

**JTS Fund Advisors, LLC**

**PART 2A OF FORM ADV: FIRM BROCHURE**

**JTS Fund Advisors, LLC**  
**3208 Greenleaf Drive**  
**Waco, TX 76710-1453**

**March 20, 2020**

This brochure provides information about the qualifications and business practices of JTS Fund Advisors, LLC. If you have any questions about the contents of this brochure, please contact Jason Malinak, JTS' Chief Compliance Officer at 254-313-3000 or [info@jtscap.com](mailto:info@jtscap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("**SEC**") or by any state securities authority.

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

Any reference to JTS Fund Advisors as a "registered investment advisor", "registered" or an "RIA" simply means our company is registered with the SEC and implies no qualification as to its skill and training in the business of investment management.

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**ITEM 2: MATERIAL CHANGES**

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This is an annual amendment for the year ended December 31, 2019. Since the initial filing of Form ADV for JTS Fund Advisors, LLC ("**JTS Fund Advisors**") as part of its transition registration to Registered Investment Adviser on June 21, 2019, there have been no material changes to this brochure. In the future, a summary of any material changes will be listed here, as applicable.

Nevertheless, investors are encouraged to review this brochure in its entirety. The information set forth in this brochure is qualified in its entirety by the applicable offering and governing documents. In the event of a conflict between the information set forth herein and the applicable offering and governing documents, the information set forth in the applicable offering and governing documents shall control.

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## ITEM 4: ADVISORY BUSINESS

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### **Item 4.A: General Description of Advisory Firm**

JTS Fund Advisors was formed in November 2015 as the wholly-owned subsidiary of JTS Capital Group LLC (“JTS,” or the “Sponsor”). JTS was established in 2013, and is a privately-owned financial services company headquartered in Waco, Texas. This brochure describes the business practices of JTS Fund Advisors.

JTS Capital Group, LLC is the sole owner of JTS Fund Advisors. JTS Capital Group, LLC is owned by Greenleaf Capital Corporation and Steve Webster. The principal owner of Greenleaf Capital Corp. is James T. Sartain.

### **Item 4.B: Description of Advisory Services**

JTS Fund Advisors serves as the management company to private pooled investment vehicles operated under the JTS organizational structure. JTS Fund Advisors will also assume the role of exclusive management company to future, successor JTS private funds as they become organized, formed and successfully capitalized (such successor private funds, together with the existing JTS Funds, are referred to herein as “JTS Private Funds,” which from time to time are referred to herein as “Funds” or, singularly, as a “Fund”). In exchange for its services, JTS Fund Advisors receives, and will continue to receive, payment of management fees from the JTS Private Funds (which fees are further discussed and described below under Item 5).

The JTS Private Funds invest in, and will continue to invest in, performing, sub-performing, non-performing and other distressed loans, loan assets and loan portfolios purchased from financial institutions and other sellers of such obligations. The JTS Private Funds acquire, and will continue to acquire, loan assets from sellers through various special purpose entity acquisition vehicles (“SPEs”), and, from time to time, the SPEs of the JTS Private Funds have leveraged, and may continue leveraging, such acquisitions with acquisitive financing at the SPE level, thereby reducing the amount of contributions from the JTS Private Funds needed to consummate a given transaction. In each and every case, however, all asset acquisition transactions are and will be subject to the investment guidelines in the limited partnership and limited liability company agreements, as the case may be, of the JTS Private Funds.

Purchased loans have and will run the gambit from obligations evidenced by notes, debentures, bonds and/or other instruments of indebtedness, for borrowed money or obligations that are negotiable or non-negotiable, recourse or non-recourse, and secured or collateralized or unsecured, as the case may be, including, without limitation, “C&I Loans,” “CRE Loans,” “Construction Loans,” “Mortgage Loans” (both residential and commercial) and “Consumer Loans” (as such terms are generally understood in the commercial lending industry). Given the business of JTS, the JTS Private Funds may also acquire interests in leases, mortgage-backed securities (“MBS”), loan participations, and “REO Properties” (as such terms are generally understood in the commercial lending industry). In most cases, the JTS Private Funds will bid on and acquire loan portfolios and their related assets from sellers in a competitive bidding process against other bidding competitors. On average, management estimates that it will take roughly three (3) to four (4) years after the conclusion of its investment period for a given JTS Private Fund to liquidate its entire loan asset portfolio, wind down its affairs, and make final distributions to its partners.

The JTS general partners and/or managers may from time to time seek approval or consent from some or all investors of or to certain matters or transactions raising or subject to actual or potential conflicts of interest, or of or to certain additional matters in the discretion of JTS Fund Advisors. In respect of the JTS III Funds, JTS Fund Advisors has appointed a limited partner advisory committee which shall consist of at least three (3) member representatives of limited partners of such JTS Private Funds who are unaffiliated with JTS. No fees will be paid to such advisory committee members, but they will be entitled to reimbursement of reasonably incurred out-of-pocket expenses for attending meetings. Any such committee may be called upon from time to time to address actual or potential conflicts of interest and/or weigh in on valuation or other questions presented to it; however, the general partner of the JTS III Funds (which will be controlled by JTS) will generally have the actual authority to make all final such decisions and/or determinations.

**All discussions pertaining to the JTS Private Funds in this brochure, including, but not limited to their respective investments, governance, investment strategies, partners, services provided to thereto, and fees and other costs associated with an investment therein, are qualified in their entirety by reference to each such entity's respective limited partnership or limited liability company agreement. Investment advice is provided directly by JTS Fund Advisors to the JTS Private Funds, subject only to the discretion and control of the applicable JTS Private Fund's general partner or managing entity and is not rendered personally or individually to any limited partner or investor member of any JTS Private Fund.**

#### ***Item 4.C: Tailoring Advisory Services***

As an adviser exclusively to the JTS Private Funds, JTS Fund Advisors does not and will not tailor advisory services to the needs of individual investors in the JTS Private Funds. In addition, investors may not impose restrictions on investments by any JTS Private Fund. As a general rule, private equity fund investors can often have widely differing interests on a variety of tax, regulatory, business, investment and other issues. This, in turn, can give rise to the risk that some fund investors may not act in a manner consistent with the best interests of investors as a group or in the best interests of a given fund or funds. Such differences and conflicts can often make it impractical to manage a given fund in a manner viewed as optimal by all fund investors, and JTS Fund Advisors will be under no obligation to so manage any JTS Private Fund. Prospective investors should therefore assume that JTS Fund Advisors will consider the objectives of a given JTS Private Fund, or group of parallel JTS Private Funds (treated as a single investment fund) and not the investment or other objectives of any investor individually.

#### ***Item 4.D: Wrap Fee Program***

JTS Fund Advisors does not participate in a wrap fee program.

#### ***Item 4.E. Regulatory Assets Under Management***

As of March 31, 2020, JTS Fund Advisors manages approximately \$202 million on a discretionary basis. Currently, JTS Fund Advisors does not manage any client assets on a non-discretionary basis.

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## ITEM 5: FEES AND COMPENSATION

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### Item 5.A: *Description of Compensation Arrangements*

#### Management Fees

JTS Fund Advisors collects and receives payment of management fees from the JTS II Funds and JTS III Funds (together, hereinafter, the “**JTS Series Funds**”), but does not collect or receive any such fees from SPIV. SPIV was specially formed and capitalized in October 2017 to co-invest with the JTS II Funds on a one-time basis for the purchase of a single performing loan portfolio sold out of bank foreclosure by the FDIC.

However, under their limited partnership agreements, none of the JTS Series Funds pay any management fees in respect of “**Related Limited Partners**” (i.e., limited partners affiliated with either the general partners of such funds or with the Sponsor), and, hence, such Related Limited Partners are not charged for management fees. Instead, management fees are paid by the JTS Series Funds to JTS Fund Advisors only in respect of “**Independent Limited Partners**” (i.e., limited partners having no affiliation with such general partners or the Sponsor), and, hence, only such Independent Limited Partners are charged for management fees. Furthermore, unless the Management Committee of the Sponsor should otherwise determine, it is anticipated that this arrangement with respect to management fees will continue for and in respect of future, successor JTS Private Funds.

Under their limited partnership agreements, the JTS Series Funds pay annual management fees in respect of their Independent Limited Partners to JTS Fund Advisors in advance, and in semi-annual installments (every six (6) months, on January 1 and July 1, respectively, and pro-rated for shorter periods), according to the following schedules:

Until and through their investment period termination date, the annual management fee rate for the JTS II Funds is the sum of:

- i. 1% per annum of the aggregate total commitments of Independent Limited Partners having committed \$10 million or more to either of the JTS II Funds;
- ii. 1.5% per annum of the aggregate total commitments of Independent Limited Partners having committed more than \$4,999,999 and less than \$10,000,000 to either of the JTS II Funds; and
- iii. 2% per annum of the aggregate total commitments of Independent Limited Partners having committed less than \$5 million to either of the JTS II Funds.

However, from and after the first day following such investment period termination date, the annual management fee rate for the JTS II Funds will change and be equal to the sum of:

- i. for the first semi-annual installment period (six (6) months) of a given year, **(x)** the lesser of one-half of one percent (0.5%) of (a) the aggregate total commitments of Independent Limited Partners having committed \$10,000,000 or more to either of the JTS II Funds, and (b) aggregate partners’ equity as of December 31 of the immediately preceding year of such Independent Limited Partners; plus **(y)** the lesser of three-fourths of one percent (0.75%) of (a) the aggregate total commitments of Independent Limited Partners having committed more than \$4,999,999 and less than \$10,000,000 to either of the JTS II Funds, and (b) aggregate partners’ equity as of December 31 of the immediately preceding year of such Independent Limited Partners; plus **(z)** the lesser of one percent (1%) of (a) the aggregate total commitments of the Independent Limited

Partners having committed less than \$5,000,000 to either of the JTS II Funds, and (b) aggregate partners' equity as of December 31 of the immediately preceding year of such Independent Limited Partners; and

- ii. for the second semi-annual installment period (six (6) months) of that same year, ~~(x) the lesser~~ of one-half of one percent (0.5%) of (a) the aggregate total commitments of Independent Limited Partners having committed \$10,000,000 or more to either of the JTS II Funds, and (b) aggregate partners' equity as of June 30 of such year of such Independent Limited Partners; plus (y) the lesser of three-fourths of one percent (0.75%) of (a) the aggregate total commitments of Independent Limited Partners having committed more than \$4,999,999 and less than \$10,000,000 to either of the JTS II Funds, and (b) aggregate partners' equity as of June 30 of such year of such Independent Limited Partners; plus (z) the lesser of one percent (1%) of (a) the aggregate total commitments of Independent Limited Partners having committed less than \$5,000,000 to either of the JTS II Funds, and (b) aggregate partners' equity as of June 30 of such year of such Independent Limited Partners.

Until and through their investment period termination date, the combined annual management fee rate for the JTS III Funds is 1.5% per annum of the aggregate total commitments of Independent Limited Partners to all of the JTS III Funds (as if they comprise a single investment fund). However, from and after the first day following such investment period termination date, the annual management fee rate for the JTS III Funds will change and be equal to the sum of:

- i. for the first semi-annual installment period (six (6) months) of a given year, the lesser of three-fourths of one percent (0.75%) of (a) the aggregate total commitments of all Independent Limited Partners of the JTS III Funds, and (b) aggregate partners' equity as of December 31 of the immediately preceding year of all such Independent Limited Partners; and
- ii. for the second semi-annual installment period (six (6) months) of that same year, the lesser of three-fourths of one percent (0.75%) of (a) the aggregate total commitments of all Independent Limited Partners of the JTS III Funds, and (b) aggregate partners' equity as of June 30 of such year of all such Independent Limited Partners.

In addition, during any fiscal quarter, all management fees are required to be offset (reduced) by 100% of any and all brokerage, transaction, commitment, break-up, advisory, syndication, guarantee, directors, officers, management, monitoring, consulting and/or investment banking fees paid to JTS Fund Advisors, to the general partner of any of the JTS Series Funds, to the Sponsor, or to any of the officers, agents and other representatives thereof ("**Fees Subject to Offset**"). Such offset shall be applied to Fees Subject to Offset proportionately, and on a pro rata basis, in relation to the percentage or amount of such Fees Subject to Offset generated by, or attributable to, the activities and/or investments of each fund under the management of JTS Fund Advisors. Fees Subject to Offset do not and will not, however, include fees paid to the Servicer (as defined under Item 10 below), as further described below under this Item 5, or any commissions paid to any of the foregoing persons or parties for services provided to the JTS Series Funds as are not otherwise reasonably available from third party providers.

Notwithstanding the above, all management fees payable to JTS Fund Advisors are negotiable. First, prospective investors are able to negotiate the terms of all proposed limited partnership and/or limited liability company agreements, including provisions therein governing fees and compensation, prior to investing in any JTS Private Fund. Beyond that, and in addition, the limited partnership agreements of the JTS Series Funds also authorize their general partners and/or the Sponsor to further negotiate management fees, and to alter provisions in such agreements, for particular investors seeking "side letter" agreements. This is a typical practice in the private equity industry as the granting of negotiated side

letter provisions is often important to achieving capital raising goals with larger-investing limited partners. For such purpose, the general partners of the JTS Series Funds have entered into side letters with certain limited partners thereof which provide further management fee concessions for such limited partners to the above applicable fee schedule, and, if deemed necessary or prudent by management in respect of raising future, successor JTS Private Funds, the same approach may be taken. However, the issuance of any and all side letters is within the sole discretion of JTS, and the terms and conditions of all side letters are private and confidential in accordance with their express terms.

From management fees received, JTS Fund Advisors pays or defrays, and will continue to pay and/or defray, the costs of normal operating expenses, including, without limitation, the expense of providing and maintaining habitable office space necessary to house JTS personnel and operations of the JTS Private Funds (rent, communications services, technology needs, etc.), and the regular payroll and compensation, salaries, and/or benefits of JTS personnel.

## **Additional Fees & Expenses**

### **Asset Protection/Preservation Costs**

As noted above, in respect of each loan portfolio purchased by a JTS Private Fund, its general partner will enter into a written custodial agreement with a third-party “qualified custodian” pursuant to which such custodian holds original loan documentation and records of title to any possessory collateral for safekeeping. Such documentation and records being held by a collateral agent (as an agent or bailee) perfects liens on portfolio assets under the Uniform Commercial Code of any jurisdiction or otherwise. To date, the JTS general partners and managers have entered into such custodial agreements with U.S. Bank National Association (“**U.S. Bank**”) and Central National Bank, and such “qualified custodians” are the only custodians thus far engaged to hold such described documentation and records. In the event that any custodian should decline to hold any document or collateral record such as a vehicle title or original stock certificate, such item is and will be placed in a safety deposit box at a “qualified custodian” bank with which JTS transacts or has transacted business. In addition, Signature Bank currently serves as the depository bank for the receipt of all capital contributions paid by investors.

From time to time, circumstances can also arise that may threaten or impede the value of an asset or assets owned and held by a JTS Private Fund through one or more SPEs, or the likelihood of recovering an investment in such asset or assets. In such circumstances, management may be forced to take actions, and, in some cases, legal measures, in order to attempt to prevent any such degradations or impairment in value. Such actions and measures, for instance, might include segregating ownership of environmentally suspect or scrutinized assets for the avoidance of environmental liabilities, pursuing foreclosure measures against a delinquent, highly-leveraged, insolvent, bankrupt or otherwise at-risk debtor, or, as an alternative to foreclosure where the management determines feasible and prudent, further loan and debt-term modifications for a debtor in need of some obligatory relief to avoid delinquency or default. Such actions and measures will from time to time dictate engagement in dialogue with debtors and others, as well as travel and property inspections, and management will almost always engage legal counsel, and, at times, other third-party service providers and professionals, across the country to help preserve the value and quality of a given asset or assets depending upon their physical or actual locations and the situation at hand.



Ultimately, asset protection/preservation costs other than custodial fees can vary from circumstance to circumstance, as no one can predict either the behavior of debtors, guarantors or other factors that might affect the value of a given asset or the likelihood that a given loan will be repaid.

### **Carried Interest**

The General Partner of each Fund is entitled to receive an incentive distribution or “carried interest” in an amount equal to a specified percentage for each Fund. The specific percentage and amount of the incentive distribution or “carried interest” will vary depending on the terms arranged for each Fund. Generally, Fund investors will receive a stated “preferred return” as described in each Fund’s offering documents.

### **Item 5.B: *Manner of Fee Payment***

Management fees as described in Item 5.A. are included in the Funds' expenses and are allocated against the capital account of each investor with all other Fund expenses.

### **Item 5.C: *Other Fees Clients May Be Charged***

#### **Partnership Expenses**

Including, but in addition to management fees payable to JTS Fund Advisors, the JTS general partners and managers have the ability under the limited partnership and limited liability company agreements of the JTS Private Funds to charge the JTS Private Funds, and, in turn, the partners or investor members thereof, for their respective pro-rata shares of “partnership expenses.” Such expenses are specifically itemized and detailed in the limited partnership and limited liability company agreements of the JTS Private Funds, and, in addition to management fees, include, among other things, fund organizational expense (generally capped at 1% of total commitments), due diligence expenses incurred on behalf of a given JTS Private Fund (including for broken deals), asset acquisition costs, custodial services and charges, audit expenses, third-party fund administrator costs and charges, and a variety of asset protection/preservation and asset liquidation expenses.

From time to time, JTS may also have a conflict of interest in determining whether certain costs and expenses incurred in the course of operating the JTS Private Funds are partnership expenses chargeable to partners or investor members of the JTS Private Funds. While the limited partnership or limited liability company agreements of the JTS Private Funds provide a good deal of specificity on the matter, questions of interpretation can inevitably arise in connection with determinations as to whether a certain cost or expense has, in fact, been so identified, or whether, for instance, a newly-arising and/or unanticipated cost or expense (including but not limited to a cost or expense mandated by newly-imposed regulations and/or self-regulatory requirements) fits within the categories of costs and expenses described as partnership expenses. JTS has adopted certain internal expense policies to attempt to help mitigate these issues, and also has made a practice of generally absorbing certain organizational expenses rather than charging them to the JTS Private Funds.

#### **Due Diligence Expenses**

Due diligence expenses generally refer to expenses JTS and its management will incur on behalf of the JTS Private Funds in order to appropriately investigate and analyze investment opportunities and loan

portfolios offered for sale by a given seller. Due diligence is performed largely to identify and work through any problems with a given pool of assets before it is purchased, to understand the nature of the collateral pledged as security for repayment, if any, and, of course, to appropriately size and price bids (i.e., purchase price offers). Due diligence exercises may involve travel and asset site/location visits by JTS personnel and the use of outside consultants in given areas or markets who often may have valuable knowledge of particular assets offered for sale, including their prior purchase and sale histories, or subject real estate markets. Such consultants can often include local or regional real estate brokers or agents who can further educate us as to the actual market and comparable values of real property securing one or more loans offered for sale. Many times, a JTS Private Fund is unable to acquire one or more specifically desired loans unless it also accepts the possessory collateral tied to such loan or loans. Consequently, the ability to engage such outside consultants is often critical to the ability to competitively price asset bids and assess potential risks to a given JTS Private Fund associated with owning certain pledged assets and property if its bidding is successful.

These types of due diligence-related expenses incurred with respect to investigating a given loan portfolio and ultimately submitting a bid therefor, which expenses will always include legal costs and fees, are difficult to estimate and quantify with any degree of certainty and can vary with the types and nature of both the portfolios that JTS Fund Advisors investigate and causes the SPEs to bid on, as well as the types, nature and bid requirements of the sellers of such portfolios.

#### **Asset Acquisition Costs**

In many cases, the JTS Private Funds are required to incur costs and pay upfront fees associated with qualifying a SPE buyer to be eligible to purchase a given portfolio of loan assets from the proposed seller, and, for instance, such costs and upfront fees can be significant where the FDIC is the seller. These costs and fees come with the territory in the distressed debt acquisition business, and often must be paid well in advance of any seller awarding bids or actually selling loan portfolios to the winning bidder. In addition, the JTS Private Funds will also engage and pay legal counsel for negotiating the terms of each loan sale agreement that must be entered into in order to acquire a given pool of loans and attendant assets from a seller.

Likewise, these types of asset acquisition expenses in respect of acquiring a given loan portfolio are difficult to estimate and quantify with any degree of certainty.

#### **Costs & Charges of the Fund Administrator**

Vistra serves as the third-party fund administrator for the JTS Private Funds. For its third-party fund administrative services, Vistra charges each fund a fee as outlined in the agreement between JTS Fund Advisors and Vistra. Vistra typically bills for its services in the last month of each fiscal quarter.

#### **Asset Liquidation Expenses**

From time to time, it may become economically advantageous for us to settle one or more specific loans within a portfolio where such settlement will result in a profit on such loan or loans (vis-à-vis its or their acquisition cost). In such situations, management has and will continue to settle such loans on behalf of the JTS Private Funds

Ultimately, when it comes time for any JTS Private Fund to liquidate its holdings, pay its partners remaining sums owed, and wind up its affairs, management anticipates that one or more outside loan or real estate brokers may be engaged to assist. These third-party brokers can often prove valuable in helping sellers of loans and pledged assets find buyers and in exploring other methods or avenues for asset disposition or settlement.

At this time, management is not able to predict what asset liquidation costs and expenses may be with any degree of certainty.

### ***Servicing Fees***

Monitoring, resolving and collecting on loan obligations once acquired, and during any holding period thereof, is critical to the ability of any distressed-debt focused enterprise to provide investor returns. As noted above under Item 4, JTS manages and operates the Servicer as a separate business and independently from the JTS Private Funds, yet the Servicer does and will continue to monitor, resolve and collect on the debt portfolios of the JTS Private Funds as a value-added service. In exchange for such value-added service, the Servicer's fees charged in respect of the activities of the JTS Private Funds and their SPEs are and will be paid from loan portfolio proceeds collected at the SPE level, net of applicable credit facility leveraging costs, essentially as a cost of doing business.

Because the Servicer is a separate business, its fees charged in respect of the activities of the JTS Private Funds and their SPEs are also separate from and are not included in, but are in addition to, the management fees and partnership expenses described above in this Item 5. Such fees are as well separate from and are not included in but are in addition to, any "carried interest" payments as may be received by the general partners or managing entities of the JTS Private Funds. Such carried interest is further discussed under Item 6 below. However, if JTS were without the in-house loan servicing capabilities of the Servicer, the JTS Private Funds would have to negotiate for and incur the separate and additional costs of all-important loan servicing provided and charged by one or more third-party servicers in any event.

Engaging the Servicer – a commonly-controlled affiliate of JTS Fund Advisors and of the JTS general partner entities – to monitor, resolve and collect on loans held indirectly by the JTS Private Funds (through their SPEs) presents a potential conflict of interest. However, as discussed further below in this Item 5, JTS Fund Advisors addresses such potential conflict by keeping the fees of the Servicer at reasonable levels relative to those charged by third parties for the same services. The Servicer's fees have ranged and will continue to range from 3% to 5% of monthly collections depending upon the average unpaid principal balance ("UPB") of a given loan portfolio at the time of its acquisition by any JTS Private Fund (through any SPE):

- i. on an average UPB size of up to \$750,000, the Servicer's fees are expected to be 5% of monthly collections;
- ii. on an average UPB size of \$750,000 to \$1.5 million, the Servicer's fees are expected to be 4% of monthly collections; and
- iii. on an average UPB size of more than \$1.5 million, the Servicer's fees are expected to be 3% of monthly collections.

Whereas third party servicers quite often charge their customers a percentage of total UPB per loan portfolio, the above makes clear that the Servicer's fees are charged as a percentage of actual monthly collections in respect of each loan portfolio (i.e., on money actually brought in) – this makes the Servicer's fees competitive by comparison in the industry and thereby lowers the servicing costs of the JTS Private Funds. In addition, and beyond competitive servicing fees alone, the management of JTS believes that having the Servicer in-house also brings some benefits and advantages to the partners and members of the JTS Private Funds that obtaining servicing from “*someone else*” would not. Such advantages include:

- Incentives & Alignment of Interests – Because the Servicer's fees are calculated as a percentage of actual collections versus third-party fees calculated as a percentage of UPB, the Servicer has greater incentive to collect more in debt service payments, and hence to drive greater returns to the JTS Private Funds, than would any third party servicer receiving the same recurring payment amount each month, quarter or year irrespective of collections. Furthermore, almost all of the owners of the Sponsor (and, hence, indirectly of the Servicer and the JTS general partners and managing entities) have personal “skin in the game” as direct and/or indirect equity investors in the JTS Private Funds, and, as such, have a stronger personal interest in the Servicer's collection efforts and results than would or could any third party servicer charging and receiving fees UPB-based fees alone and having assumed no investment risk. Such incentives work to align the economic interests of the Servicer and JTS management with those of all partners and investor members of the JTS Private Funds.

#### **Item 5.D: *Timing of Fee Payments***

As a general practice, and irrespective of anything in their limited partnership agreements, the JTS Private Funds have and will continue to issue semi-annual invoices (as capital calls to Independent Limited Partners) or from available cash balances as approved and released by the Fund Administrator on or soon after January 1 and July 1 of each fiscal year for the payment of management fees to JTS Fund Advisors. Such management fees are then generally payable by Independent Limited Partners within five (5) business days after being invoiced. In the unlikely event of an investment period termination without revival or renewal of such period, or in the event of any unanticipated early dissolution of a JTS Private Fund, in either case, occurring prior to the end of any semi-annual period for which management fees have been paid and received in advance, JTS Fund Advisors will refund any management fees so paid but unearned, pro-rated for each day remaining in such semi-annual period following the occurrence of any such event.

Notwithstanding the foregoing, in lieu of invoicing for the payment of management fees (as described in the immediately preceding paragraph), the general partner of the JTS Series Funds, on behalf of JTS Fund Advisors, may, in its discretion, “recycle” realized or otherwise distributable portfolio proceeds for the payment of partnership expenses, including to cover management fees, rather than distribute such proceeds to the partners of the JTS Series Funds. When this occurs, the affected limited partners are notified, and their capital accounts are credited for having paid such management fees, as if they had made actual capital contributions in the ordinary course therefor. No limited partner of the JTS Series Funds may opt out of such general partner's right to recycle portfolio proceeds to cover management fees payable to JTS Fund Advisors; however, such right in respect of a given JTS Series Fund will generally expire and terminate on the third (3<sup>rd</sup>) anniversary date of its final closing.

### **Item 5.E: *Receipt of Compensation for Sales***

Not applicable. Neither JTS Fund Advisors nor its supervised persons are compensated for the sale of securities or other investment products.

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## **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

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### **Carried Interest Distributions**

The JTS general partners (or managing entities) are and will be entitled to receive “carried interest” distributions from the JTS Private Funds. JTS Fund Advisors, however, does not and will not receive any distributions of carried interest in addition to management fees. Carried interest distributions to the general partners of the funds, when and if paid, amount to performance-based compensation received in the form of profits-interest.

Carried interest distributions made by the JTS Series Funds (i.e., excluding SPIV) are and will be charged only to the capital accounts of the Independent Limited Partners of the JTS Series Funds, whereas such accounts of the Related Limited Partners of the JTS Series Funds are not and will not be so charged. That is, the amount of any carried interest distribution made to a general partner of any JTS Series Fund is and will only be calculated on the basis of, or derived from, the share of portfolio proceeds apportioned to its Independent Limited Partners.

The existence of performance-based compensation may create a conflict of interest by incentivizing management to make more speculative investments with the aim of increasing performance compensation paid. However, this potential conflict is mitigated by the JTS investment and asset management strategies, ongoing risk management and, as noted above, the fact that almost all of the owners of the Sponsor (and, hence, indirectly of the JTS general partner or managing entities) have personal “skin in the game” as direct and/or indirect investing partners in the JTS Series Funds. In addition, no JTS general partner or managing entity is entitled to receive any carried interest distributions from any JTS Private Fund until after the limited partners (or investor members, as the case may be) thereof have first received both a return of invested capital and a preferred return per annum of unreturned invested capital (collectively, the “**Return Hurdles**”). Moreover, any “over-distributions” as may be received in error by the JTS general partners or managing entities are and will be subject, at the end of the term of each JTS Private Fund, to “clawback” and redistribution to limited partners or investor members in accordance with the limited partnership and limited liability company agreements, as applicable, of the JTS Private Funds.

After the Return Hurdles in respect of the limited partners of the JTS Series Funds have been satisfied from the distribution of portfolio proceeds, the general partner of each of the JTS Series Funds will be entitled to receive the following carried interest distributions: (i) 100% of distributions of portfolio proceeds until such distributions equate to 20% of the total cumulative distributions previously made in respect of the preferred return of Independent Limited Partners; and (ii) thereafter, 20% of all remaining distributions of portfolio proceeds.

Notwithstanding the foregoing, however, and as is the case with management fees payable to JTS Fund Advisors, all investors may negotiate the carried interest terms and all other provisions in the limited partnership and limited liability company agreements, as applicable, of the JTS Private Funds. As has been

done, and as may be done in the future, in respect of management fees described above in Item 5, the JTS general partner and manager entities have also entered into side letters with certain Independent Limited Partners of the JTS Series Funds and investor members of SPIV which give them further concessions to carried interest amounts payable in respect of (or charged against) the capital accounts of such Independent Limited Partners and investor members. Again, this has been done in order to achieve the capital raising objectives in respect of a given JTS Private Fund, and, if deemed necessary or prudent by management in respect of raising future, successor JTS Private Funds, such approach may again be taken. However, as noted above, the issuance of any and all side letters is within the sole discretion of the JTS general partners, and the terms and conditions of all side letters are private and confidential in accordance with their express terms.

As a final item of disclosure in respect of carried interest charges, management acknowledges that any JTS general partner's, or JTS manager entity's, interest in the profits of a given JTS Private Fund will be subject to regulation under the Advisers Act, and the rules of the SEC promulgated thereunder, including, without limitation, Rule 205-3. Therefore, upon the effectiveness of the investment adviser registration of JTS Fund Advisors with the SEC to which this brochure pertains, no JTS general partner nor managing entity will charge carried interest to or against the capital accounts of any partners or members of the JTS Private Funds that cannot or do not represent, or that have not represented, in writing that they are **"Qualified Clients"** (as defined in such Rule 205-3) at the time of making an investment commitment.

### **Managing Multiple Private Funds**

As described throughout this brochure, JTS Fund Advisors serves, and will continue to serve, as the management company to multiple JTS Private Funds at any given time. This side-by-side management creates a conflict of interest in that management could be inclined to secure more favorable investment opportunities for any JTS Private Fund affording JTS Fund Advisors and/or a JTS general partner or manager entity with more favorable economic or compensation arrangements, performance-based or otherwise, versus another JTS Private Fund affording less favorable such arrangements.

JTS mitigates this risk by agreeing not to actively market or seek new capital investment in any successor fund until at least two-thirds of all commitments of prior or existing funds has been called and deployed. In addition, receipt by JTS Fund Advisors of any management fee from any newly-formed successor JTS Private Fund(s) will generally cause termination of the investment period of predecessor JTS Private Fund(s), unless (1) at least a majority-in-interest of the limited partners of such predecessor fund(s) should otherwise consent or agree in writing, and (2) all potential investors considering investment in any such successor fund(s) have received full and fair disclosure and notification of any investment period extension of such predecessor fund(s) prior to making any investment decision. In the event that any two (2) or more JTS Private Fund(s) have overlapping or simultaneous investment periods, reasonable limits and/or conditions will be placed on any extended duration of the investment period of such a predecessor fund(s). Furthermore, the general partners of such fund(s) and JTS Fund Advisors will allocate new investment amounts between or among such fund(s) (and their SPEs) in accordance with and subject to the investment guidelines applicable to each and general principles of equity, but without consideration of the specific interests of any single limited partner or investor member, as applicable.

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**ITEM 7: TYPES OF CLIENTS**

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JTS Fund Advisors serves as investment advisor to the JTS Private Funds (and, by extension, their wholly-owned SPEs), but does not render investment advice to any limited partner or investor member individually or outside of any given JTS Private Fund. To date, investors have consisted of high net-worth individuals, closely-held entities and other personal investment vehicles, trusts, non-taxable state and local governments, private funds of funds, and other types of institutionally capitalized investors. In respect of future, successor JTS Private Funds, management anticipates the same types of investors, but may also accept subscriptions from additional types of investors such as retirement or state pension and profit-sharing plans, managed accounts, estates, charitable organizations, endowments, insurance companies, foreign sovereign wealth funds and other types of tax-exempt or non-U.S. investors having an appetite for distressed debt private equity as a desirable asset class. All investors are and must be “accredited investors” (as defined in Regulation D promulgated under the Securities Act of 1933, as amended (the “**Securities Act**”)), and, for purposes of investing in the JTS III Funds, “qualified purchasers” (as defined in the Investment Company Act of 1940, as amended (the “**Investment Company Act**”). In addition, all Independent Limited Partners must be Qualified Clients at so that the JTS general partners of the JTS Series Funds may charge carried interest to or against the capital accounts of such Independent Limited Partners under the Advisers Act and Rule 205-3 thereunder. Employees of JTS who qualify as “knowledgeable employees” as defined in Rule 3c-5 under the Investment Company Act have also been, and will continue to be, permitted to invest (directly or indirectly) in the JTS Private Funds. In any case, each prospective investor, prior to becoming a limited partner or investor member in any JTS Private Fund, is required to submit a complete, extensive investor questionnaire, all provided answers will be reviewed by outside counsel and acceptable and satisfactory to management on the advice of counsel.

Minimum investment requirements vary by Fund and the General Partner reserves the right to accept commitments of a lesser amount in its sole discretion.

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**ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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***Item 8.A: Methods of Analysis and Investment Strategies Generally***

The JTS Private Funds seek, and will continue seeking, to acquire, hold, settle, modify and/or dispose of loan portfolio and related assets in accordance with and subject to applicable investment guidelines set forth in their respective limited partnership and limited liability company agreements. Within such guidelines, the JTS Private Funds invest, and will continue investing, primarily in loan and loan portfolio assets acquired in circumstances where inefficiencies created by market dislocations, corporate restructurings, portfolio realignments, regulatory restrictions or external financial shocks create an opportunity for attractive entry valuations. JTS, in combination with the Servicer, has considerable experience acquiring, managing and resolving a wide variety of such asset types and classes on an opportunistic basis. As a result, JTS does not intend to strictly limit portfolio investments to any one particular asset type or class. Instead, JTS will make purchase decisions for portfolio investments based on a variety of factors including the information that is available regarding the assets underlying a proposed portfolio investment, its associated risk profile, the price at which the assets can be acquired, and the expected net cash flows from the resolution of such assets.

There are five key elements or components to the JTS Private Fund investment strategy model: (1) “**Identification**,” (2) “**Evaluation**,” (3) “**Execution**” (together with Identification and Evaluation, “**Acquisition**”); (4) “**Servicing**,” and (5) “**Portfolio Management**.” Each element is carried out by

designated teams, as are further described in detail below, and any JTS employee may serve on more than one team.

Identification: The sourcing of investment opportunities from financial institutions, government agencies and other sources. JTS' Identification Team will seek to access opportunities from both traditional and non-traditional sources, often leveraging relationships cultivated through experience in relevant markets. The proactive portion of the Identification process is focused on outreach to motivated sellers and/or other sellers of distressed and similar asset classes that will meet the investment guidelines of the JTS Private Funds.

Evaluation: Extensive review of target assets will be conducted by an Evaluation Team (which may from time to time include outside third-party specialists or consultants) using proprietary underwriting processes and matrices that analyze and assess loan collection and repayment scenarios based on available data. Relevant such data used in the Evaluation process includes, but is not limited to, borrower status and credit quality, quantitative and qualitative information about the collateral, asset valuation metrics, market conditions, and litigation status. Individual cash flows are incorporated into a portfolio-level model that forms the basis for final pricing and bid amounts.

Execution: The JTS Execution Team performs an efficient and effective execution process to close transactions that ensures assets acquired conform to pricing expectations and pre-closing conditions. The Execution Team is also responsible for: (i) setting and finalizing terms of financing arrangements; (ii) preparing a preliminary inventory of file documents; (iii) coordinating the legal transfer of ownership of acquired assets, including notes and underlying collateral; and (iv) coordinating the transfer of information from the seller and the Execution Team (together, the Evaluation Team and the Identification Team are the Acquisition Team) to complete the transfer of servicing from the seller to the Servicer and/or any designated servicer as JTS Fund Advisors might use.

Servicing: Immediate, focused attention of resolution specialists who negotiate individualized exit strategies and monitor all acquired portfolio investments until resolution is complete.

Portfolio Management: JTS collects and disseminates data gathered by the Acquisition Team, the Servicer, and/or any designated servicer JTS Fund Advisors might use, if any, in order to maximize the effectiveness of the investment process. JTS also ensures that all portfolio investments are properly monitored and resolved by resolution specialists. JTS principals serve as a resource for all JTS teams noted above, by creating a feedback loop allowing management to continually and efficiently refine the Identification, Evaluation, and Execution components and phases of the overall investment process.

#### **Item 8.B. and 8.C: Material Risks Involved for JTS Fund Advisors' Strategies**

The investment strategies outlined above are subject to market risk such as price movements, volatility and lack of liquidity, regulatory risk, model risk and other ongoing uncertainties related to business, legal, financial or economic conditions that could affect the payments of interest and principal due on the loans purchased and held by the JTS Private Funds through their SPEs. Although JTS Fund Advisors manages these risks by continually monitoring the assets and other strategies that mitigate and offset these risks, investments in asset types and classes described in this brochure involve a risk of loss that partners in any JTS Private Fund should be prepared to bear. Prior to accepting any subscription for an interest in any JTS Private Fund, each subscriber is provided with disclosures of "Risk Factors & Investment Considerations" intended to give him, her or it an understanding of all material risks associated with investment. Examples of some of these risks include, but are not limited to, the following:



- High Risk; Long-Term Nature of Investment; No Assurance of Return. An investment in any JTS Private Fund involves a high degree of risk and is suitable only for those investors of substantial means who have no immediate need for liquidity of the amount invested and who can afford a risk of loss of all or a substantial part of such investment.
- No Market for Interests; Transfer Restrictions; Withdrawals. Interests in the JTS Private Funds have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction, and cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws or an exemption from registration is available.
- Limited Operating History. JTS Fund Advisors first began managing third party investment assets in February of 2016, and, as such, its operating history and experience as a new firm managing such assets is limited despite the historical and extensive experience of the principals prior to working with JTS.
- General Economic and Other Conditions; Changes in Environment. The business of the JTS Private Funds may be adversely affected from time to time by such matters as changes in general economic, industrial, and international conditions; changes in taxes, prices, and cost; and other factors of a general nature that are beyond the control of the JTS management.
- Competition. Profitability of the JTS Private Funds depends, and will continue to depend, in large part, on the ability to acquire targeted portfolio assets at favorable prices. The JTS Private Funds will face significant competition when acquiring nonperforming, sub-performing and re-performing loans and other targeted portfolio assets.
- Credit Market Dislocation. Credit markets, including residential mortgage and commercial real estate markets in various areas across the country experience, from time to time, degrees of dislocation related to economic conditions and other factors which can disrupt business and impede the ability of JTS Fund Advisors to both price bids or value certain assets after having been acquired by a given JTS Private Fund (through its SPE).
- Commercial Property Loans. Loans secured by commercial property may be subject to risks of delinquency and foreclosure, and risk of loss that may be greater than similar risks associated with loans made on the security of single-family residential property.
- Illiquidity of Portfolio Investments. The portfolio assets of the SPEs are not, and will not be, liquid or publicly traded, and market conditions could significantly and negatively affect the ability of the JTS Private Funds to, through such SPEs, dispose of one or more portfolio assets on favorable or desirable terms.
- Real Estate Investment Risk. The JTS Private Funds invest, and will continue investing, in assets secured by real estate. Real estate investments are subject to various risks, including declines in the value of real estate, acts of God, including earthquakes, hurricanes, floods and other natural disasters, which may result in uninsured losses; acts of war or terrorism, including the consequences of terrorist attacks; adverse changes in national and local economic and market conditions; changes in governmental laws and regulations, fiscal policies and zoning ordinances

and the related costs of compliance with laws and regulations, fiscal policies and ordinances; environmental liabilities, including costs of remediation and liabilities associated with environmental conditions; and uninsured or under-insured property losses and property losses for which insurance coverage is unavailable.

- Contingent or Unknown Liabilities. The acquisition activities of the JTS Private Funds are and will be subject to many risks. The JTS Private Funds may acquire properties, as loan-related portfolio assets, that are subject to unknown or contingent liabilities, including liabilities for or with respect to liens attached to properties, unpaid real estate taxes, utilities or other charges for which a prior owner remains liable, clean-up or remediation of environmental conditions or code violations, claims of vendors or other persons dealing with the acquired properties and tax liabilities, among other things.
- Non- and Sub-Performing Loans. Investments are and will continue to be made in non-performing and sub-performing loans that are subject to increased risks of default and foreclosure versus performing loans in general. In fact, some purchased loans may in fact be secured by assets already subject to foreclosure. The JTS Private Funds may also acquire performing loans that subsequently become non-performing or sub-performing. The value of the underlying property, the creditworthiness and financial position of the borrower, and the priority and enforceability of the lien are each of great importance. There can be no assurance as to the adequacy of the protection of the terms of any loan, including the validity or enforceability of such loan and the maintenance of the anticipated priority and perfection of the applicable security interests.
- Counterparty Breach of Representations and Warranties. Assets of the kinds and in the markets in which the JTS Private Funds through their SPEs acquire and will acquire such assets are typically accompanied by and sold on the basis of very limited representations and warranties about such assets, and, the purchase agreements therefor generally provide for short periods in which to assert a breach and provide limited rights for the buyer to seek indemnity or demand repurchase in the event a selling counterparty breaches a representation or warranty given to the buyer.
- Portfolios of Portfolio Assets. If any JTS Private Fund acquires portfolios of portfolio assets, a given portfolio purchase as packaged by a seller may contain additional portfolio assets that management would not otherwise seek to acquire individually but may inevitably have to agree for the acquisition of as a consequence of the seller's terms. These assets can, at times, become difficult to deal with and/or resell for value.
- Supply of Non-, Sub- and Reperforming Loans. The JTS business model primarily depends, and will continue to primarily depend, on the acquisition of a steady supply of nonperforming, sub-performing and reperforming loans, an ability to support continued performance by borrowers under reperforming loans, the success of the loan modification or forbearance programs pursued by the JTS management, and other resolution efforts.
- High Risk Loan Servicing Costs. Some portfolio assets may be higher risk loans, meaning that such loans will have been made to less creditworthy borrowers or for properties the value of which has decreased.

- Servicer Performance. Either the Servicer, or a third-party servicer that JTS Fund Advisors may choose on a case-by-case basis, if any, will service portfolio assets, including managing collections on purchased loans and/or the disposition of related portfolio assets. If any such servicer is not vigilant in encouraging borrowers to make their scheduled payments, the borrowers may be far less likely to make these payments, which could result in a higher frequency of default. If any such servicer takes longer to liquidate nonperforming assets, the recoveries of one or more JTS Private Funds may be lower than originally anticipated. The failure of any such servicer to effectively service the purchased loans and other related portfolio assets could negatively impact the value of the investments and performance of the JTS Private Funds and their SPEs.
- Account Debtor Default; Balloon Payments. The portfolio assets are not, and will not be, insured or guaranteed, in whole or in part, by any federal or state governmental agency, or by any private mortgage or other insurer or guarantor. In addition, certain portfolio assets may be "non-recourse" loans.
- Special Loan Risks. Some of the purchased loans will be secured by real estate. This strategy subjects the JTS Private Funds to the risks of real estate and real estate-related investments. These risks include, among others: (a) declines in the value of real estate; (b) risks related to general and local economic conditions; (c) possible lack of availability of funds for borrowers to refinance or sell their properties; (d) overbuilding; (e) the general deterioration of the borrower's ability to keep a re-performing loan current; (f) increases in property taxes and operating expenses; (g) changes in zoning laws; (h) costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; (i) casualty or condemnation losses; (j) uninsured damages from floods, earthquakes or other natural disasters; (k) limitations on and variations in rents; (l) fluctuations in interest rates; and (m) fraud by borrowers, originators and/or sellers of loans.
- Income Producing Properties. The repayment of loans secured by income producing properties is typically dependent upon the successful operation of the related real estate project, and there is no assurance that a given project respecting an income producing property that any SPE may from time to time hold will be successful.
- Due Diligence. Before the making of any portfolio investment, JTS Fund Advisors, and/or the applicable JTS general partner or managing entity, and the Servicer will conduct (either directly through the principals or using third parties) certain due diligence. The ability to conduct such due diligence will be affected by the adequacy of the information provided by the seller of the portfolio assets being targeted or considered for acquisition and the time limitations placed on bidders seeking to acquire such assets placed for sale by the seller.
- Appraisals. The due diligence information provided to JTS Fund Advisors in connection with its consideration of the purchase of a given portfolio asset or a portfolio of portfolio assets may not contain an appraisal or current appraisal of any mortgaged property securing a portfolio loan, and management may not have or be able to obtain independent reliable information as to the current market values of such mortgaged or personal properties, as the case may be.
- Uncertain Asset Valuations. While in some cases a determination of the fair value of portfolio assets underlying portfolio investments will be based on valuations provided by real estate

brokers, third-party dealers and pricing services, JTS Fund Advisors will value most portfolio assets of the JTS Private Funds using unobservable inputs based upon the good faith judgment of the principals and the members of the Investment Committee of JTS Fund Advisors. Such valuations may differ from those provided by real estate brokers, third-party dealers and pricing services, and, when they do, JTS Fund Advisors will have to reconcile such differences, which may not be possible or if possible, which may take considerable time and expense.

- Asset Valuation Models. As part of the risk management process, JTS Fund Advisors will use models to evaluate, depending on the asset class, real estate price appreciation and depreciation by county, region, and foreclosure frequency, cost and timing. Such models may from time to time contain undetectable flaws or misassumptions.
- Mortgages and Deeds of Trust Generally. Many of the portfolio assets will consist of Mortgage Loans (both residential and commercial), or other similar security instruments, depending upon the prevailing practice and dispositive law in the state in which the related mortgaged property may be located and other factors. Such practices and law may vary in ways that management might not anticipate or plan for.
- Foreclosure of Mortgaged Property. Foreclosure of a mortgage is generally accomplished by judicial action initiated by the service of legal pleadings upon all necessary parties having an interest in the real property. It may prove difficult for management to make service on a would-be debtor or otherwise successfully pursue any such legal action, depending upon the jurisdiction and several other factors.
- Risk of Decline in Value of Real Estate Collateral. The value of any real estate underlying one or more loans will always be subject to market conditions. Changes in the real estate market may adversely affect the value of such collateral and thereby lower the value to be derived from a liquidation.
- Type of Mortgaged Property. The JTS Private Funds may be subject to additional risk depending upon the type and use of a mortgaged property in question. Mortgaged properties are generally rental properties which are subject to the risk of loss of income during any period of vacancy between tenancies.
- Foreclosure of Personal Property. Some of the portfolio assets may consist of loans secured by property other than real estate, such as one or more items of personal property, which, among other things, may be of speculative, unappraisable value, are more difficult than real property to foreclose upon given applicable property law and various provisions of the Uniform Commercial Code as adopted and as may be in effect from state to state at any given time.
- Environmental Considerations. Real property pledged as security under any loan may be subject to environmental risks and liabilities. Environmental risks and related liabilities may arise from, among other things, the historic use of the mortgaged property (including in particular industrial, manufacturing or disposal uses) the release of hazardous materials by former or current users of the mortgaged property, and/or the migration of hazardous materials onto such mortgaged property from adjacent or nearby properties.

- Credit Risk. There are many aspects of credit that management cannot control, and quality control and loss mitigation operations may not be successful in limiting future delinquencies, defaults and losses.
- Interest Rate Risk. A fundamental risk to any portfolio of loans will be a shift in interest rates. To the extent that the cash flow from a fixed income asset is known in advance, the present value (i.e., discounted value) of that cash flow decreases as interest rates increase. To the extent that the cash flow is contingent, the dollar value of the payment may be linked to then prevailing interest rates.
- Concentration of Investments. The JTS Private Funds have limited guidelines for strategy, industry or market diversification, and therefore portfolio investments could potentially be concentrated in relatively few strategies, industries or markets.
- Leverage. Subject to applicable investment guidelines, the JTS Private Funds and their SPEs may, but will not be required to, leverage portfolio investments with senior debt financing drawn from any credit facility authorized under the limited partnership and limited liability company agreements of the JTS Private Funds. Until such time as amounts owed under such credit facilities are paid back, partners and investor members of the JTS Private Funds will not receive significant distributions of portfolio proceeds.
- Investments Outside of the United States. Risks associated with investment in assets as are physically located outside of the United States may include: foreign currency; exchange rates; social, economic and political conditions or unrest; different foreign laws & regulations; exclusive reliance on foreign partners and professionals in such foreign jurisdictions.

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## ITEM 9: DISCIPLINARY INFORMATION

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JTS Fund Advisors and its supervised persons have no reportable disciplinary events to disclose.

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## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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### **Item 10.A: Broker – Dealer Activities**

Not applicable. JTS Fund Advisors is currently not applying to register as a broker-dealer and does not intend to do so.

### **Item 10.B: Commodity or Futures Industry Affiliations**

Not applicable. Neither JTS Fund Advisors nor any of its management persons are registered, or have an application to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

### **Item 10.C: Affiliate Relationships**

JTS Fund Advisors, JTS Capital Fund II GP, LLC (the general partner of the JTS II Funds), JTS II SPM LLC (the managing member of SPIV), JTS Capital Fund III GP, LLC (the general partner of the JTS III Funds), and the Servicer are all “related persons” of one another because they are under the common ownership and

control of the Sponsor. However, with that said, each of these related persons has its own officers authorized to carry out actions on behalf of each, and the “Management Committee” of the Sponsor does not make decisions on behalf of any such related person save and except for the occasional adoption or amendment of firm-wide policies and procedures applicable to all such related persons.

As noted elsewhere in this brochure, JTS Fund Advisors receives payments of management fees from the JTS Series Funds separate and apart from any carried interest distributions payable to the general partners of the JTS Series Funds or the managing member of SPIV, and separate and apart from any fees paid to the Servicer at the SPE level (as described above in Item 5), and JTS Fund Advisors does not receive, or participate in the sharing of, any such carried interest distributions or servicing fees. Consequently, the relationship by and among JTS Fund Advisors and such general partners and managing member is a sister-affiliate relationship only, and while such entities manage the day-to-day affairs of the JTS Private Funds together with, and alongside, JTS Fund Advisors, such co-management does not present or create any material conflict of interest with investors in the JTS Private Funds. Such matters are all expressly agreed to in writing by all partners and investor members in the limited partnership and limited liability company agreements of the JTS Private Funds.

### **Other Adviser Affiliations**

In addition, JTS Fund Advisors is also under common control with two other investment advisers registered as such with the SEC, Avista Capital Holdings, L.P., doing business as “Avista Capital Partners”, and AEC Holdings, L.P., doing business as “AEC Partners”. Consequently, these other investment advisers (together, the “**Affiliated Advisers**”) are related persons of JTS Fund Advisors. This relationship results from certain control persons of the Affiliated Advisers indirectly owning near 25% of the Sponsor’s outstanding voting securities, and/or also holding positions on the Management Committee of the Sponsor and/or the Investment Committee of JTS Fund Advisors.

However, even though JTS Fund Advisors and each of the Affiliated Advisers are related persons, neither Affiliated Adviser, nor any advisory (private fund) client thereof, holds any interest or stake in any JTS entity (i.e., whether in the Sponsor, JTS Fund Advisors or in any of the JTS Private Funds or any SPE thereof). Furthermore, while the Affiliated Advisers and JTS Fund Advisors each advise private fund clients only (excluding investment and business development companies), they do not jointly or commonly advise, or receive any fees or other compensation from, any single (or same) private fund client, or group of related private fund clients, as the JTS Private Funds are managed and owned separately and independently from the private funds under the management of the Affiliated Advisers. To that end, the businesses of the Affiliated Advisers, on the one hand, are completely separate and apart from the business of JTS, on the other.

In addition, the investment focus of the private funds managed by each of the Affiliated Advisers is also somewhat different than that of the JTS Private Funds. Whereas the private funds managed by the Affiliated Advisers seek to acquire ownership stakes in actual companies and businesses operating mostly in healthcare and/or energy sectors, the JTS Private Funds, as noted under Item 4, seek to opportunistically acquire sub- and non-performing loans largely secured by real estate. That is to say that the JTS Private Funds do not and will not have or hold interests in “portfolio companies” (as such term is understood in the private equity industry) as do the private funds managed by the Affiliated Advisers. Consequently, there is no known overlap of investment targets as between the two firms at this time. While it is possible that some commonality of investment holdings could result if JTS were to, for instance, foreclose on a defaulted loan secured at least in part by a type and class of corporate securities also held

by a private fund under the management of either Affiliated Adviser, such a situation is not currently anticipated or expected.

Based on the above, management does not believe that any material conflict of interest is created by the control relationship between JTS Fund Advisors, on the one hand, and either of the Avista Advisers on the other hand.

### **JTS Capital Servicing LLC**

Following loan purchase, JTS Capital Servicing LLC, also the wholly-owned subsidiary of the Sponsor and the in-house loan servicing company of JTS (the “**Servicer**”) monitors, resolves and collects on such loan assets, and will continue doing so other than in rare circumstances, to help create capital appreciation for the limited partners of the JTS Private Funds. As further described above in Item 5, management believes that the Servicer’s in-house loan servicing capabilities and approach provide cost-effective value and savings for investors versus having to pay third-party designated loan servicing companies to monitor and service loan portfolio investments made by the JTS Private Funds. Also, as further described above in Item 5, fees charged by and paid to the Servicer in respect of a given loan portfolio are not bundled together with, but instead are charged separate from and in addition to, management fees charged by and paid to JTS Fund Advisors in connection with the Sponsor’s operation of the Servicer as a separate business

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## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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### **Item 11.A: *Code of Ethics Generally***

JTS Fund Advisors has adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act (the “**Code**”). The Code sets forth a standard of business conduct and compliance with federal securities laws by all of the Advisers’ employees. The Code contains policies and procedures that ensure that all personal securities trading by employees of the Firm is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual’s position of trust and responsibility. JTS Fund Advisors requires pre-clearance for purchases of IPOs or new private placements. JTS Fund Advisors requires periodic reporting of access persons’ personal securities transactions and holdings; and requires prompt reporting of Code violations.

### **Item 11.B through Item 11.D: *Related Person Transactions***

Principals and employees of JTS Fund Advisors may directly or indirectly own an interest in one or more of the Funds. In addition, JTS Fund Advisors and its eligible personnel may also invest in private funds of their choosing but are not required to invest in the Funds.

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**ITEM 12: BROKERAGE PRACTICES**

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Except possibly in the rare circumstances where a SPE of a JTS Private Fund might need to sell marketable securities after having acquired them as pledged collateral through foreclosure, JTS Fund Advisors should not need to seek or recommend the services of securities brokers or dealers as is common for traditional investment advisers. However, in any such circumstance, however infrequent, JTS Fund Advisors would take into account the following factors: (i) a broker's or dealer's ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any), (ii) the level of trading expertise for the particular type of security at issue, (iii) the operational efficiency with which such broker or dealer effects transactions, taking into account the size of the order and difficulty of execution, and (iv) the financial strength, integrity, and stability of the broker or dealer. These factors would necessarily be weighted equally. The JTS Private Funds would also attempt to minimize the expenses incurred for effecting any portfolio transactions through a broker or dealer. JTS Fund Advisors would also seek competitive commission rates from brokers or dealers, and it will not necessarily always opt for or direct payment of the lowest commission. JTS Fund Advisors also will not "pay up" for any broker or dealer research through whom JTS Private Fund transactions might be placed, even if JTS Fund Advisors were ever to receive any solicited or unsolicited, and JTS Fund Advisors would not factor this research into any decision-making with respect to JTS Private Fund transactions. JTS Fund Advisors also will not engage in any soft dollar arrangements, or receipt of "soft dollar benefits," with respect to brokered JTS Private Fund transactions. Additionally, the trade error policy applicable to the JTS Private Funds will dictate that a trade error made by management will be corrected as soon after discovery as reasonably practical, and, generally, JTS will bear any loss as a result of any such trade error. Conversely, the JTS Private Funds will retain any gain related to such a trade error.

Although it is unlikely that JTS Fund Advisors will ever seek the services of a securities broker or dealer, it may routinely seek the services of both real estate and loan brokers to assist management in assessing and/or realizing the value of given assets.

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**ITEM 13: REVIEW OF ACCOUNTS**

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**Item 13.A and 13.B: *Review of Accounts***

JTS Fund Advisors, together with other members of the JTS management team, will have the primary responsibility of reviewing and monitoring all portfolio investments made by the JTS Private Funds through their SPEs. After the purchase of an asset, a significant element of portfolio risk management will be executed in a monthly portfolio review committee meeting. In this meeting, management will review accuracy of cash flow projections, expected future recoveries, and documented decision making. The Chief Credit Officer of JTS Fund Advisors, together with other management members, will prudently review assets on at least a monthly basis as required. This process ensures proactive management of the portfolios based on current trends and loan relationship developments.

**Item 13.C: *Client Reports***

Investors will receive a monthly written statement of account, providing capital balances, returns, contributions, distributions, and ending balance for each period of time. They also will receive written copies of audited financial statements of each JTS Private Fund in which they hold an interest, and partners invested in any of the JTS III Funds will receive the written audited financial statements of the JTS III Funds on a combined basis. Quarterly written (presentation slides) updates will also be provided by



management showing performance, market updates, and other material developments. In addition, limited partners and investor members will also receive written K-1s in respect of income reported to them for tax purposes.

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**ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

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**Item 14.A: *Other Compensation***

Not applicable. JTS Fund Advisors does not receive a direct economic benefit from any third party for providing investment advice or other advisory services to any Client.

**Item 14.B: *Client Referrals***

JTS has engaged the services of Gallatin Capital LLC, a third-party “placement agent” or “finder” (“**Gallatin**”), in connection with the offering of investment interests in the JTS Private Funds. The fees paid to Gallatin for its services on behalf of the JTS Private Funds have been negotiated on an arms-length basis pursuant to a written placement agent agreement, and management believes that such fees are fair and reasonable vis-à-vis the services provided under such agreement by Gallatin to date and to be provided by Gallatin thereunder in the future. As such, management believes in good faith that the Gallatin engagement and the written agreement with Gallatin for its services are in material compliance with Rule 206(4)-3. JTS has also engaged the services of USCA Securities LLC, a third-party placement agent or finder (“**USCA**”), in connection with the offering of investment interests in the JTS Private Funds to certain select potential investors. The fees to be paid to USCA have also been negotiated on an arms-length basis pursuant to a written placement agent agreement, and management believes that such fees are fair and reasonable vis-à-vis the services provided under such agreement by USCA to date and to be provided by USCA thereunder in the future. As such, management believes in good faith that the USCA engagement and the written agreement with USCA for its services are in material compliance with Rule 206(4)-3.

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**ITEM 15: CUSTODY**

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JTS Fund Advisors relies, and will continue to rely, on reputable, third-party “qualified custodians” to hold the funds and securities (as applicable) of the JTS Private Funds (and their SPEs), as well as to store and hold for safekeeping all original loan documentation and original records perfecting title to possessory collateral pledged to secure repayment of purchased loans. Because, however, either consolidated or combined audited annual financial statements of the JTS Private Funds are and will continue to be distributed to investors generally within 120 days of fiscal year end (December 31) (as well as promptly after any financial audit completed following liquidation), such third-party custodians do not send, and are not required by Rule 206(4)-2 under the Advisers Act to send, any notices, custodial or other statements directly to investors regarding the value of any assets held by such custodians. Instead, and in addition to the aforementioned audited financial statements, investors will receive the monthly statements of account noted and described under Item 13. Moreover, and based on such provision of such audited financial statements to investors, JTS Fund Advisors is also deemed to be in compliance with the additional requirement under such Rule 206(4)-2 that client funds and securities in the custody of qualified custodians utilized by JTS Fund Advisors be verified and examined by an independent public accountant on a surprise basis at least once a year.

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**ITEM 16: INVESTMENT DISCRETION**

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All regulatory assets under management are managed by JTS Fund Advisors on a discretionary basis in line with applicable investment guidelines agreed to, and as to be agreed to, in the limited partnership and limited liability company agreements of the JTS Private Funds. To that end, JTS Fund Advisors exercises such discretionary investment authority in respect of asset acquisition and disposition consistent with such guidelines and all other applicable provisions, as the case may be, in the limited partnership and limited liability company agreements of the JTS Private Funds.

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**ITEM 17: VOTING CLIENT SECURITIES**

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JTS Fund Advisors will rarely, if ever, have to vote proxies with respect to marketable or tradable securities held by any SPE of a JTS Private Fund.

If, however, any SPE of a JTS Private Fund were ever to hold any marketable securities for which a proxy solicitation were received prior to disposing of such securities, any right(s) that the limited partners or investor members of such JTS Private Fund may have to vote such securities would be governed by the negotiated terms of the limited partnership or limited liability company agreement of such JTS Private Fund as well as by the terms of the applicable SPE's governance agreement as negotiated. Where any such agreement provides for the "passing through" of any vote of securities to limited partners or investor members, as the case may be, such investors shall have the ability and authority to direct the voting of such securities by JTS Fund Advisors in response to the applicable solicitation. Otherwise, JTS Fund Advisors will have the authority to vote securities subject to any proxy solicitation and will vote in a manner that management determines in good faith to be in the best interests of the limited partners or investor members, as may be the case, and to best maximize investor returns in respect of the securities voted. From time to time, whether to address or resolve any material conflict of interest as may arise between the interests of JTS (and/or of management), on the one hand, and those of investors in the JTS Private Funds, on the other, members of the Investment Committee of JTS Fund Advisors may seek direction from the limited partners and/or investor members, as applicable, of the JTS Private Funds as to how to vote securities subject to a proxy solicitation.

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**ITEM 18: FINANCIAL INFORMATION**

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At present, there is no financial condition known to the management of JTS that is reasonably likely to impair the ability of JTS Fund Advisors to meet its contractual commitments to the JTS Private Funds. Moreover, JTS Fund Advisors has never been the subject of a bankruptcy petition.