requested by contacting us at our main number above. Additional information about Blue Water is also available via the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website provides information about any persons affiliated with Blue Water who are registered, or are required to be registered, as investment adviser representatives of Blue Water.

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#### **Item 4: Advisory Business**

Blue Water Financial Technologies LLC, a Delaware limited liability company, was established on October 9, 2018, and applied for registration as an Investment Adviser later that month. Blue Water Financial Technologies Holding Company, LLC (“HoldCo”) wholly owns Blue Water. Alan Qureshi and RPC Ventures Fund I LP together own HoldCo.

Blue Water provides investment advisory services on a non-discretionary basis to its clients (collectively, the “Clients”) that invest in residential mortgage loans, agency mortgage servicing rights (“MSRs”), and other mortgage-related assets. MSR portfolio advisory services shall be provided each day (or at a periodic interval deemed acceptable to Client) subject to overall coverage ratio guidelines provided by Client, and consist of the following:

- (i) Produce a complete set of risk reports for the servicing portfolio as of a measurement date and deliver the reports to Client. Client is aware and will agree that Blue Water's valuation reports and shock reports in production of its risk reports. The reports that will be provided include:
  - a. Trade Blotter
  - b. Hedge Positions
  - c. Daily Risk Report
  - d. Attribution
  - e. Market Summary
  - f. Monthly Hedge Effectiveness
  - g. Monthly Risk Guardrails and Limits Compliance Report
- (ii) Utilizing Client's supplied coverage biases, produce several alternative proposed hedge recommendations and/or hedge balancing recommendations for the servicing portfolio as of the measurement date and deliver the reports to Client.
- (iii) Provide Client with an MSR hedge reporting package monthly (or at a periodic interval as deemed acceptable to Client). The above reporting package will be designed to address exposure, risk, and performance reporting on a sufficiently granular level, while remaining appropriate for the intended senior management and external report recipients.
- (iv) Model settings will be reviewed with Client, and, where appropriate, Client will provide necessary inputs. Client will be provided with a set of recommend parameters and will manage their own set of parameters. For the avoidance of doubt, Client will be responsible for ensuring that its assumptions have been accurately tracked and captured before hedging will begin.
- (v) Daily estimates (or where applicable, periodic) derivation of hedge coverage percentages and forecasted impact of defined interest rate shocks, volatility, and convexity shocks based on methods acceptable to the Client.
- (vi) Daily production of risk management reports including shock summary, daily summary, daily gain/loss summary, trade blotter, trade inventory, and others as agreed by Blue Water and Client.
- (vii) Provide Client with daily MSR attribution and profit and loss explanation.

#### *Valuation Services*

Blue Water will prepare a formal third party opinion of fair value on the MSR asset as of the last business day of each calendar month, or as of such other date at request of the Client. This opinion can be provided to management, auditors, and regulators to support the value of the MSR asset as reflect in the Client's books and records. Blue Water's valuation Services will also include:

- (i) An intra-month report produced on a daily report that outlines Blue Water's estimate of fair

value complete with shock and risk analysis required to support the value of the MSR.

- (ii) A formal valuation analysis booklet in both electronic and paper format, which will include an executive summary of the opinion of value on the MSR portfolio, expressed as an expected fair value range.
- (iii) A detailed discussion on economic, market, and model assumptions utilized within the model, including a section detailing any changes from previous periods.
- (iv) An assessment of the secondary servicing market including color on recent transactions, and depth of buyers and sellers to, including, but not limited to assignment of trade, flow, and bulk servicing transactions.
- (v) Other pertinent reports and discussions to fully disclose price discovery at an appropriate detailed level of the target portfolio.
- (vi) Other performance reports regarding portfolio activity, including, but not limited to, discussion on prepayments, delinquency, and foreclosures.
- (vii) Any other risk management reports necessary to accurately describe changes in the portfolio from one period to the next.
- (viii) Performance benchmarking comparing actual portfolio performance to the modeled performance expectations from the previous period.
- (ix) Sensitivity analysis for changes in interest rate environments.

Without limiting the foregoing, Blue Water will perform portfolio management services (the “Portfolio Management Services”) on behalf of the Clients with respect to the Investments. Such services may include consulting with the officers of the Clients on the purchase and sale of, and other investment opportunities in connection with, the Clients’ portfolio of assets; the collection of information and the submission of reports pertaining to the Clients’ assets, interest rates, and general economic conditions; periodic review and evaluation of the performance of the Clients’ portfolio of assets; acting as liaison between the Clients and banking, mortgage banking, investment banking, and other parties with respect to the purchase, financing and disposition of assets; and other customary functions related to portfolio management.

Blue Water tailors its advisory services to each Client in conjunction with the investment guidelines identified in the applicable advisory agreement or governing documents. Each client has the ability to impose reasonable restrictions on the management of its account, including the designation of particular securities or types of securities that should not be purchased for the account, or that should be sold if held in the account. If a Client’s instructions are unreasonable or the Firm believes the instructions are inappropriate for the Client, Blue Water will notify the Client that, unless the instructions are modified, it will cancel the instructions in the Client’s account.

Blue Water does not offer a wrap fee program. Blue Water’s fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by Clients. Clients could incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees, and commissions are exclusive of and in addition to Blue Water’s fee, and Blue Water shall not receive any portion of these commissions, fees, or costs.

As of December 31, 2019, Blue Water had \$726,300,000 in regulatory assets under management. Blue Water managed such assets on a non-discretionary basis.

## **Item 5: Fees and Compensation**

Blue Water attempts to service a vast array of accounts with varying portfolio sizes (within the framework of a minimum portfolio values as described in Item 7). In order to facilitate advisory services given this high variability, Blue Water provides Client with fee flexibility. Towards this end, Blue Water provides a flexible fee arrangement with a variable mix of fixed fees and performance fees. Pursuant to the applicable advisory agreements (which may include sub-advisory agreements), Blue Water's management fee (the "Management Fee") will generally vary between 0.5% and 1.50% per year of the assets under management; however, client may negotiate a fixed monthly fee which will vary based on portfolio size and types of services requested. Asset based fees are calculated at an annual rate, and billed in arrears on a monthly basis. Fees may be negotiated based size of portfolio; services agreed upon and additional services rendered whether through Blue Water's affiliate. Blue Water's management fee is typically applied to the market value of the unhedged value of the portfolio under advisement. The initial fee is due following the first month. The period for which such payment will be made will run from the opening date through the last day of the full calendar month, and will be prorated. Thereafter, the monthly fee is based on the account asset value on the last day of the respective calendar month. Termination of the contract will not affect any liabilities or obligations of the parties from transactions initiated before termination of this Agreement or a client's obligation to pay advisory fees if paid in arrears (pro-rated through end of the month in which termination is effective).

In addition to Blue Water's Management Fee, Blue Water will also generally be entitled to receive incentive compensation with respect to investors in the Clients (the "Blue Water Incentive Fee"), which will generally vary between 5% and 25% of net gains based on monthly performance. For certain Clients, Blue Water may also receive a one-time setup fee (the "Setup Fee"), and fees associated with implementing the portfolio recommendations (the "Execution Fee"). The Management Fee, Blue Water Incentive Fee, Setup Fee, and Execution Fee are negotiated in connection with, and may vary as outlined within the applicable advisory agreement.

Client and/or Blue Water may initiate termination of advisory agreements at any time by sending written notice to the contra party, and will deemed to be accepted the day that it is received by the contra party. No termination fee will apply if the account is terminated by the Client within the first year of entering into the advisory agreement, but Clients will be expected to provide the Firm with a notice period in advance. Upon written receipt of notice to terminate an advisory agreement, and unless specific transfer instructions are received, Blue Water will cease advisory services. Should the Client provide specific instructions to liquidate, Blue Water will proceed with liquidation of the Client's account in an orderly and efficient manner. There will not be a charge for such redemption. Clients must keep in mind that the decision to liquidate their accounts may result in tax consequences that should be discussed with the Client's tax advisor.

The Management Fee is calculated and charged monthly in arrears, as outlined within the applicable advisory agreement or governing documents. The Blue Water Incentive Fee is generally calculated and paid monthly in arrears, as outlined within the applicable advisory agreement or governing documents.

As set forth in the applicable advisory agreement or governing documents, Clients may bear some or all of the following costs and expenses:

- (i) All costs and expenses associated with the formation and capital raising activities of the Clients, if any, including, without limitation, the costs and expenses of the preparation of the Clients' registration statements, any and all costs and expenses of the initial public offering, any

subsequent offerings and any filing fees and costs of being a public company, including, without limitation, filings with the U.S. Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Authority, Inc. (“FINRA”) and NYSE (or other exchange or over-the-counter market), among other such entities;

- (ii) All costs and expenses in connection with the acquisition, origination, disposition, securitization, development, modification, protection, maintenance, financing, refinancing, hedging, rating, administration and ownership of the Investments (including costs and expenses incurred for transactions that are not subsequently completed), including, without limitation, costs and expenses incurred in contracting with third parties to provide such services, including legal fees, accounting fees, rating agency fees, consulting fees, due diligence fees, loan servicing fees, trustee fees, appraisal fees, insurance premiums, commitment fees, brokerage fees, guaranty fees, ad valorem taxes, costs of diligence, foreclosure, maintenance repair, and improvement of property and premiums for insurance on property owned or leased by the Clients;
- (iii) All costs and expenses in connection with legal, accounting, due diligence (including due diligence, legal, and other costs for assets that are not subsequently acquired), salaries included with operating companies purchased as assets, financing, securitization, property management, brokerage, leasing, and other services that outside professionals or outside consultants perform or otherwise would perform on a Client’s behalf and, subject to the approval of certain Clients, that are performed by Blue Water;
- (iv) Costs and expenses incurred in connection with the issuance and transaction costs incident to the acquisition, disposition, financing, hedging, rating, and securitization of the Investments;
- (v) Costs of legal, tax, accounting, consulting, auditing, administrative, and other similar services rendered for the Clients by providers retained by Blue Water or, if provided by Blue Water’s personnel, in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm’s-length basis;
- (vi) Costs associated with the establishment and maintenance of any of the Clients’ repurchase agreements, warehouse facilities, securitizations, hedging agreements and other secured and unsecured forms of borrowings (including commitment fees, accounting fees, legal fees, closing and other similar costs) or any of the Clients’ securities offerings;
- (vii) Expenses in connection with the application for, and participation in, programs established by the U.S. government;
- (viii) Expenses connected with communications to holders of the Clients’ securities (including securities issued by securitizations established by the Clients), and other book-keeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of governmental bodies or agencies, including all costs of preparing and filing required reports with the SEC, the costs payable by the Clients to any transfer agent and registrar in connection with the listing and/or trading of a Client’s stock on any exchange, the fees payable by the Clients to any such exchange in connection with their listing, and costs of preparing, printing, and mailing a Client’s annual report to its stockholders and proxy materials with respect to any meeting of a Client’s stockholders;
- (ix) Expenses incurred by managers, officers, employees, personnel, and agents of Blue Water for travel or entertainment on the Clients’ behalf and other out-of-pocket expenses incurred by managers, officers, employees, personnel and agents of Blue Water in connection with the purchase financing, securitization, refinancing, hedging, sale, or other disposition of the Investments or establishment and maintenance of any repurchase agreements, warehouse facilities, securitization, hedging agreements, borrowings under programs established by the U.S. government, other secured and unsecured forms of borrowings or any of the Clients’ securities offerings;

- (x) All costs and expenses related to the design and maintenance of a Client's website or sites and associated with any computer software, hardware, electronic equipment, or purchased information technology services from third party vendors that is used primarily for the Clients;
- (xi) All expenses of organizing, modifying, or dissolving the Clients and costs preparatory to entering into a business or activity, or of winding up or disposing of a business activity of the Clients, if any;
- (xii) All expenses relating to payments of dividends or interest or distributions in cash or any other form to or on account of holders of the securities of the Clients, including, without limitation, in connection with any dividend reinvestment plan;
- (xiii) Compensation and expenses of a Client's custodian and transfer agent, if any;
- (xiv) The costs of maintaining compliance with all federal, state, and local rules and regulations or any other regulatory agency;
- (xv) All taxes and license fees payable by the Clients with respect to their investment activities, assets and operations;
- (xvi) All insurance costs incurred in connection with the operation of the Clients' business;
- (xvii) Costs and expenses incurred in contracting with third parties for servicing and special servicing of the Investments;
- (xviii) All other costs and expenses relating to the business of the Clients and investment operations, including the costs and expenses of acquiring, owning, protecting, maintaining, financing, securitizing, developing, and disposing of Investments, including appraisal, valuation, reporting, audit, and legal fees;
- (xix) Expenses relating to any office(s) or office facilities, including disaster backup recovery sites and facilities, maintained for the Clients separate from the office of Blue Water;
- (xx) Any judgment or settlement of pending or threatened proceedings (whether civil, criminal, or otherwise) against the Clients, or against any trustee, director, or officer of the Clients in his or her capacity as such for which a Client is required to indemnify such trustee, director, or officer by any court or governmental agency;
- (xxi) Any costs and expenses (including those described above) incurred by a sub-adviser engaged by Blue Water in connection with the provision of sub-advisory services in respect of Blue Water; provided, however, that the reimbursement of any such costs and expenses shall generally be subject to the same limitations on the reimbursement of the costs and expenses of Blue Water; and
- (xxii) All other out-of-pocket expenses actually incurred by Blue Water or its respective managers, officers, trustees, directors, employees, members, representatives, or agents that are reasonably necessary for the performance by Blue Water of its duties and functions under the applicable advisory agreement (generally subject to limitations). For the avoidance of doubt, these expenses include costs and expenses incurred with respect to market information systems and publications, research publications and materials, and computer software or hardware, electronic equipment, or purchased information technology services from third party vendors that is used for the Clients.

Notwithstanding anything to the contrary set forth in the applicable advisory agreement, except to the extent approved by the applicable Client, the Clients shall have no obligation to pay or reimburse Blue Water for (i) the salary, bonus, benefit, and other compensation costs of the personnel of Blue Water who provide services to the Clients under the applicable advisory agreement, or (ii) any rent, telephone, utilities, office furniture, equipment, machinery, and other office, internal, and overhead expenses of Blue Water required for the operations of the Clients.

Blue Water may, at its option, elect not to seek reimbursement for certain expenses to which it may be



entitled during a given quarterly period, which determination shall not be deemed to construe a waiver of reimbursement for these and similar expenses in future periods. Because certain expenses may be shared by more than one Client, Blue Water has adopted policies and procedures for the allocation of such fees and expenses among the Clients, although the policies and procedures may change from time-to-time, and may differ materially from those described below. Blue Water will seek to allocate non-investment-related expenses shared by more than one Client to such Clients in a manner that is fair and equitable taking into consideration all relevant factors, including, without limitation, the relevant benefit to each such Client derived from such expenses.

With respect to expenses attributable to one or more of the Clients, Blue Water seeks to allocate such expenses fairly, taking into consideration (i) the extent of the Clients' and/or Blue Water's utilization of the services associated with the expense; (ii) the relative benefit to each Client, and/or Blue Water derived from the expense; and (iii) the association of the expense with a legal, contractual, or other obligation of one or more of the Clients and/or advisory services.

#### **Item 6: Incentive Allocations and Side-by-Side Management**

Clients pay an individually negotiated fee that includes a performance fee based on monthly net profits (the "Incentive Fee"). Clients must be qualified purchasers with at least \$5,000,000 in investments in order to participate in a Incentive Fee arrangement. Certain other "qualified clients" or "qualified purchasers" may also qualify pursuant to SEC Rule 205-3.

Incentive Fee arrangements include an annual Management Fee, plus a Incentive Fee equal to a percentage of any profits to the account. The Management Fee will vary between 0.5% and 1.50% per year of the assets under management. The Incentive Fee will vary between 5% and 25% of net gains based on monthly performance. Fee flexibility is provided in order to facilitate advisory services given the high variability of client's fee preference and portfolio size. Pursuant to the applicable advisory agreements (which may include sub-advisory agreements), clients with a higher Incentive Fee will have a lower Management Fee; those with lower Incentive Fee will have a higher Management Fee. Additional fees may be charged, as described in Item 5.

Performance fees are negotiable and are payable monthly in arrears and based on the "gross portfolio profit" on the last trading day of the calendar month. No Incentive Fee shall be payable and no adjustment shall be made if there is no gross portfolio profit in a month. The gross portfolio profit is equal to the change in value of the MSR plus the change in value of the associated hedges over a given period of time plus any accrued interest on the MSR as counted at the yield of the MSR. All of the hedges are exchange traded and their price contains any accrual. The change in the MSR value will be computed using Blue Water's valuation model and will use as inputs a fixed starting population of loans, a fixed model assumption set and publicly available market environment for the beginning of month value and the end of month value, respectively, plus any discounted accrued interest. Discounted accrued interest will be computed from the beginning of the month to last day of the month, will be day-count adjusted and will use the same starting discount rate used to value the overall MSR asset. For the avoidance of doubt prepayment model assumption updates and loan population updates will not be included in the computation of the starting to ending value change in the MSR for a given month.

The Client acknowledges and agrees that the MSR and hedge valuations used in calculating the above fees shall be determined by Blue Water.

Incentive Fees are based on investment profits and, as a result, creates an incentive for Blue Water to make

Investments on behalf of certain Clients that are riskier or more speculative than would be the case in the absence of such incentive fee. Performance-based fee/allocation arrangements creates an incentive to favor Clients that have greater performance fee/allocation arrangements over other Clients that have lesser or no performance fee/allocation arrangements.

Blue Water seeks to address these conflicts through careful vetting of investment opportunities by Blue Water's investment professionals, and full disclosure of Investments to the Clients by way of periodic reports. Further, Blue Water takes extensive efforts to ensure that definable market risks are measured, reviewed with appropriate Client oversight, and a robust system of risk limits is set forth by the Client in conjunction with any risk mitigation activities.

#### **Item 7: Types of Clients**

The minimum initial account value for Blue Water is \$7,000,000. Blue Water will advise Clients pursuant to advisory agreements. Underlying investors in private funds may include high net-worth individuals, financial institutions, corporations, sovereign wealth funds, endowment funds, charitable organizations, public and private pension funds and other investment funds. Generally, each underlying investor in a client must be an "accredited investor" as defined in Regulation D under the Securities Act of 1933, as amended, and a "qualified purchaser" as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). Certain employees of Blue Water who qualify as "knowledgeable employees" under Rule 3c-5 of the 1940 Act may be permitted to invest directly or indirectly in private funds advised by Blue Water. Blue Water also provides advisory services to Clients for the development and implementation of an MSR hedging framework, and ongoing hedge advisory.

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

The general investment strategy and methods of analysis that Blue Water employs in managing accounts, as well as the primary associated risks, are described below.

Clients should note that it is not possible to identify all of the risks associated with investing and that the particular risks applicable to a Client account will depend on the nature of the account, its investment strategy, and the characteristics of securities or assets held. Each Client's investment strategy is predicated upon credit analysis, and a research-based approach to financing and asset management designed to reduce risk while maximizing returns to investors. Blue Water will seek to structure Investments with downside protection and risk management through actively managing leverage ratios and hedging strategies prescribed by the Client's investment guidelines, and strict, research-based underwriting criteria.

Blue Water currently identifies opportunities to invest primarily in residential mortgage loan related assets, with an emphasis on mortgage loans and mortgage servicing rights. Blue Water also seeks to manage each account so that risks are appropriate to the mandate prescribed by each of the Clients. However, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss, and there can be no guarantee that a particular level of return will be achieved.

Because Blue Water limits its advice to particular types of Investments, Client accounts are not diversified, and are not intended as a complete investment program. Clients, as applicable, are responsible for appropriately diversifying assets to guard against the risk of loss. Blue Water does not offer any products or services that guarantee rates of return on Investments for any period to any Client. Clients assume the risk that investment returns may be negative or below the rates of return of other investment advisers or products, and should be prepared to bear the risk of loss.

## Methods of Analysis and Investment Strategies

Blue Water uses a range of methods to identify, analyze, and assess potential and existing investment opportunities. This may include arrangements with unaffiliated advisors for purposes of obtaining analyses that would assist Blue Water in its investment decision-making recommendation process. As a general matter, analytical methods used by Blue Water can include gain/loss forecast models, cash-flow models, other financial modeling and simulation, risk sensitivity analyses, charting, and fundamental, technical, and cyclical analysis.

Blue Water's analysis involves a variety of factors, such as cash yield, risk-adjusted returns, macro-economic environment, market concentration limits, credit concentration limits, liquidity, costs and availability of financing and hedging activities. Blue Water seeks Investments that it believes will generate both current income and capital appreciation.

However, as noted below, not every investment will perform as anticipated, and Investments may lose value, fail to produce current income and/or produce insufficient gains or income to offset expenses or other losses. Investing in securities and other instruments of the type and kind selected by Blue Water involves risk of loss that Clients and investors should be prepared to bear.

### *Certain Risk Factors*

Highly Competitive Market for Certain Types of Investment Opportunities. The activity of identifying, completing, and realizing on attractive residential mortgage assets that fall within the Clients' investment objectives may be, in certain cases, highly competitive, and involves a high degree of uncertainty and will be subject to market conditions. The Clients may expect to encounter competition from other entities having similar investment objectives, and others pursuing the same or similar opportunities. Potential competitors include other alternative investment firms, financial sponsors, corporations, business development companies, strategic industry participants, sovereign wealth funds, hedge funds, and other institutional investors. Further, over the past several years, an increasing number of real estate and real estate debt funds and other similar vehicles have been formed, and others have been consolidated. Other funds (including affiliates of the Clients) with overlapping investment objectives may be formed in the future, which may compete with the Clients for appropriate investment opportunities, and participate in certain Investments alongside the Clients. The Clients may also incur bid, due diligence, or other costs on investments which may not be successful. As a result, the Clients may not recover all of their costs, which may adversely affect returns. There can be no assurance that Blue Water will be able to identify, consummate, and exit Investments satisfying the Clients' investment criteria, or that such Investments will satisfy the Clients' rate of return objectives. Likewise, there can be no assurance that the Clients will be able to realize upon the values of their Investments, or that they will be able to fully invest their committed capital. To the extent that the Clients encounter competition for investments, returns may decrease. The Clients will be dependent upon the judgment and ability of Blue Water in sourcing transactions, and investing and managing the capital of the Clients.

Limited Number of Investments. The Clients will invest solely in mortgage related assets. The Clients will seek to acquire a diverse and balanced portfolio of Investments, but the number of Investments in which the Clients are invested may be limited. The Clients have no assurance as to the degree of diversification of the Investments. The Clients' investment portfolio may be concentrated into a limited number of investment opportunities. As a consequence, the aggregate return of the Clients may be adversely affected by the unfavorable performance of one or a limited number of Investments or the underlying real property or the borrower. Moreover, there are no assurances that all of the Investments

will perform well or avoid loss. Therefore, if certain Investments perform unfavorably, for the Clients to achieve above-average returns, one or a few of their Investments must perform very well. There are no assurances that this will be the case.

Investments and Joint Ventures with Third Parties. In light of the Clients' investment objectives, the Clients are expected to make mortgage Investments, which may not provide the Clients with control or influence over the underlying mortgage holder or the underlying property. Therefore, the Clients may have a limited ability to protect the underlying property which secures the mortgage. The Clients may also co-invest with other Clients and/or third parties through partnerships, joint ventures, or other similar arrangements, thereby acquiring portfolios of mortgage interests in certain real estate assets and property in conjunction with participation by one or more third parties in such investment, or which may involve the sharing (or allocation) of certain rights, including foreclosure rights, to one or more such other parties. Although the Clients may not have full control (such as the ability to foreclose) over these joint venture Investments, and therefore may have a limited ability to protect their position therein, Blue Water expects that appropriate rights will be negotiated to protect the Clients' interests. Nevertheless, such Investments may involve risks not present in Investments where another participant is not involved, including the possibility that such other participant may have economic or business interests or goals which are inconsistent with those of the Clients, or may be in a position to take (or block) action in a manner contrary to the Clients' investment objectives. In addition, the Clients may in certain circumstances be liable for the actions of their third party partners or co-investors.

Mortgage-Related Investment Risks Generally. The Clients will make Investments primarily relating to residential mortgage credit and prepayment-sensitive assets, including, but not limited to, mortgage whole loans such as jumbo and Federal Housing Administration ("FHA") insured reverse mortgages, second lien mortgages, jumbo prime and expanded criteria mortgages, residential construction loans, mortgage servicing rights, and securities and/or participation interests whose value is derived from mortgage credit and prepayment-sensitive assets. The Investments will be subject to the risks inherent in the ownership of mortgages. Deterioration of real estate fundamentals generally may negatively impact the performance of the Clients by making it more difficult for mortgage holders to satisfy their debt payment obligations, increasing the default risk applicable to mortgage holders, and/or making it relatively more difficult for the Clients to generate attractive risk adjusted returns. Other risks include, but are not limited to, the financial resources of borrowers, changes in availability of debt financing, changes in interest rates, the availability of mortgage funds, increased mortgage defaults, increases in borrowing rates, negative developments in the economy, and other factors that are beyond the control of Blue Water. The mortgages in which the Clients are expected to invest may be subordinated to substantial amounts of senior indebtedness. The Clients' Investments may be subject to refinancing options, prepayment options, or similar provisions which, in each case, could result in the borrower repaying the principal on an obligation held by the Clients earlier than expected, resulting in a lower return to the Clients than anticipated or underwritten. There can be no assurance that there will be a ready market for the resale of mortgage Investments because such Investments will generally not be liquid. Illiquidity may result from the absence of an established market for the Investments, as well as legal or contractual restrictions on their resale by the Clients. Accordingly, there can be no assurance that the Clients' rate of return objectives will be realized.

Mortgage Servicing Rights. MSRs provide an MSR owner with the right to service a pool of mortgages in exchange for a portion of the interest payments of the underlying mortgages. To the extent the Clients invests in MSRs, the Clients will be required to perform servicing obligations for the underlying mortgages. The Clients expect to retain sub-servicers to service mortgage loans within their

portfolio, including the mortgage loans underlying their MSR Investments. As a result, the Clients could be adversely affected if the Clients' sub-servicers are unable to properly service the mortgages due to a failure to comply with applicable laws and regulations, a downgrade in the sub-servicer rating or issues raised by external audits.

When the mortgages underlying the MSRs are prepaid, the related cash flows payable to the servicer cease. Borrowers of residential mortgage loans are generally permitted to prepay their loans at any time without penalty. An increase in the speed at which mortgage borrowers prepay their loans will reduce the ultimate cash flows to the servicers and may have an adverse effect on the Clients. In addition, to the extent the underlying mortgage borrowers become delinquent on payments and the delinquent loans are resolved through foreclosure, such loans will be liquidated and the related cash flows to the servicers will cease. An increase in delinquencies may also lead to higher cost of service due to increased resources expended to collect payments from delinquent borrowers and increased expenses as a result of the servicer advancing the payments, which could have an adverse effect on the Clients. Generally, the value of MSRs is based on cash flows projected from servicing the underlying mortgage loans and can vary based on factors including but not limited to prepayment speeds, changes in interest rates, costs to service the loans, and delinquency rates. Accordingly, the Clients' estimates and assumptions utilized to value the MSRs may be inaccurate and if loan delinquencies and prepayment speeds are higher than anticipated, the value of the MSRs may decrease, which could adversely affect the Clients.

The value of MSRs are particularly sensitive to changes in interest rates. Typically, the value of servicing related assets decreases when interest rates fall due to the effect on prepayment estimates because borrowers tend to refinance their mortgages when prevailing interest rates fall below the interest rates on their mortgage loans. In the event an underlying mortgage borrower refinances, the servicer may, subject to applicable law, be able to recapture the MSRs related to the borrower and assign the new MSR to the Clients. There can be no assurance that the servicer will be able to recapture the servicing rights, which could negatively impact the Clients. Derivatives may be used to hedge the risks associated with interest rates, but no hedging strategy can protect against interest rate risks completely.

Risks of Acquiring Mortgages. Mortgages acquired by the Clients may become nonperforming following their acquisition for a wide variety of reasons. Such nonperforming real estate loans may require a substantial amount of workout counseling, negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, and a substantial write down of the principal of such loan. Purchases of mortgages raise many risks, such as risks of illiquidity and lack of control. It is possible that the Clients may find it necessary or desirable to foreclose on collateral securing one or more residential mortgage assets purchased by the Clients. The foreclosure process varies by jurisdiction, and can be lengthy and expensive, and the ability of the Clients to access the collateral through repossession may also be limited by bankruptcy or other insolvency laws. Borrowers often resist foreclosure actions, which often prolongs and complicates an already difficult and time-consuming process. In some states or other jurisdictions, foreclosure actions can take up to several years or more to conclude. During the foreclosure proceedings, a borrower may have the ability to file for bankruptcy, potentially staying the foreclosure action, and further delaying the foreclosure process.

Foreclosure litigation tends to create a negative public image of the mortgage lender and the servicer, which can damage the reputation of the Clients, their affiliates, and Blue Water. Reputational damage can lead to increased operating, capital, and regulatory costs as well as have an adverse effect on the Clients' operations and investment performance. Reputation risk may lead to brand value loss and regulatory scrutiny and governmental investigations, given the sensitivity surrounding the mortgage

and housing industry. The Clients' reputation is a matter of perception that is a function of their perception among their various stakeholders such as investors, customers, counterparties, service providers, suppliers, employees, regulators, non-governmental organizations, and relationships with these stakeholders may be harmed as a result of reputational damage.

Risks of Acquiring Real Estate Property Through Foreclosure. If the Clients foreclose on collateral securing one or more real estate mortgages or other Investments, the Clients may acquire real property, which will subject the Investments to various risks, liabilities, and uncertainties, including the risk that the Clients are only able to sell the property at a price less than the amount of the outstanding balance of the mortgage and the risk that the Clients are only able to sell the property after an extended period of time. During that period, the Clients will continue to bear fixed expenses such as interest, real estate taxes, and maintenance. Ultimately, to the extent that the Clients are unable to sell any property, decreased cash flow will result, which could adversely impact the Clients' operating results.

The Clients may be required to expend funds to correct defects or to make improvements before a property can be sold. No assurance can be given that the Clients will have funds available to correct those defects, or to make those improvements. In addition, ownership of real property as a result of the foreclosure process involves a variety of risks, including penalties associated with various federal, state and local laws, ordinances, and regulations. These factors and others that could impede the Clients' ability to respond to adverse changes in the performance of their properties could significantly affect the Clients' financial condition and operating results.

Underlying Default Risks. To the extent underlying default rates with respect to the residential mortgage assets in which the Clients invests occur or otherwise increase, the performance of the Investments may be adversely affected. The rate of defaults and losses on residential mortgage assets will be affected by a number of factors, including economic conditions, the residential real estate market, the borrower's equity, and the financial circumstances of the borrower. A decline in specific markets or regional commercial and residential property values may result in higher delinquencies or defaults as borrowers may not be able to retire or refinance their outstanding debt obligations at their due dates due to insufficient value of equity in the properties, which may adversely affect the performance of the Investments.

Residential Real Estate Investments. The Clients are expected to invest in financing opportunities relating to certain residential real estate assets or portfolios thereof. In such circumstances, the performance of such Investments may become increasingly susceptible to adverse changes in prevailing economic and employment conditions in the United States. The Clients' ability to invest in residential mortgage assets (including providing financing for potential owners and operators of residential real estate assets or portfolios thereof) may depend upon their ability to strategically partner with established and sophisticated operating partners and third parties. Any downturn in the U.S. or global economies may adversely affect the financial condition of residential owners, making it more difficult for them to meet their periodic repayment obligations relating to certain residential real estate properties, which could adversely impact the Clients' investment performance. In addition, there can be no assurance that the Clients will be able to effectively partner with suitable operating partners and third parties in connection with their residential real estate-related investment activities, which may impact the Clients' ability to effectively identify and consummate such Investments.

Market Conditions; Discounts to Par Value. The Clients' investment strategies with respect to certain Investments (or types of Investments) may be based, in part, upon the premise that residential mortgage assets that are otherwise performing may from time to time be available for purchase by the Clients at "discounted" rates or at "undervalued" prices. Purchasing debt instruments and/or other interests at what may appear to be "undervalued" or "discounted" levels is no guarantee that these Investments will generate attractive risk-adjusted returns to the Clients, or will not be subject to further reductions in value. No assurance can be given that residential mortgage assets can be acquired at favorable prices or that the market for such interests will continue to improve since this depends, in part, upon events and factors outside the control of Clients, their affiliates, and Blue Water. In addition, there can be no assurance that the market conditions for investing in residential mortgage assets may not deteriorate further, which could have an adverse effect on the performance of the Investments. While due diligence will be performed in connection with each of the Investments, there may be an increased risk that the documentation relating to an Investment in residential mortgage assets may contain a material statement, omission, or misrepresentation, which may adversely affect the performance of such Investment.

Interest Rate Fluctuations. General fluctuations in the market prices of securities and interest rates may adversely affect the value of the Investments and/or increase the risks associated inherent in such Investments. Interest rate changes may affect the value of a debt instrument directly (in the case of adjustable rate instruments), or indirectly (in the case of fixed rate instruments). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument, and falling interest rates will have a positive effect on price. In addition, interest rates affect the mortgage industry and the housing market generally with respect to the property value securing the mortgage, the amount of mortgages that originators can provide, the number of borrowers eligible to obtain mortgages, and whether existing borrowers can refinance their mortgages. To the extent the borrowers of mortgages held by the Clients refinance with another lender, the Clients may be adversely affected.

Acquisition Risk. The success and pace of the Clients' acquisition of Investments depends on the availability of residential mortgage assets that meet the Clients' purchase criteria. The supply of mortgages whose borrowers have criteria that meet the Clients' borrowing standards may be limited by the supply of the originators such as Finance of America Mortgage LLC and Finance of America Reverse LLC (together, "Finance of America"), and thus the period required for the Clients to build up a portfolio could be extremely long, and the prices for such mortgages may be higher than standard pricing models predict. Terms of mortgages are subject to change based on a variety of factors, and there can be no assurance that the Clients will be able to source mortgages on terms acceptable to the Clients.

Changes in the economy and other changed circumstances may result in a reduced supply of residential mortgage assets. Such changes could result from, among other things: (i) deterioration in the economy; (ii) increased interest rates; (iii) changes in law requiring the Clients to apply more stringent credit standards in purchasing mortgages; (iv) the entry into the market of less reputable originators who submit inaccurate or false origination information to the Clients; or (v) the establishment of new licensing requirements for market participants, and a delay in complying or an inability to comply with such new requirements. A change in the availability of mortgages could adversely affect the ability to execute the Clients' investment strategy and meet their investment objectives.

Derivatives; Hedging; Policy and Counterparty Risk. The Clients may engage in derivative or similar transactions as part of their mortgage and real estate debt and risk management programs, the use of

which is a highly specialized activity that may entail greater than ordinary investment risks. These transactions may involve the use of forward contracts, swap agreements (such as credit default swaps, interest rate swaps, or total return swaps), put and call options, floors, collars, bilateral agreements, or other arrangements. Such instruments may be difficult to value, may be illiquid, and may be subject to wide swings in valuation. The Clients may also seek to utilize derivative instruments to replicate the economics of an otherwise permitted investment in lieu of making such investment directly. Derivative instruments related to mortgages may be illiquid, highly-volatile, and subject to interruption. Suitable hedging instruments may not continue to be available at reasonable cost, and any such hedging transactions for debt and interest rates may not be effective in mitigating risk in all market conditions or against all types of risk (including unidentified or unanticipated risks), thereby resulting in losses to the Clients. The investment techniques related to derivative instruments are highly specialized, and may be considered speculative. Such techniques often involve forecasts and complex judgments regarding relative price movements and other economic developments. The success or failure of these investment techniques may turn on small changes in exogenous factors not within the control of the Clients, their affiliates, and/or Blue Water. Engaging in hedging and derivative transactions may result in a poorer overall performance for the Clients than if they had not engaged in any such hedging transaction, and Blue Water may not be able to effectively hedge against, or accurately anticipate, certain risks that may adversely affect the Clients' investment portfolio. In addition, the Clients' investment portfolios will always be exposed to certain risks that cannot be fully or effectively hedged, such as credit risk relating both to particular securities and counterparties. Moreover, derivative agreements and contracts entered into by the Clients may be subject to the risk that one or more counterparties may experience financial hardship or default on their payment obligations to the Clients, which may adversely affect the value and/or effectiveness of such derivative instruments. Concentrations of such derivatives in any one counterparty would subject the Clients to an additional degree of risk with respect to defaults by such counterparty. For all of the foregoing reasons, the use of derivatives and related techniques with respect to residential mortgage assets can expose the Clients and the Investments to significant risk of loss.

Risks Relating to Due Diligence of Investments. The Clients will rely on service providers and originators to conduct due diligence of the underlying mortgage borrowers before making Investments. The asset managers and originators will typically conduct due diligence that they deem reasonable and appropriate based on the facts and circumstances applicable to each mortgage-related asset and the underlying collateral. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, environmental, real property, and legal issues. Outside consultants, legal advisors, accountants, real property surveyors, investment banks, and other third parties will be involved in the due diligence process to varying degrees depending on the type of investment. Although the Clients, Blue Water, and other managers will conduct diligence of the advisors and consultants, reliance on such advisors or consultants may present a number of risks primarily relating to the Clients' reduced control of the functions that are outsourced. In addition, if the Clients are unable to timely engage such service providers, their ability to evaluate and acquire more complex pools of loans could be adversely affected. When conducting due diligence and making an assessment regarding an Investment, the Clients will rely on the resources available to it, including information provided by the originators of the Investment, and, in some circumstances, third party investigations. The due diligence investigation that the Clients carries out with respect to any debt investment opportunity may not reveal or highlight all relevant facts relevant to the underlying real property or borrower that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the Investment being successful. There can be no assurance that attempts to sufficiently due diligence possible investment opportunities will achieve their desired effect.



Legal, Tax and Regulatory Risks. Legal, tax, and regulatory changes could occur during the term of the Clients that may adversely affect the Clients. For example, from time-to-time, the market for private equity real estate transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions.

The regulatory environment for private investment funds is evolving, and changes in the regulation of private investment funds may adversely affect the value of Investments held by the Clients, and the ability of the Clients to effectively employ their investment and trading strategies. Increased scrutiny and newly proposed legislation applicable to private investment funds and their sponsors may also impose significant administrative burdens on Blue Water, and may divert time and attention from portfolio management activities. In addition, and in particular in light of the changing global regulatory climate, the Clients may be required to register under certain foreign laws and regulations, and need to engage distributors or other agents in certain jurisdictions in order to market interests to potential investors. The effect of any future regulatory change on the Clients could be substantial and adverse. In addition, the securities and futures markets are subject to comprehensive statutes, regulations, and margin requirements. The SEC, other regulators, and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law, and is subject to modification by government and judicial action.

Change of Law Risk. The Clients expect to operate in an environment with increasing regulatory scrutiny and heightened potential for material changes in laws and/or regulations, which could affect the Clients and the Investments. Any such legal, tax, and/or regulatory changes during the term of the Clients may adversely affect the Clients, the funds industry, and/or the Clients' operations. The Clients also could be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations or policy-making that impose more comprehensive or stringent requirements on the Clients or the Investments. Governments have considerable discretion in implementing regulations, including, for example, the possible imposition or increase of taxes on income earned by the Clients, or gains recognized by the Clients that could impact the Clients' business and the Clients' return on investment with respect to the Clients' business. In addition, current and/or future legislation related to residential mortgage assets may also restrict the ability of certain types of investors from participating in the Clients or restrict the ability of the Clients to make certain Investments.

Terrorist Activities. The continued threat of global terrorism, and the impact of military and other action will likely continue to cause volatility in the debt market, and could affect the Clients' financial results. To the extent the Clients invests in mortgages, the Investments may involve mortgages secured by real estate exposed to a greater risk of being the subject of a terrorist attack. Any terrorist attacks that occur at or near real estate in which a Client holds a mortgage would likely cause significant harm to homeowners, property, and, potentially, the surrounding community, and may result in losses far in excess of available insurance coverage. As a result of global events and continued terrorism concerns, insurers significantly reduced the amount of insurance coverage available for liability to persons other than employees for claims resulting from acts of terrorism, war, or similar events. As a result of terrorist attack or terrorist activities in general, the Clients may not be able to obtain insurance coverage and other endorsements at commercially reasonable prices or at all.

Force Majeure Risk. Investments may be affected by force majeure events (i.e., events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic, or any other serious public health concern, war, terrorism, and labor strikes). Some force majeure events may adversely affect the ability of a party (including the Clients or a counterparty to the Clients) to perform their obligations until they are able to remedy the force majeure event. In addition, the cost to the mortgage borrower and underlying holder of real estate of repairing or replacing damaged real estate assets resulting from such force majeure event could be considerable, which would negatively affect the mortgage borrower's ability to repay residential mortgages and mortgage-related debt. Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative impact on the world economy and international business activity generally, or in any of the countries in which the Clients may invest specifically. Additionally, a major governmental intervention into industry, including the re-nationalization of an industry (including the mortgage industry), or the assertion of control over the Clients or their assets, could result in a loss to the Clients, including if their Investments are canceled, unwound or acquired (which could be without what the Clients considers to be adequate compensation). Any of the foregoing may therefore adversely affect the performance of the Clients and the Investments.

Financial Leverage; Incurrence of Indebtedness. The use of leverage will increase exposure of the Clients to adverse economic factors such as rising interest rates, downturns in the economy, or deteriorations in the condition of the Clients, the Investments or the mortgage industry. Moreover, any rise in interest rates may significantly increase the underlying mortgage borrower's interest expense, causing losses, and/or the inability to service their debt obligations. If a mortgage borrower cannot generate adequate cash flow to meet mortgage and debt obligations, the Clients may suffer a partial or total loss of capital.

The Clients may utilize substantial leverage in connection with the investment activities of the Clients generally, and may enter into one or more credit facilities, guarantees or other credit support arrangements, which may be secured by the assets of the Clients.

The use of leverage involves a high degree of risk and will increase the exposure of the Investments to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the credit markets generally. Although borrowings by the Clients have the potential to enhance overall returns that exceed the Clients' cost of funds, they will further diminish returns (or increase losses) to the extent overall returns are less than the Clients' costs of funds. Leverage provides the Clients with advantages, but exposes each to greater market risks and higher expenses. If the Clients default on secured indebtedness, the lender may foreclose and the Clients could lose their entire investment in the security for such loan. A credit facility at the fund level may also place restrictions on payments to equity holders, including prohibitions on payments in the event of any default (or continuance thereof) under such credit facility. To the extent that the Clients co-invest funds with vehicles managed or controlled by Blue Water, the Clients may incur indebtedness and guarantee obligations together with such vehicles on a joint and several or cross-collateralized basis on an investment-by-investment, or portfolio wide basis. Such arrangements may not necessarily impose reciprocal joint and several obligations on all such vehicles. As a result, the Clients may be required to contribute amounts in excess of their *pro rata* share, including additional capital to make up for any shortfall if such vehicles are unable to repay their *pro rata* share of such indebtedness. Moreover, the Clients could also lose their interests in performing Investments in the event such performing Investments are cross-collateralized with poorly performing or non-performing Investments.

Illiquid and Long-Term Investments; Investments Longer than Term. The success of the Clients will depend on a long-term commitment to mortgages and real estate debt with no certainty of return. Most of the Investments will be highly illiquid, and there can be no assurance that the Clients will be able to realize on such Investments in a timely manner. Although Investments by the Clients may generate some current income, the return of capital and the realization of gains, if any, from an Investment generally will occur only upon the partial or complete disposition, refinancing, or securitization of such debt Investment. While an Investment may be sold at any time, it is not generally expected that this will occur for a number of years after the Investment is made, and some Investments may not be advantageously disposed of prior to the date the Clients will be dissolved, either by expiration of the Clients' term or otherwise. It is unlikely that there will be a public market for the Investments and securities held by the Clients at the time of their acquisition. Therefore, no assurance can be given that, if the Clients are determined to dispose of a particular Investment held by the Clients, it could dispose of such Investment at a prevailing market price, and there is a risk that disposition of such Investments may require a lengthy time period, or may result in distributions in kind to investors. The Clients may have to sell, distribute, or otherwise dispose of Investments at a disadvantageous time as a result of dissolution. The Clients will generally not be able to sell the Investments through the public markets unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. Additionally, there can be no assurances that the Investments can be sold on a private basis. In addition, in some cases the Clients may be prohibited by contract or legal or regulatory reasons from selling certain securities for a period of time.

Contingent Liabilities on Disposition of Investments. In connection with the disposition of an Investment, the Clients may be required to make certain representations about the business, financial affairs and other aspects (such as environmental, property, tax, insurance, and litigation) of such Investment typical of those made in connection with the sale of real estate. The Clients also may be required to indemnify the purchasers of such Investment to the extent that any such representations are inaccurate, or with respect to certain potential liabilities.

Bridge Financings. From time to time, the Clients may provide interim financing to the extent necessary to consummate the purchase of Investments prior to completion of longer term debt financing, or prior to the receipt of capital contributions. Such bridge loans would typically be convertible into a more permanent, long-term security; however, for reasons not always in the Clients' control, such long-term securities issuance or other refinancing or syndication may not occur, and such bridge loans and interim Investments may remain outstanding. In such event, the interest rate on such loans or the terms of such interim Investments may not adequately reflect the risk associated with the unsecured position taken by the Clients.

Uncertainty of Estimates and Financial Projections. Estimates or projections of real estate and market conditions and supply and demand dynamics are key factors in evaluating potential investment opportunities, and valuing the Investments and related assets. These estimates are subject to wide variances based on changes in interest rates, market conditions, underlying assumptions, and technical or investment-related assumptions. Accordingly, it is possible for such estimates to be significantly revised from time to time, creating significant changes in the value of the company subject to such factors. Projected operating results will often be based on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections.

General economic conditions, which are not predictable, can have a material adverse impact on the reliability of such projections.

General Economic and Market Conditions. The success of the Clients' investment activities will be affected by general economic, real estate, and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in applicable laws (including laws relating to taxation of the Investments), trade barriers, currency exchange controls, the rate of inflation and local, national and international political, and environmental and socioeconomic circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity of the Clients' Investments, which could impair the Clients' profitability or result in losses. There are also no assurances that yields on the Investments will be stable, and volatility in yields may materially adversely affect the Clients' performance. In addition, general fluctuations in the market prices of securities and interest rates may affect the Clients' investment opportunities, and the value of the Clients' Investments. A recession, slowdown, and/or sustained downturn in the

U.S. or global economy and real estate market (or any particular segment thereof), or weakening of credit markets (including a perceived increase in counterparty default risk) could adversely affect the Clients' profitability, impede the ability of the Investments to perform under or refinance their existing obligations, and impair the Clients' ability to effectively deploy their capital and realize Investments on favorable terms. Any of the foregoing events could result in substantial or total losses to the Clients in respect of certain of the Investments, which losses will likely be exacerbated by the presence of leverage in the Clients' capital structure. Any market turmoil, coupled with the threat of an economic slow-down, as well as a perceived increase in counterparty default risk, may have an adverse impact on the availability of credit to businesses generally, which in turn may adversely affect or restrict the ability of the Clients to sell or liquidate Investments at favorable times or at favorable prices, or which otherwise may have an adverse impact on the business and operations of the Clients, restrict the Clients' investment activities, and/or impede the Clients' ability to effectively achieve their investment objective.

Financial Market and Interest Rate Fluctuations. General fluctuations in the market prices of securities and/or interest rates may adversely affect the value of the Investments, and/or increase the risks associated inherent in the Investments. The uncertain state of global credit markets may make it difficult for the Clients to obtain favorable financing terms for their Investments. Any deterioration of the global debt markets (particularly the U.S. debt markets), any possible future failures of certain U.S. financial services companies and a significant rise in market perception of counterparty default risk, interest rates, and/or taxes will likely significantly reduce demand and liquidity for debt, which in turn is likely to lead certain lenders to be unwilling or significantly less willing to finance new Investments, or to only offer committed financing for Investments on less favorable terms than had been prevailing in the recent past. The Clients' ability to generate attractive investment returns may be adversely affected to the extent the Clients are unable to obtain favorable financing terms for their Investments. In the event that the Clients are unable to obtain committed debt financing for potential acquisitions, or can only obtain debt at an increased interest rate or on unfavorable terms, the Clients may have difficulty completing otherwise profitable acquisitions, or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned. Any market turmoil, as well as a perceived increase in counterparty default risk, may have an adverse impact on the availability of credit to businesses generally, and may lead to an overall weakening of the U.S. and global economies. Such an economic downturn could adversely affect the financial resources of mortgage borrowers in which the Clients have invested, and result in the inability

of such borrowers to make principal and interest payments on outstanding debt when due. In the event of such defaults, the Clients may suffer a partial or total loss of capital invested in such mortgages, which could, in turn, have an adverse effect on the Clients' returns. Such marketplace events may also adversely affect or restrict the ability of the Clients to sell or liquidate Investments at favorable times or at favorable prices, or which otherwise may have an adverse impact on the business and operations of the Clients. Interest rate changes may also affect the value of mortgages directly (in the case of adjustable rate mortgages), or indirectly (in the case of fixed rate mortgages). In general, rising interest rates will negatively impact the price of a fixed rate mortgage, and falling interest rates will have a positive effect on price. While interest rates are currently expected to remain at favorable rates in the near term, the U.S. Federal Reserve is expected to increase benchmark interest rates in the future, which would be expected to negatively impact the price of debt securities, and could adversely affect the value of the Clients' Investments.

Valuation Matters. The carrying value of an Investment may not reflect the price at which the investment could be sold in the market, and the difference between carrying value and the ultimate sales price could be material. The valuation of the Investments will affect the amount and timing, under certain circumstances, of the amount of Management Fees and Blue Water Incentive Fees payable to Blue Water.

Underwriting Standards. Blue Water may acquire residential mortgage assets from various unaffiliated savings institutions, finance companies, and other sellers. In selecting residential mortgage assets, Blue Water expects to obtain information as to the underwriting standards that were applied in originating the mortgage loans, but may not be able to do so in whole or in part. Certain of the residential mortgage assets may not have been underwritten to the standards or requirements expected for the product type, even if the seller has represented that such residential mortgage assets have been properly underwritten, in which case the risk of loss may be increased. In addition, to the extent that the failure to comply with underwriting standards relates to an agency MSR, the Client may be subject to the enforcement of rights and remedies by Fannie or Freddie, such as repurchasing the related residential mortgage loan, or providing an indemnity payment.

Litigation. In the ordinary course of business, Blue Water or a Client may become a party to litigation, disputes, or other potential claims. There are no known current or pending material litigation, disputes, or other potential claims.

Risks Associated with Forward Trades. Clients may invest in forward transactions. Forward contracts and options thereon are not traded on exchanges, and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements, and speculative position limits are not applicable. For example, there are no requirements with respect to record-keeping, financial responsibility, or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or counterparty being contracted with to fulfill its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which a Client has a forward contract. Although Blue Water will seek to trade with reliable counterparties directed by Clients, failure by a counterparty to fulfill its contractual obligation could expose such Client to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade, and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain

currencies or commodities, or have quoted prices with unusually wide spreads between the prices at which they were prepared to buy and those at which they were prepared to sell. Disruptions can occur in forward markets due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to a lower volume than that which Blue Water would otherwise recommend, to the possible detriment of the Clients. Market illiquidity or disruption could result in significant losses to the Clients.

**Risks Associated with Repurchase Agreements.** A Client may enter into repurchase agreements. When a Client enters into a repurchase agreement, such Client effectively sells assets to a broker- dealer or financial institution and agrees to repurchase such assets for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. A Client may enter into repurchase agreements to, among other things, increase its leverage, subjecting it to the risks noted above. In addition, the Client may be forced to post margin or repurchase the assets under the terms of the repurchase agreements. To the extent that the Client is unable to provide the funds for such margin or repurchase, or otherwise defaults under a repurchase agreement, the repurchase counterparty may exercise rights and remedies (such as the sale of assets) resulting in losses to the Client.

**Certain Risks Associated with Cybersecurity.** Investment advisers, including Blue Water, rely in part on digital and network technologies (collectively, “cyber networks”) to conduct their businesses. Such cyber networks might in some circumstances be at risk of cyberattacks that could potentially seek unauthorized access to digital systems for purposes such as misappropriating sensitive information, corrupting data, or causing operational disruption. Cyberattacks might potentially be carried out by persons using techniques that could range from efforts to electronically circumvent network security to intelligence gathering and social engineering functions aimed at obtaining information necessary to gain access. Blue Water maintains an information technology security policy and various technical and physical safeguards designed to protect the confidentiality of its data. Nevertheless, cyber incidents could potentially occur, and might in some circumstances result in unauthorized access to sensitive information about Blue Water and/or its Clients.

#### **Item 9: Disciplinary Information**

Blue Water is not aware, after having conducted reasonable due diligence on itself and its management personnel, of any legal or disciplinary events that would be material to a Client (or prospective Client), or a Client’s evaluation of Blue Water’s advisory business, or the integrity of its management personnel.

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

Blue Water Financial Technologies, or “Blue Water” is the marketing name for a group of affiliated companies through common control. Investment advisory services are provided by Blue Water Financial Technologies, LLC which is registered with the SEC under the Investment Advisers Act of 1940. A suite of technology enabled services are provided by Blue Water Financial Technologies Services, LLC . Individuals employed by Blue Water Financial Technologies Services, LLC may also be employed by or recommend Blue Water Financial Technologies, LLC’s services. Such products or services are separate and distinct from Blue Water Financial Technologies, LLC advisory services and will be charged separately. Blue Water Financial Technologies Services, LLC provides fintech services related to MSR’s including services related to secondary MSR transfers through its MSR-X platform.

All services are provided through separate agreements with each company. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation.

For more information regarding Blue Water's Services, please visit [www.bluewater-fintech.com](http://www.bluewater-fintech.com).

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

Blue Water has adopted a Code of Ethics for all supervised persons of the Firm describing its high standard of business conduct, and fiduciary duty to its Clients. Clients may request a copy of the Code of Ethics at any time, at no charge. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Blue Water must acknowledge the terms of the Code of Ethics annually, or as amended.

Advisors of Blue Water may buy or sell securities that are traded in Client accounts. Blue Water's employees and persons associated with Blue Water are required to follow the Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Blue Water may trade for their own accounts in securities which are recommended to and/or purchased for Blue Water's Clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Blue Water will not interfere with (i) making decisions in the best interest of advisory clients; and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of Blue Water's Clients. In addition, the Code of Ethics requires pre-approval of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as Clients, there is a possibility that employees might benefit from market activity by a Client. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Blue Water and its Clients.

Advisors may buy or sell securities, at or around the same time as those securities are traded in Client accounts. This practice creates a conflict of interest in that Blue Water or its Access Persons are in a position to benefit from the sale or purchase of those securities. Blue Water's Code of Ethics provides a policy to monitor the personal trading activities and securities holdings of each of the Firm's Access Persons. The Code of Ethics's personal trading policies include procedures for limitations on personal securities transactions of associated persons, reporting and review of such trading. These policies are designed to discourage and prohibit personal trading that would disadvantage Clients.

Blue Water's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the Compliance Department at our main number.

#### **Item 12: Brokerage Practices**

Blue Water requires that Clients select their broker-dealers for executing transactions. Each Client selects a broker-dealer based on factors important to them. Transactions are directed to the specified broker-dealer; Blue Water does not select the broker-dealer to execute transactions. Clients will negotiate the terms and arrangements with their broker-dealer of choice, and Blue Water will not be in a position to seek better execution services or prices from other broker-dealers. By directing brokerage, Blue Water may not be able to achieve the most favorable execution of Client transactions, and this practice may cost Clients more money. Additionally, due to this arrangement, Blue Water is not in a position to aggregate purchases and sales for various Client accounts. Please note that not all investment advisers require that

their Clients direct brokerage.

Blue Water does not generally seek in advance competitive bidding for the most favorable commission rate applicable to any particular purchase, sale or other transaction, or to select any broker-dealer on the basis of its purported or “posted” commission rate, but endeavors to be aware of the current level of charges of eligible broker-dealers and to minimize the expense incurred for effecting purchases, sales, and other transactions to the extent consistent with the interests and policies of the Clients. Although Blue Water will generally seek competitive commission rates, it is not required to pay the lowest commission or commission equivalent, provided that such decision is made to promote the best interests of the Clients.

### **Item 13: Review of Accounts**

Depending on the Client, Blue Water’s Portfolio Managers, Blue Water’s investment committee, or the primary investment manager is responsible for evaluating investment opportunities, making investment decisions, reviewing Client portfolios. A second level of review is done on a monthly basis, and a third level of review is done on a quarterly basis. Clients’ asset allocations are reviewed at least quarterly, and more often if market conditions warrant. The key aspects of Blue Water’s management processes are as follows:

- (i) Blue Water regularly reviews international and domestic events to determine the effect on positions held by the Clients;
- (ii) Blue Water has regular risk reporting to facilitate investment ideas, economic developments, current events, investment strategies, issues related to the Clients’ holdings, etc.;
- (iii) Blue Water reviews its exposure levels and other criteria on a regular basis in an effort to ensure that it is operating within allowable risk parameters;
- (iv) Blue Water reviews buy and sell levels on a daily basis; and
- (v) All transactions are reconciled by Blue Water on a daily basis.

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

Blue Water Financial Technologies, LLC, in some instances, compensates third-party solicitors for client referrals. The solicitor’s agreements entered into by Blue Water comply with Rule 206(4)-3 under the Investment Advisers Act of 1940. Currently, Blue Water has an agreement with Lance Smith, and Jason Sweeney. Additional solicitor agreements may be initiated, or existing ones terminated at any time. Compensation will be based on a percent of referred clients’ monthly invoiced fees. Such fees are paid pursuant to a written agreement between Blue Water and the solicitor. A client who is solicited will receive an additional disclosure document specifically describing the arrangement and the compensation paid to the solicitor. Solicitor’s fees will be based on Blue Water’s normal fee schedule; clients will not be charged any additional fees or expenses as a result of the referral. Employees of Blue Water Financial Technologies Services, LLC may also from time to time refer clients to Blue Water Financial Technologies, LLC.

Blue Water Financial Technologies, LLC does not receive economic benefits by anyone other than Clients for providing investment advice and other advisory services.

### **Item 15: Custody**

Clients should receive statements at least quarterly from the qualified custodian that holds and maintains client’s investment assets. Blue Water urges clients to carefully review such statements and compare the official custodial records to the account statements that Blue Water provides. Our statements may vary



from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

**Item 16: Investment Discretion**

Blue Water maintains non-discretionary investment authority for other Clients. In such instances, all investment recommendations will be approved by the Client prior to execution.

**Item 17: Voting Client Securities**

Blue Water's Clients primarily hold Investments which typically do not issue proxies. Therefore, as a matter of Firm policy and practice, Blue Water will not vote proxies with respect to Clients' securities.

*Class Actions*

Subject to the applicable advisory agreement with a Client engaging Blue Water to provide advisory services, Blue Water has the authority to direct the Clients' participation in class actions. The applicable investment committee or authorized investment personnel determine whether the Clients will (a) participate in a recovery achieved through a class action, or (b) opt out of the class action and separately pursue their own remedy. The Chief Compliance Officer and the applicable investment committee or authorized investment personnel evaluate any conflicts of interest with regard to participating in a class action and determine an appropriate course of action for Blue Water on behalf of the applicable Clients. Blue Water generally does not serve as the lead plaintiff in class actions because the costs of such participation typically exceed any extra benefits that accrue to lead plaintiffs.

**Item 18: Financial Information**

Registered Investment Advisers are required to provide you with certain financial information or disclosures about their financial condition. Blue Water Financial Technologies, LLC parent company Blue Water Financial Technologies Holding Company, LLC applied for and received a Paycheck Protection Program (PPP) loan. PPP loans were made available through the CARES Act and provide a direct incentive for small businesses during the unprecedented times caused by the COVID-19 pandemic. Blue Water Financial Technologies Holding Company, LLC applied for the loan due to the current economic uncertainty and used the funds received from the PPP loan to pay the salaries of its subsidiaries' employees.

**Privacy Policy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any non-public personal information about you to any non-affiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to non-public personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your non-public personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

We may share your information with affiliated firms to market services to you, including software or other technology services. Affiliates of Blue Water Financial Technologies, LLC include Blue Water Financial Technologies Services, LLC and Blue Water Financial Technologies Holdings Company, LLC.

“Opting-out” of Third-Party Disclosures: If you do not want your account representative to disclose copies of your client sensitive information to affiliates of Blue Water Financial Technologies, LLC, you may contact our Compliance Department by calling (612) 286-0394.

Customers will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to customers on an annual basis. Contact our main office at (866) 217-0246 if you have any questions regarding this policy.