

ITEM 1 – COVER PAGE



**THE PALISADES GROUP, LLC
PALISADES INVESTMENT PARTNERS I, LLC**

PART 2A FIRM BROCHURE

MARCH 30, 2020

**6001 BOLD RULER WAY, SUITE 110
AUSTIN, TEXAS 78746**

www.palisades.us.com

This Firm Brochure provides information about the qualifications and business practices of The Palisades Group, LLC ("TPG"), and Palisades Investment Partners I, LLC ("PIP I"). TPG is the filing adviser and PIP I is a relying adviser. Together, TPG, and PIP I are referred to herein as the "Registered Advisers" or "Palisades." If you have any questions about the contents of this Brochure, please contact us at (512) 361-2023. 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.

The Registered Advisers are registered as investment advisers with the Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

This Brochure does not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services.

Additional information about the Registered Advisers is available on the SEC's website at www.adviserinfo.sec.gov.

ITEM 2 – MATERIAL CHANGES

This Item 2 summarizes the material changes to this brochure since the last annual amendment dated March 26, 2019.

In early 2020, we relocated our headquarters to 6001 Bold Ruler Way suite 110, Austin Texas 78746.

In March 2019, we launched Bespoke Real Estate Services, LLC (“Bespoke”) whose business is to perform, or cause to be performed, property inspections, property preservation activities and construction services prior to listing a property for sale. Bespoke provides services to certain of our Clients, including the Discretionary Funds (as defined in Item 4); however, Bespoke does not charge a fee on the services provided to our Discretionary Funds, other than third party expenses incurred on behalf of the Funds.

On July 19, 2019, Palisades Ops Holdings, LLC an affiliate of The Palisades Group, LLC purchased a controlling interest in Global Mortgage Group, LLC (“Global”). Global is Headquartered in San Jose Del Cabo, B.C.S. Mexico and provides cross-border financing to foreigners (U.S. citizens) purchasing real estate in Mexico as 2nd homes and vacation properties.

On May 1, 2019, TPG hired John “Alex” Kaczmariski to serve as the Firm’s Chief Financial Officer. Mr. Kaczmariski is a Certified Public Accountant and has well over twenty years serving as an accountant in the investment industry. Mr. Kaczmariski graduated from the University of Texas with a BBA in Accounting.

This Item 2 discusses only material changes since the last annual amendment. We have made other changes and this updated brochure should be read in its entirety. Pursuant to SEC rules, we will ensure that you receive a summary of any materials changes to this and subsequent brochures within 120 days of the close of our business’ fiscal year. We encourage everyone to read this brochure in its entirety.

A free copy of our brochure may be requested by contacting us at (512) 361-2023.

Additional information about Palisades is also available via the SEC’s web site.

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ITEM 4 – ADVISORY BUSINESS**A. Principal Owners and Background**

The Palisades Group, LLC (“TPG”), a Delaware limited liability company, is a mortgage credit, real estate, and fixed income investment advisory firm founded by Stephen M. Kirch and Jack L. Macdowell, Jr. in 2012. TPG is a wholly owned subsidiary of Palisades Holdings II, LLC (“Holdings II”), which is in turn a wholly owned subsidiary of Palisades Holdings I, LLC (“Holdings I”). Mr. Macdowell is the principal owner of Holdings I.

Palisades Investment Partners I, LLC (“PIP I”) was formed in 2017 to act as a sub-adviser to an unaffiliated investment adviser for a privately offered pooled investment vehicle. PIP I is a wholly owned subsidiary of The Palisades Group, LLC (“TPG”) and is a relying adviser with respect to TPG’s investment adviser registration. We refer to TPG and PIP I collectively as “Palisades” or the “Registered Advisers.”

Mr. Macdowell, is our Chief Investment Officer, and manages our investment advisory business.

B. Types of Advisory Services

The advisory business of Palisades primarily consists of providing investment advisory services to privately offered pooled investment vehicles (“Funds”), including two Funds the general partners of which are affiliates of TPG (the “Discretionary Funds”), as well as insurance companies and other institutional clients (collectively “Clients”) whose strategies are focused on making direct investments in residential mortgage loans, real estate, including residential real estate owned as a result of foreclosure (“REO”), residential mortgage-backed securities (“RMBS”) and other real estate related assets. Palisades also provides investment advice regarding the acquisition and management of mortgage loans and real estate related assets including sourcing, valuation, analytical services, and portfolio and risk management strategies. In addition, Palisades provides transaction settlement and mortgage loan document remediation services to its advisory Clients. As part of the normal course of managing certain mortgage loan portfolios, Palisades performs due diligence on mortgage loan servicing partners, negotiates terms of servicing arrangements and retains certain rights to direct the servicers’ activities, and transfer the servicing duties with or without cause.

Services and activities performed by Palisades for Clients may include one or more of the following:

- (i) investigating, identifying, analyzing, evaluating and selecting on a discretionary and non-discretionary basis possible investment opportunities, and negotiating, acquiring, financing, managing, monitoring, selling, restructuring, or disposing of assets consistent with the Client’s investment or asset management guidelines;
- (ii) negotiating financing arrangements, including credit facilities (including term loans and revolving credit facilities), securitizations, warehouse facilities, repurchase agreements, and similar agreements and engagements;
- (iii) evaluating hedging activities on the Client’s behalf;

(iv) performing due diligence on, negotiating commercial arrangements with and supervising parties and independent contractors that provide real estate, investment banking, mortgage brokerage, mortgage loan servicing, appraisal, securities brokerage, underwriting review, due diligence, insurance, legal and accounting and other, legal or administrative financial services, and similar services; and

(v) performing management services as may be required from time to time and other activities relating to the Client's assets and business as the Client shall reasonably request.

C. Tailoring of Advisory Services

Palisades tailors its investment advisory services in accordance with the investment objectives and strategies of its Clients. Investment advisory services may be provided on either a discretionary or non-discretionary basis. Clients that grant the Registered Advisers discretionary authority may restrict the types of investments that the Registered Advisers will make on their behalf.

D. Wrap Fee Programs

Palisades does not participate in wrap fee programs.

E. Amount of Client Assets We Manage

As of December 31, 2019, Palisades was actively managing on a non-discretionary basis fee earning assets (defined below) in the amount of \$2,473,000,000 and on a discretionary basis assets in the amount of \$85,453,000.

The amount of Client assets we manage on a non-discretionary basis as reported in this brochure is based on what we call "fee-earning assets," which is the value we use to calculate our base management fee. Fee-earning assets generally represent either (i) the notional principal balance or (ii) the amortized cost basis of the mortgage assets we manage for each Client, either gross or net of outstanding financing arrangements, depending on what we have agreed with the Client to use as a basis for calculation of our base management fee. Please see our discussion of "Base Management Fee" in Item 5 below for more information.

The amount of Client assets reported here does not equal regulatory assets under management ("RAUM") disclosed in our Form ADV Part 1 because not all fee-earning assets we manage meet the definition of RAUM, and the amount of fee-earning assets reported here is based on the value we use to calculate fees, not current market value.

ITEM 5 – FEES AND COMPENSATION

A. Our Compensation for Advisory Services

With the exception of one of the Discretionary Funds, all Clients of the Registered Advisers are "Qualified Purchasers," as that term is defined in Section 2(a)(51) of the Investment Advisers Act. Accordingly, the fees charged to Clients that are Qualified Purchasers are set out in the investment management

agreements with those Clients and not in this brochure. The fees charged to the Discretionary Funds are discussed below.

The types and amounts of, and the related limitations and restrictions on, fees charged by Palisades may not be uniform among Clients and may be affected by the extent of services to be provided or the size of the account. Therefore, Palisades does not maintain a fee schedule.

Base Management Fee

Our base management fee is negotiable and varies among Clients.

Investors in the Discretionary Funds are not charged any base management fee. Their interest in the Discretionary Funds; however, may be subject to a performance fee as described below. The fees and expenses related to pooled investment Clients are fully specified in the offering materials related to each pooled investment vehicle. These materials are available from Palisades upon request. Our fees are negotiable.

Other Clients typically pay a monthly base management fee based on either (i) unpaid principal balance of the mortgage loans or (ii) amortized cost basis of the mortgage loans either gross or net of outstanding financing arrangements depending on what we have agreed with the Client to use as a basis for calculation of our base management fee. We have agreed with certain Clients that the base management fee will vary depending on the delinquency status of the mortgage loan as defined in the Client's investment advisory agreement.

Incentive Fee

Certain Clients also pay incentive fees if mortgage loans are resolved through a short payoff, note sale or repurchase. Clients generally pay incentive fees on a monthly-basis. Incentive fees are typically based on a percentage of the liquidation proceeds as defined in each Client's advisory agreement. Incentive fees are negotiable. No incentive fee is charged to the Discretionary Funds.

Performance Fee

With respect to certain Client accounts, Palisades or one of its affiliates earns a performance fee based on a share of income above a specified return threshold, if any, after the return of invested capital to the Client, and subject to clawback provisions. This type of performance fee is generally payable simultaneous with Client distributions pursuant to the applicable Client agreement.

With respect to Fund I, Palisades earns a performance fee based on a share of income, if any, after the return of invested capital to the Client with respect to an individual investment, and subject to a holdback reserve and clawback provisions. The performance fee is equal to 30% of distributable proceeds as defined in the Fund I limited partnership agreement. The performance fee will be waived for certain employees of Palisades and their family members. This type of performance fee is generally payable upon final disposition of a given investment.

With respect to Fund II, Palisades earns a 25% performance fee based on the excess of (A) the sum of all prior distributions to the limited partners and the amount that would be distributed to the limited

partners if all of the assets of Fund II were sold as of the end of such calendar year at fair market value and all liabilities of Fund II repaid, over (B) the aggregate amount of capital contributions that have been made by the limited partners of Fund II. The performance fee for Fund II is subject to certain holdback provisions until the final disposition of all assets of the fund. The performance fee will be waived for TPG, certain employees of Palisades, and friends and family members of employees of Palisades.

Performance fees are negotiable.

Settlement Fee

For certain Client accounts, a settlement fee is payable upon achieving certain transaction settlement milestones, in most cases such milestones represent the completion of the transaction. Generally, settlement fees are not based on a formula relating to assets under management and do not fluctuate based upon the future performance of Client assets, rather, they are generally payable based upon a percentage of the purchase price or notional principal balance of the mortgage assets being acquired or sold on behalf of the Client account. The settlement fee will generally be payable to Palisades at closing of such transactions. See Item 10 below for a more detailed discussion of our settlement fee practices and the potential conflicts of interest.

Termination Fee

In some instances, Clients have agreed to pay Palisades a termination fee if the Client chooses to terminate Palisades as the investment advisor prior to the stated termination date of the applicable advisory agreement.

Fees for Other Services

Clients may pay Palisades and its affiliates fees for performing other services. For example, Palisades may receive fees for performing analytical services for Clients, including the review and analysis of Client portfolios. In addition, Palisades may receive a fee for performing mortgage loan document remediation services. Such fees are negotiated by the parties in advance. Generally, these fees are not based on a formula relating to assets under management and do not fluctuate based upon the future performance of Client assets, rather, they are generally payable based upon a flat fee per asset, a time allocation with respect to such services, a percentage of notional principal balance or amortized cost basis of the assets for whom Palisades has provided such service, or other Client negotiated formula. Fees for other services are paid on terms as agreed to with our Client.

B. How We Collect Fees

With respect to non-discretionary Client accounts, applicable advisory agreements will generally provide that all fees will be deducted from Client accounts, subject to Client approval, or paid directly by the Client upon invoicing by Palisades.

With respect to discretionary Client accounts, fees will be deducted from Client accounts when due.

C. Other Fees and Expenses

Clients will generally bear all costs and expenses of maintaining their operations and investments, including legal and accounting expenses, brokerage fees, servicing fees, cost of annual audits, if any, custodial fees, insurance and litigation expenses, and taxes, fees, and other governmental charges. Please refer to Item 12 for our brokerage practices.

Reimbursement of Expenses

Clients will pay or reimburse Palisades for certain expenses incurred in connection with its services. These reimbursed expenses include other expenses actually incurred by Palisades which are reasonably necessary for the performance of its duties and functions under the operative investment advisory agreement.

Clients will not reimburse Palisades for the salaries and other compensation of its personnel unless specifically agreed to in writing by the Client.

D. Advance Payment

Base fees, incentive and performance fees and fees for other services payable by Clients to Palisades are generally paid in arrears.

E. Compensation for Sales of Securities

Neither Palisades nor any of its supervised persons accepts compensation for the sale of securities.

ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As referenced above in Item 5, we are entitled to a performance fee with respect to certain Clients and expect to enter into fee arrangements that provide for performance fees in the future. The use of performance-based compensation may create an incentive for us to choose an investment strategy that may carry a higher degree of risk. In addition, since we manage portfolios for Clients that are not charged a performance-based fee, we may have an incentive to favor Client accounts that have a performance fee. We have implemented policies and procedures to ensure that investment opportunities are allocated pro-rata among our Clients based on the investment capacity and investment guidelines of each Client.

ITEM 7 – TYPES OF CLIENTS

Palisades provides investment advice to privately offered pooled investment vehicles, insurance companies, and other institutional Clients. In particular, Palisades focuses on Clients that invest in residential mortgage and real estate related assets, including residential mortgage loans, RMBS, REO, and mortgage servicing rights. Palisades does not generally offer its services to the public.

ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS**A. Analysis and Strategies**

Palisades utilizes proprietary and licensed analytical tools to make investment decisions and manage portfolio risk. These tools include mortgage credit risk modeling that focuses on borrower credit attributes, loan characteristics and econometric trends that are specific to a property's geography. Mortgage loans and related assets are evaluated under a variety of scenarios which may include varying home price forecasts, interest rate environments and other factors that may influence prepayment potential, default probability, loss mitigation techniques and loss severity.

Palisades' investment process considers and evaluates the following fundamental criteria and attributes when assessing the appropriateness of any investment:

- Acquisition Price. An acquisition price that is at a considerable discount to current property value in distressed situations; and for all investments, which we believe is attractive relative to intrinsic risk of the investment.
- Seller Motivation. Existence of motivated or disinterested seller.
- Sources of Competitive Edge. Ability to control asset performance through loan servicing or other market inefficiencies and informational arbitrage.
- Appropriate Risk/Reward Profile. Investments with actual or potential cash flow characteristics with downside protection and upside potential.
- Underwriting and Due Diligence. Ability to perform loan level diligence, obtain and reconcile asset valuations and review borrower credit attributes and servicing notes.
- Financing Alternatives. Ability to secure prudent leverage and flexibility of financing structures available for the assets.
- Quality of Loan Servicing Partners. Previous experience with management; unique industry expertise; aligned interests and commitment to integrity of relationship.
- Control. Ability to determine or influence the direction of the investment, a financing edge and/or the resolution or exit strategy.

As it relates to certain investment strategies, Palisades performs, or causes to be performed, various functions prior to investment:

- Sourcing assets from key relationships, including but not limited to banks, broker dealers, and other financial institutions;
- Analyzing investments and deriving a top down view as to the appropriateness of the assets within the context of the overall Client portfolio;
- Valuing investment opportunities using a variety of quantitative econometric variables and home price estimates;
- Preparing trade strategies with counterparties; and
- Performing loan level due diligence, including but not limited to, compliance reviews, title reviews and property value reconciliations; and

Palisades' investment approach is driven by a discipline focused on identifying areas with below market risk relative to potential for above market returns. The objective is to secure risk-adjusted returns that

provide attractive, secure income and capital appreciation in a variety of market conditions and economic cycles. Additionally, Palisades focuses on investments whose value may be enhanced through strict oversight of mortgage loan servicing functions and strategic borrower outreach and resolution campaigns. Palisades believes it maintains a competitive advantage with respect to its valuation and analytical capabilities, knowledge of mortgage loan servicing, its loan servicing partnerships and the transparency it has into the daily connectivity with each borrower.

In order to execute the Client's investment strategies, Palisades continually analyzes relevant market, property and borrower data. We make use of proprietary data as well as licensed information from key statistical sources. Such data is used to define new investment targets as well as observe and manage potential concentration risk.

B. Material Risks

Investing in residential mortgage loans, real estate and real estate related assets as well as securities (including both public and private companies) involves the risk of loss. While Palisades' ultimate goal is to provide attractive returns over a long period of time, there can be no assurance we will achieve this goal. Investments made by Palisades on behalf of Clients may involve a high degree of business and financial risk that can result in substantial or even total loss that Clients should be prepared to bear. A more detailed discussion of the risks related to the investment strategies of the Funds is set forth in the offering materials for each Fund.

Other risks associated with Palisades' services to Clients include:

- **Competition.** Palisades operates in a competitive market, and competition may result in reduced risk-adjusted returns. In particular, while Palisades believes that meaningful investment opportunities in residential mortgage and real estate related assets exist, these opportunities may become scarce as additional knowledgeable investors enter the market for such assets.
- **Economic Slowdown.** Palisades believes the risks associated with its strategies will be more severe during periods of economic slowdown or recession, especially if these periods are accompanied by declining real estate values.
- **Dependence on our Firm and Key Personnel.** The success of our Clients is largely dependent upon employees of our firm. There is no guarantee that our firm or the individuals employed by our firm will remain willing or able to provide advice to the Clients' accounts or that trading on this advice by our firm will be profitable in the future. The performance of our firm depends upon certain key personnel, particularly Mr. Macdowell, who manages our firm and is involved in all of our investment decisions. If any of these personnel become incapacitated, the performance of our Clients may be adversely affected.
- **Loan Modification and Government Intervention Initiatives.** Mortgage loan modification and refinancing programs and future legislative action may adversely affect the value of, and the returns on, the portfolios of Clients. In particular, Palisades cannot at the present time predict the consequences and market distortions that may stem from anticipated far-ranging

governmental intervention in the economic and financial system or from regulatory reform related to the oversight of financial markets, including consumer financial markets.

- Default & Liquidity Risk. Mortgage related assets are subject to delinquency, foreclosure and loss. Many of these assets may be illiquid, which may adversely affect Palisades' ability to value and sell its assets and accordingly the asset's performance.
- Market Value Risk. The market value of residential loans vary based on numerous factors, including changes in interest rates, capital markets environment, labor market conditions, availability of consumer credit and the level of consumer defaults, property values, and other extraneous factors impacting the value of future financial asset cash flows, property values and consumer credit.
- Valuation and Client Reports. Client investments will not be in readily marketable assets for which prices are available from third parties. Where applicable, or required by Client accounts, we may report Investments at estimated market value, unpaid principal balance, or amortized cost basis, as determined in good faith by Palisades. We may also report forecasted cash flows for Investments, as determined in good faith by Palisades. There can be no assurance that the value assigned to, or cash flows forecasted for, an investment at a certain time will equal the value or cash flows that the Client is ultimately able to realize.
- Borrowing/Leverage. Palisades may recommend that a Client borrow or execute a financing on behalf of a Client account, against its assets when management believes that the proceeds from doing so will exceed the interest paid on the borrowing. Borrowing involves risk to Clients because the interest on the borrowed amount may be greater than the income from or increase in the value of the assets purchased with the borrowed amount. Also, there is always a possibility that the value of the assets purchased with the borrowed amount can decline below the amount borrowed. Generally, borrowing-type techniques used to increase potential returns are all forms of leverage.
- Hedging. Palisades may recommend hedging transactions that could expose its Clients to contingent liabilities in the future.
- Suitable Investments. Palisades may not be able to source suitable investments on favorable terms that satisfy the Client portfolio objectives. Our Clients generally invest in performing, re-performing ("RPL") and non-performing ("NPL") whole mortgage loans. The supply of loans, including RPLs or NPLs, may decline over time as a result of higher credit standards for new loans and or general economic improvement.
- Due Diligence. Palisades' due diligence of investment opportunities may not identify all pertinent risks, which could materially affect the performance of Client assets.
- Tax reform. Recent changes to the federal income tax laws could have an adverse impact on the value of Client investments. The new tax law reduces the number of homeowners that can rely on the mortgage interest deduction, and imposes limitations on deduction of state and local

taxes. This could impact both existing and potential homeowners and may negatively impact home values, which could in turn, negatively impact the value of Client investments.

- Mortgage Backed Securities. We may recommend that our Clients invest in residential mortgage-backed securities (RMBS) backed by mortgage loans, some or all of which may be RPLs and NPLs. Investing in RMBS has similar risks to investing in whole mortgage loans as discussed above. Some or all of the RMBS acquired by our Clients may not be rated, or may be rated lower than investment grade by one or more nationally recognized rating agencies. Subordinated mortgage-backed securities in particular will be first in line among debt holders to bear the risk of loss from collateral delinquencies and defaults. Existing credit support may be insufficient to protect the security holder from incurring a loss.

ITEM 9 – DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a Client's or prospective Client's evaluation of an adviser or the integrity of its management. Neither Palisades nor its management persons have been involved in any such legal or disciplinary events and thus has no information to disclose with respect to this Item 9.

ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration

Palisades is not registered as a broker-dealer or registered as a representative of a broker-dealer, nor does it have any pending application to register. In addition, Palisades and its management persons are not affiliated with any broker-dealer.

B. Futures and Commodities Registration

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

C. Related Persons

Except as otherwise disclosed in this brochure, Palisades has no current relationships that are material to its advisory business or to its Clients with any related person of the type listed below:

1. Broker-dealer, municipal securities dealer, or government securities dealer or broker;
2. Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund);
3. Other investment adviser or financial planner;
4. Futures commission merchant, commodity pool operator, or commodity trading advisor;
5. Banking or thrift institution;
6. Accountant or accounting firm;

7. Lawyer or law firm;
8. Insurance company or agency;
9. Pension consultant;
10. Real estate broker or dealer; or
11. Sponsor or syndicator of limited partnerships.

D. Conflicts of Interest

Palisades may have relationships with third parties or affiliates that create conflicts of interests. Certain fees earned by Palisades may also create conflicts of interest.

Affiliates of Palisades may perform other services for Clients that could potentially create conflicts of interest. For example, Palisades Advisory Services, LLC (“PAS”) is an affiliate of TPG and PIP I that provides advisory services to Clients that are unrelated to the firm’s core investment advisory services. Such advisory services include valuation services related to retained securitization interests subject to the SEC’s risk retention rules, among other services. We may have an incentive to charge more for these services; however, any fees earned by PAS are approved by the Client prior to proceeding with such services.

Palisades is an affiliate of Stori Holdings, LLC, which is a joint venture that has developed proprietary software to increase speed to market by providing essential loan information quicker than may be available through other vendors in the market place. These services potentially create conflicts of interest as a result of fees charged to clients by an affiliate and Palisades making referrals of such services to customers and prospects seeking mortgage due diligence, risk assessment and compliance reviews. Should such services be utilized by Palisades’ underlying Investment Funds where we or our affiliates have an economic or financial interest there will be no additional fees charged as a result of these services. Any fees charged to Clients must be approved by the Client prior to proceeding with such services.

An affiliate of Palisades owns the controlling interest in Global Mortgage Group, LLC (“Global”). Global is a US-based company with operations in Mexico that lends to US citizens financing 2nd homes in burgeoning resort towns in Mexico. One of our Discretionary Funds has purchased loans from Global. This creates a conflict of interest in that affiliates of the Adviser may indirectly profit from the sale of the loans by Global. This conflict is mitigated by obtaining the approval of an advisory committee of the limited partners of the Discretionary Fund prior to such transactions.

Bespoke Real Estate Services, LLC (“Bespoke”), is an affiliate of Palisades. Bespoke provides property asset management and disposition services, property inspection, property preservation, general contractor, and construction services on certain properties. Bespoke has partnered with a vendor procurement firm that maintains a national network of pre-qualified contractors to perform property inspections, design construction budgets, assess net benefit at time of sale, and undertake construction and rehabilitation projects on real estate owned properties when appropriate Bespoke provides services to certain of our Clients, including the Discretionary Funds (as defined in Item 4); however, Bespoke does not charge a fee on the services provided to our Discretionary Funds, other than reimbursement of third party expenses incurred on behalf of the Funds.

In certain cases, the fees charged to different Clients may be different and more or less advantageous to Palisades, which could incentivize Palisades to favor one Client over another Client in respect of the allocation of an investment (or the relative portion thereof). We manage this conflict through written policies and procedures which require the allocation of investment opportunities in a fair and equitable manner based on the investment guidelines and investment capacity of our Clients.

Palisades may accept compensation from Clients with respect to the Client-approved sale of assets managed by Palisades, or the purchase of assets to be managed by Palisades on behalf of a Client account, including the sale of whole mortgage loans and REO from one Client to another. This may create an incentive to recommend the purchase of these assets to a particular Client based on the compensation received rather than on the Client's needs. In addition, with respect to Fund I, certain employees are limited partners of the fund. As such, there may be an incentive to effect cross trades between Fund I and other Clients for the benefit of investors of Fund I. We manage this conflict as follows:

Palisades will only engage in cross trades when the transaction is:

- a) in the interests of, and consistent with the investment objectives and policies of, both accounts involved in the transaction;
- b) is effected in an equitable and fair manner for all Clients involved; and
- c) not accompanied with any commission, fee (except for customary transfer fees), or other remuneration paid in connection with any cross trade between Client accounts; or if any remuneration is to be paid, such remuneration is disclosed and approved in advance by both of our Clients involved in the transaction.

Because certain Palisades employees and their family members are investors in Fund I, there may be an incentive to spend more time managing the investing activities related to Fund I. Furthermore, Client advisory agreements do not require Palisades or any of its respective affiliates, officers, directors, partners, members, or employees to devote all or any specified portion of their time to manage a Clients' investment portfolio, but only to devote so much of their time to the Client investments as, in the judgment of Palisades, the conduct of its business will reasonably require.

We will review the foregoing and any other transactions involving actual or potential material conflicts of interest and take such steps as we deem necessary and/or appropriate to ensure that the terms thereof are fair and reasonable under the circumstances and, if required by applicable law or the applicable client governing documents, seek the consent of clients.

Management of our Conflicts of Interest is addressed in our Code of Ethics, as discussed below.

ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Palisades has a fiduciary responsibility to treat Clients fairly and avoid actual or potential conflicts of interest to the extent possible and to manage conflicts that cannot be avoided. The employees of Palisades have an obligation to act solely in the best interests of Clients, and to make full and fair

disclosure of all material facts, particularly where the Clients' interests may conflict with the interests of Palisades or its affiliates.

A. Code of Ethics

Palisades has adopted, and requires all employees to understand, acknowledge and follow, a Code of Ethics. The fiduciary principles that govern personal investment activities of employees are, at a minimum, the following: (1) the duty at all times to place the interests of Clients first; (2) the requirement that all personal securities transactions be conducted in a manner that is consistent with Rule 204A-1 of the Advisers Act and in such a manner so as to avoid any actual or potential conflict of interest, or any abuse of an individual's position of trust and responsibility; and (3) the fundamental standard that personnel providing services to Clients should not take inappropriate advantage of their positions. Palisades' policy is that the interest and privacy of Clients always comes first, and all employees will conduct themselves in accordance with the highest standards of integrity, honesty and fair dealing. Palisades monitors compliance with the Code on an ongoing basis, and employees may be subject to disciplinary actions as severe as dismissal for certain infractions. Palisades' Code of Ethics is available to its Clients and prospective Clients upon request.

B. Participation or Interest in Client Transactions

Palisades may recommend or effect transactions where securities or whole mortgage loans are bought or sold for the account of a Client from or to the account of another Client in which we or one of our related persons has a financial interest. Palisades manages such conflicts by disclosing our interest to the Clients involved in the transaction.

C. Personal Securities Investing

The employees and affiliates of Palisades may invest in similar securities, assets, investments, or mortgage loans as its Clients; however, we have adopted personal trading policies and procedures to prevent conflicts of interest with our Clients. Palisades takes its role as a fiduciary of its Clients' assets very seriously. Pursuant to this duty, our Code of Ethics requires that we must—at all times—act in the Clients' best interests, and we have a duty to ensure any recommendations are suitable for Client's objective needs and circumstances.

D. Personal Securities Trading

Palisades has adopted personal trading policies and procedures to prevent conflicts of interest with its Clients. Palisades maintains a restricted list of securities that its employees may not trade in order to avoid the misuse of material non-public information or confidential Client information.

ITEM 12 – BROKERAGE PRACTICES

A. Selecting and Recommending Broker-Dealers

1. Research and Other Soft Dollar Benefits

a. In General

Generally, Palisades does not recommend brokers because our Clients have pre-existing brokerage and financial institution relationships. Palisades may, however, recommend and/or select dealers or brokers to execute the purchases and sales of Clients' investments for certain Clients. If any dealers or brokers are used in connection with the purchase or sale of any investments, Palisades will seek best execution for each transaction that provides the most favorable cost or proceeds reasonably obtainable under the circumstances.

Best execution may be measured over time through several transactions rather than a single transaction. Our Clients generally do not pay commissions on investment transactions as substantially all transactions are on a principal basis with dealers or directly with the sellers which may or may not include a markup or a markdown. No Client will be favored over any other Client that participates in an aggregated order. Transaction costs are shared on a pro rata basis depending upon each Client's participation in the transaction. Palisades may execute transactions on an aggregated basis and the investment will be allocated at all times on a fair and equitable basis, which is generally based on the available investment capacity and investment guidelines for each Client.

b. Soft Dollars and Research

Palisades does not use Soft Dollars. We may receive proprietary market research from brokers; however, we do not consider the provision of such research in the recommendation or selection of brokers.

2. Brokerage for Client Referrals

Palisades does not generally use or recommend broker-dealers to its Clients and does not consider Client referrals when selecting or recommending broker-dealers.

3. Directed Brokerage

Palisades does not routinely recommend, request, or require that a Client execute transactions through a specified broker-dealer. Our Clients do have pre-existing relationships with brokers and generally direct us to effect transactions through those brokers. Clients should be aware that where the Client has directed that we use a particular brokerage firm, we may not be able to get best execution.

B. Aggregating Orders and Allocation of Investments

Palisades generally does not place bids for investments on behalf of its non-discretionary Clients. Our Clients generally submit bids on pools of mortgages directly to the seller or broker. In instances where Palisades is submitting a bid to purchase a pool of mortgage assets on behalf of multiple Clients, we will allocate investment opportunities among Client accounts in a manner which it believes to be fair and equitable, which is generally based on the investment requirements and the available investment capacity for each Client.

As the investment programs of the various accounts managed by Palisades change and develop over time, additional issues and considerations may affect Client allocation policy and Client's expectations with respect to the allocation of investment opportunities among the various entities and accounts managed. Notwithstanding Palisades' intention to effect fair and equitable allocations of investment opportunities,

it is expected that the performance of each Client account will differ from the performance of other Client accounts for many reasons, including differences in the legal or regulatory characteristics, or tax classification, of the entities or accounts or due to differing fee structures or the idiosyncratic differences in the outcome of individual mortgage loans.

ITEM 13 – REVIEW OF ACCOUNTS

A. Review of Client Accounts

Portfolios are reviewed for performance, concentration limits, risk factors and other metrics to ensure conformity with Client investment guidelines. Portfolio reviews are conducted on a monthly, quarterly and/or annual basis, by investment professionals in Palisades' portfolio management group.

B. Frequency of Review

Portfolios and portfolio positions are monitored on a daily basis and reviewed on a monthly and/or quarterly basis, or more frequently as market conditions or client objectives may necessitate.

C. Content and Frequency of Regular Reports

Generally, Palisades will provide monthly or quarterly reports to its non-discretionary Clients, including performance information Palisades believes is relevant to evaluate the portfolio and any other additional information requested by the Client.

With respect to the Discretionary Funds, the following information will be provided to the limited partners within 120 days of fiscal year end:

- Financial statements prepared in accordance with generally accepted accounting principles and audited by an independent PCAOB registered and inspected accounting firm;
- Summary description of each investment, material event regarding the business and each disposition of an investment during the year; and
- Statement, or estimated statement, of the amount of each limited partner's share of the partnership's taxable income or loss and information relating to the nature thereof during such fiscal year (including Schedule K-1).

With respect to the Discretionary Funds, the following information will be provided to the limited partners within 60 days of quarter end:

- Quarterly unaudited financial statements of the partnership; and
- Summary description of each investment, material event regarding the business and each disposition of an investment during the quarter.

ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**A. Third Party Compensation**

No third party provides any economic benefit to Palisades for providing investment advice or other advisory services to any Client.

B. Client Referrals

We have entered into a placement agreement with Old City Securities, LLC (“Old City”), an SEC registered broker-dealer, pursuant to which Old City will be compensated for introducing certain potential Clients and/or investors to the Adviser. As compensation for the introduction, the Adviser will pay Old City a solicitation fee equal to roughly 15% of the revenues generated on investments made by the Clients or investors introduced to Palisades by Old City over a three-year period from the date of the investment. During the term of the agreement, Old City will also receive monthly payments that will be applied toward the solicitation fee. The exact formula for determining the solicitation fee will be disclosed to each prospective Client contacted by Old City, in accordance with Rule 206(4)-3 under the Investment Advisers Act of 1940, and other applicable securities laws.

ITEM 15 – CUSTODY

Palisades or its affiliates may be deemed to have custody of funds or securities on behalf of certain Clients, including where affiliates of Palisades serve as the general partner of pooled investment vehicles managed by Palisades. As noted above, investors in the Discretionary Funds will receive annual financial statements audited by an independent PCAOB registered and inspected accounting firm and such audited financial statements will be distributed to the investors of each respective fund. Investors should carefully review those financial statements and compare them to other financial information provided by Palisades.

Where we have custody, all funds and securities are held by an independent qualified custodian. The qualified custodian will make account statements available via their online website, whereby our Clients have electronic access to such account statements. Clients should carefully review these statements, and compare such information to other financial information provided by Palisades.

ITEM 16 – INVESTMENT DISCRETION

Palisades manages assets on a discretionary basis for certain of its Clients. The applicable management or advisory agreements with any such discretionary Client will generally provide Palisades with the ability to select investment assets to be bought and sold. Palisades may make investment decisions, without consultation with the Client, regarding the sourcing of assets, the analysis and valuation of such assets, determining the appropriate price for such assets, the negotiating and executing the acquisition of such assets, the disposition strategy or strategies with regard to such assets, the strategies used to finance the assets or the broker-dealers, if any, with which orders are placed for execution and the commission rates at which investment transactions are effected. Discretionary Clients may limit the types of investments that Palisades has authority to make on their behalf.

ITEM 17 – VOTING CLIENT SECURITIES

Palisades does not vote Client securities due to the fact that Client investments managed by Palisades do not have conventional voting rights.

ITEM 18 – FINANCIAL INFORMATION**A. Prepayments**

Palisades does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet.

B. Potential Financial Impairment

Palisades does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to Clients.

C. Bankruptcy

Palisades has not been the subject of a bankruptcy proceeding.