

**STRATEGOS CAPITAL MANAGEMENT, LLC  
PART 2A OF FORM ADV: FIRM BROCHURE**

**July 13, 2021**

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**This Brochure provides information about the qualifications and business practices of Strategos Capital Management, LLC. If you have any questions about the contents of this Brochure, please contact us at one of the contact numbers listed above. 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 Strategos Capital Management, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Strategos Capital Management, LLC is registered as an investment adviser with the SEC. Registration does not imply a certain level of skill or training.**

## **Item 2      Summary of Material Changes**

Strategos Capital Management, LLC (“Strategos”) has prepared this Brochure, dated July 13, 2021, as an interim updating amendment replacing the Brochure Strategos filed with our annual updating amendment to the Brochure dated March 29, 2021. Since the previous annual updating amendment on March 30, 2020, material changes have been made to the Brochure in Item 10, Item 11 and Item 12, to reflect the establishment of a new adviser that shares common owners and personnel with Strategos.

We may provide other ongoing disclosure information about material changes, as necessary. All such information will be provided to you free of charge.

Currently, our Brochure may be requested by contacting any of the individuals listed on the cover page of this Brochure.

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## **Item 4     Advisory Business**

### **A. Generally**

Strategos Investment Management Company, LLC was formed in 2010 to facilitate its purchase from Strategos Capital Management, LLC (as explained below, now known as Cira SCM, LLC), a wholly-owned subsidiary of Cohen & Company Inc., the right to provide investment management services to certain separately managed accounts and private pooled investment vehicles (the “Purchased Assets”). Upon the closing of the acquisition on March 28, 2011, the seller (Strategos Capital Management, LLC) changed its name to “Cira SCM, LLC” and, shortly thereafter, Strategos Investment Management Company, LLC changed its name to “Strategos Capital Management, LLC,” which is the name it has used since.

Strategos Capital Management, LLC (“Strategos” or the “Firm”) is owned by Alex Cigolle (who also serves as the Firm’s Chief Executive Officer, Chief Investment Officer and a Portfolio Manager). Mr. Cigolle is responsible for major decisions with respect to investment strategy as well as matters relating to the overall administration and business strategy of Strategos. Descriptions of the educational background and employment history of Mr. Cigolle and certain advisory personnel of Strategos are included in the Firm’s Form ADV Part 2B (the “Brochure Supplement”), which is available from Strategos upon request.

Strategos’ principal office and place of business is located at 2929 Arch Street, Suite 1703, Philadelphia, PA 19104.

### **B. Advisory Services Offered and Assets Under Management**

Strategos provides discretionary investment management primarily in its capacity as an investment adviser to (i) the private pooled investment vehicles listed in Item 10 (each, a “Fund” and collectively, the “Funds”) and (ii) clients who retain Strategos to manage separate accounts or to sub-advise other private pooled investment vehicles (each, a “Managed Account” and, collectively, the “Managed Accounts”).

Strategos currently employs two primary investment strategies (as described in greater detail in Item 8). Certain clients target the best ideas prevailing in the structured credit markets and certain other debt and equity markets by seeking to identify investment opportunities resulting from market inefficiencies which can often be realized through overlooked catalysts (the “Deep Value Strategy”). Certain other clients pursue a specific subset of the Deep Value Strategy targeting special opportunities concentrated in U.S. residential mortgage backed securities (“RMBS”) and related products (the “ECS Strategy”). The Deep Value Strategy and the ECS Strategy are referred to herein collectively as the “Investment Strategies.”

Full details regarding the Firm’s advisory services to the Funds are set forth in each Fund’s private placement memorandum or prospectus. A copy of the private placement memorandum or prospectus for any Fund is available to suitable investors from Strategos upon request. Investors must review the relevant Fund offering documents carefully, and consider their own needs and objectives, prior to making an investment in any Fund.

Strategos' Investment Strategies referenced above generally are not tailored for each advisory client. However, primarily for clients who retain Strategos to manage separate accounts, Strategos has tailored and in the future would consider tailoring its Investment Strategies if a client specifically requested, and Strategos determined that it had the required expertise to provide, a tailored investment strategy. Strategos does not tailor the advice it provides to a Fund to the individual needs of any particular investor in the Fund.

As of May 31, 2021, Strategos had \$136,956,113 in regulatory assets under management, all of which are managed on a discretionary basis. Strategos does not manage any assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

The Funds generally pay Strategos on a quarterly basis a management fee of 0.375% (1.5% per annum) calculated based upon net asset value as set forth in the relevant private placement memorandum or prospectus as well as a performance-based fee or incentive allocation as described in Item 6.

The custodian for each Fund deducts the management fee owed to Strategos directly from the account of the Fund upon Strategos' (or an affiliate's) direction. Strategos does not allow direct billing for each investor in a Fund. In the case of Managed Accounts, Strategos bills each client directly for any management fee.

Strategos may, in its sole discretion, modify or waive the management fees otherwise payable by certain investors in the Funds or certain of the Managed Accounts without entitling any other investor in the Funds or Managed Account to a waiver or modification and without notice or the consent of any other investor in the Funds or Managed Account.

Management fees for the Funds and the Managed Accounts are generally payable quarterly in arrears (i.e., payment is made in the quarter following the quarter in which the fee arises).

In addition to the management fees described above and the performance-based fees described in Item 6, the Funds (and, therefore, the investors in the Funds on a flow-through basis) may be charged what Strategos believes are customary fees and expenses for a private pooled investment vehicle. Full details regarding the possible fees, costs and expenses related to an investment in a Fund are set forth in the private placement memorandum or prospectus of each Fund, copies of which are available to suitable investors from Strategos upon request. The Funds will generally bear all organizational expenses as well as: (i) all fees, costs and expenses related to the purchase, holding and sale of investments (to the extent not reimbursed); (ii) expenses incurred in connection with investment transactions not consummated; (iii) insurance premiums (including a reasonable expense reimbursement for a portion of the D&O insurance premiums for Strategos and/or its affiliates); (iv) taxes; (v) fees and expenses of legal counsel, consultants, accountants, auditors, administrators and custodians; (vi) fees and expenses of the independent members of the board of directors (as applicable); (vii) statutory/governmental fees payable, including any fees payable to any regulatory authority in any country or territory; (viii) data, data forecasting, modeling, and other expenses; (ix) finder's fees and brokerage commissions relating to the sourcing and purchase and sale of securities and interest expense related to the use of leverage; (x) bookkeeping,

recordkeeping, appraisal and valuation expenses (including a reasonable expense reimbursement of such costs incurred by Strategos), including those paid to third party valuation services (which shall encompass any payments to independent third party broker-dealers for *secondary* pricing marks); (xi) expenses related to investor meetings and preparation of resolutions; (xii) litigation and indemnification expenses; (xiii) expenses associated with the preparation and distribution by third party service providers of reports to investors; (xiv) expenses associated with attending review meetings with investors; and (xv) other extraordinary expenses.

In addition to the management fees mentioned above and the performance-based fees described in Item 6, clients who invest through Managed Accounts may bear certain third-party fees, costs and expenses including (without limitation):

- All reasonable transaction expenses related to the purchase and sale of securities or other investment products, including brokerage commissions;
- Custodial fees;
- Administration fees;
- Bank service fees;
- Transfer taxes relating to the investments in the Managed Account; and
- As otherwise agreed to between the Firm and the Managed Account.

See Item 12 of this Brochure for a discussion of Strategos' brokerage practices.

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

Strategos (or an affiliate thereof) may be entitled to performance-based fees or incentive allocations ("Performance Compensation") from its clients. Performance Compensation generally will be 20% of all net unrealized and/or realized profits earned each fiscal year by a client. Performance Compensation may require the attainment of a hurdle or preferred return before Strategos is entitled to be paid Performance Compensation. Performance Compensation will be charged in compliance with all applicable requirements of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

Strategos may, in its sole discretion, modify or waive the Performance Compensation otherwise payable by certain investors in the Funds or certain of the Managed Accounts without entitling any other investor in the Funds or Managed Account to a waiver or modification and without notice or the consent of any other investor in the Funds or Managed Account (unless otherwise agreed to in writing).

Strategos and its advisory personnel have an incentive to favor accounts that pay Strategos Performance Compensation or higher fees. Strategos has adopted and implemented policies and procedures designed to address such conflicts of interest relating to the management of multiple accounts including the fair and equitable allocation of investment opportunities. Please refer to Item 10 and/or Item 12 in this Brochure for information regarding Strategos' allocation procedures.

Strategos has a valuation policy which it applies to assets held in the Funds and the Managed Accounts (to the extent a particular Managed Account agrees to adopt such valuation policy). A full description of the valuation policy is too lengthy for disclosure in this Brochure. Generally,

listed equities are valued at the exchange price as of the valuation date. And, the following information highlights the primary valuation techniques specifically for structured credit investments:

(i) To the extent possible, a mark/quote is obtained from an independent commercial pricing source and from a broker-dealer for each position/security. Both sets of marks are evaluated by Strategos' traders/portfolio managers to determine which mark is most indicative of fair value based on their knowledge of the security, the conditions of the market, yields and other applicable factors.

(ii) Once the Strategos traders/portfolio managers have chosen the most indicative mark/quote as described in item (i) above (i.e., either the independent commercial pricing source mark or the broker-dealer mark)(the "Initial Trading Desk Mark"), a quantitative assessment is independently performed comparing the Initial Trading Desk Mark to the independent commercial pricing source mark using specific quantitative testing metrics. For each position that falls within tolerance of the quantitative testing metrics, the independent pricing source mark is used to value the security. To the extent the Initial Trading Desk Mark falls outside tolerance of the quantitative testing metrics, an additional mark is obtained from a second broker-dealer and, unless the average of the two broker-dealer marks falls within tolerance of the quantitative testing metrics (in which case the independent pricing source mark is used to value the security), the average of the two broker-dealer marks is used to value the security.

(iii) The valuation policy has certain exceptions and other provisions that impact the brief description above. A copy of Strategos' valuation policy is available upon request.

Strategos' (and its affiliates') compensation (i.e., any management fees and/or Performance Compensation) is directly impacted by the valuation of the securities held by the Funds and the Managed Accounts. The valuation policy described above is designed to help mitigate the risk of any manipulation of the valuation of securities (which could theoretically increase Strategos' compensation).

Strategos has a cross trade policy that applies to the Funds and to certain Managed Accounts who have adopted it. The cross trade policy sets forth that Strategos may cause clients to purchase securities from or sell securities to other clients when Strategos believes such transactions are appropriate and in the best interests of each applicable client. Cross trades may be deemed appropriate for a variety of reasons including (without limitation) to account for cash flows or to accomplish rebalancing, where clients have different investment objectives, risk tolerances, liquidity needs or to reduce transaction costs or impacts on price that may arise in an open market transaction. Any cross trades will generally be executed at what Strategos believes to be the prevailing "mid-market" price. Strategos considers the "mid-market" price to be equal to the best bid available in the market plus a margin that is less than the typical bid-ask spread as determined in the Firm's reasonable discretion. With respect to assets that have a par value, Strategos believes this margin is likely to be 0.50% of such par value or less in most situations. For all other assets, the Firm shall make a fair and reasonable determination based on information reasonably available to it of the "mid-market" price of such assets. This "mid-market" price may not necessarily be the mid-point between the bid-ask spread. The Firm may execute cross trades with the assistance of a

broker-dealer and the broker-dealer may earn certain commissions or mark-ups in connection with such cross trades which shall be allocated in the Firm's reasonable discretion. Alternatively, a cross trade between two accounts may occur as a "private transaction," where the Firm instructs the custodian for the accounts to facilitate the transaction. The Firm will not receive any commission in connection with the execution of cross trades.

Although Strategos and its advisory personnel have a theoretical incentive to conduct cross trades in such a manner that may favor one account over another account, such conflict of interest is mitigated by Strategos' adherence to the cross trade policy described above. Moreover, any cross trades are closely monitored by both Strategos' advisory personnel and by Strategos' compliance department to ensure that, as the policy states, any such transactions are appropriate and in the best interests of each applicable client.

## **Item 7      Types of Clients**

As described above, the clients of the Firm are the Funds and the Managed Accounts.

Each of the Funds is a private investment fund exempt from registration as an investment company under Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Company Act"). The investors in the Funds generally consist of endowments, foundations, insurance companies, high net worth individuals, funds of funds, public and corporate pensions, and other sophisticated investors. Investors must be either: (i) both "qualified purchasers" as defined in the Company Act and "accredited investors" as defined in the U.S. Securities Act of 1933, as amended (the "Securities Act") or (ii) "non-U.S. Persons" as defined in Regulation S of the Securities Act. Generally, the Funds require a minimum initial investment of \$1 million, which minimum may be waived in the discretion of the board of directors or the general partner, as applicable.

Clients investing through a Managed Account are qualified purchasers or non-U.S. Persons who retain Strategos to provide discretionary advice and are generally required to make a minimum capital commitment of \$10 million; provided, however, capital commitments of lesser amounts may be accepted on a case-by-case basis.

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

### **A.      Methods of Analysis and Investment Strategies**

#### *General*

The investment objective of the Funds and the Managed Accounts is to generate attractive risk-adjusted returns. The Funds and the Managed Accounts generally seek to achieve this objective by acquiring, aggregating, managing and exiting investments in structured credit and certain other debt and equity markets including (where consistent with contractual arrangements and stated objectives and restrictions) through investment in RMBS, commercial mortgage backed securities ("CMBS"), and other asset-backed securities ("ABS") as well as equity investments in real estate investment trusts ("REITs") or other companies engaged in real estate related businesses, and other related securities and derivatives referencing the foregoing. For the avoidance of doubt, financial instruments such as derivatives, options, swaps, swaptions, futures and forward agreements (both listed and over-the-counter) may (where consistent with contractual arrangements and stated

objectives and restrictions) be used to create long or short positions in some or all of the foregoing investment types or their related indexes, for hedging and/or investment purposes. As noted in Item 4, in seeking to achieve their investment objectives, each of the Funds and the Managed Accounts currently pursues one of the Investment Strategies summarized below.

### *Investment Strategies*

The Deep Value Strategy targets the best ideas prevailing in the structured credit markets and certain other markets and focuses specifically on investment opportunities resulting from market inefficiencies which can often be realized through overlooked catalysts. The Deep Value Strategy seeks to produce elevated risk-adjusted returns from investments ranging from mortgage-backed securities (MBS) to publicly traded equities. Much of the Deep Value Strategy focus is on real estate related securities given the Strategos' extensive experience and penchant for understanding inefficiencies that characterize parts of these markets. In analyzing these investment opportunities, Strategos employs an intensive, value-oriented approach. This approach is driven by rigorous fundamental analysis.

The ECS Strategy pursues a specific subset of the Deep Value Strategy targeting special opportunities concentrated in RMBS and related products utilizing proprietary models and databases designed to uncover hidden value.

### *Methods of Analysis*

Strategos may obtain advice from attorneys, accountants, mortgage origination and servicing personnel and other experts to assist in its analysis of certain investments for the Funds and/or Managed Accounts. Strategos generally obtains information about investment opportunities from the following sources:

- inspections of origination and servicing activities;
- monthly servicer/trustee reports and payment detail;
- monthly mortgage loan level data on a market wide basis;
- investment bank and specialist research reports, broker-dealer trading commentaries and financial periodical articles;
- Bloomberg, Intex, and other third-party data providers;
- rating agency analysis and sell side equity analyst reports; and
- annual reports, prospectuses, filings with the Securities and Exchange Commission, press releases and other issuer-prepared information.

With respect to structured credit investments, Strategos employs quantitatively-based financial/analytical models to aid in the selection of investments for its clients. In addition, Strategos evaluates the suitability of any investment opportunity by considering the following methods of analysis:

### Collateral Analysis - Loan Features That May Be Considered to Estimate Collateral Performance Characteristics:

- Loan to value (“LTV”) & combined loan to value (“CLTV”): at origination and current mark-to-market using Office of Federal Housing Enterprise Oversight metropolitan statistical areas house price index data;
- Lien status: 1st lien or 2nd lien (closed-end 2nd or home equity line of credit) and silent seconds;
- Property type: single family, 2-4 family, manufactured housing, planned unit development, condo, multi-family;
- Occupancy status: owner occupied, 2nd home, investor property;
- Amortization term, weighted average loan age;
- Loan size, loan count, “tail risk” of quality borrower burnout;
- Fixed/floating mix: adjustable rate mortgage (“ARM”) breakdown, hybrid ARM term;
- Interest only (“IO”) loan concentration/IO term;
- Mortgage insurance: borrower vs. issuer paid, coverage to LTV;
- Delinquency performance: 30 day, 60 day, 90+ day, bankruptcy, foreclosure, real estate owned;
- Delinquency history: individual loan history string by Office of Thrift Supervision and Mortgage Bankers Association methodology;
- Loan modifications: rate modifications, cap modifications, principal forgiveness, forbearance, the Home Affordable Modification Program and the modification impact;
- Mortgage servicing: principal and interest advances, curtailments, foreclosure moratoriums and timelines, delinquency roll rates, Short Sales (as defined herein).

#### Structural Analysis - Structural Features Used to Help Project Cash Flows:

- Capital structure: senior vs. mezzanine;
- Interest and principal waterfall: distribution to trust;
- Credit enhancement: subordination, excess spread, insurance, over-collateralization;
- Bond insurance guarantee/wrap: corporate monoline risk, timely vs. ultimate pay, impact of insurance premium to waterfall;
- Pool policy insurance: loss coverage, issuer/monoline payment;
- Performance triggers: cumulative loss and delinquency, effects on cash flows timing (i.e., “step down” cash flow, front pay, pass-through);
- Breakeven analysis: prepayments, constant prepayment rates, defaults, constant default rates, loss severity;
- Available funds cap, interest shortfall, fixed vs. floating collateral and liability composition;
- Principal write-downs: absolute vs. implied, impact on senior vs. mezzanine classes;
- Interest rates: implied forward curve, 1 month LIBOR;

Investing in securities, including investing in securities purchased by Strategos on a client's behalf, involves the possible risk of loss of all or a significant portion of the value of such securities that clients should be prepared to bear. Strategos in no way guarantees performance or results.

## **B. Material Risks Associated with Methods of Analysis and Investment Strategies**

Strategos considers the following to be representative of the material risks currently related to the methods of analysis and Investment Strategies described above. However, there can be no assurances given that, as the Investment Strategies develop over time, other risks will not arise.

***Highly Volatile Markets.*** The prices of assets in the RMBS, CDO, CMBS and ABS ("Securitization Securities") market are highly volatile. Price movements of Securitization Securities are influenced by, among other things, interest rates, housing price changes, unemployment, wage growth, availability and cost of credit, complexity of the assets and their associated legal documentation, loan level performance data, structuring and performance models, counterparty risk including, but not limited to, supply and demand in the housing market, changing supply and demand relationships for these assets, level of available leverage for these assets, trade, fiscal, monetary, regulatory and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in the markets where Securitization Securities trade. Such intervention often is intended directly to influence prices and may, together with other factors, materially impact asset prices in unpredictable ways or in a direction harmful to the performance of a Fund or Managed Account.

***Institutional Risk.*** The institutions, including brokerage firms, banks, originators, servicers, mortgage insurers, bond insurers, rating agencies, and other entities, with which Strategos will trade, invest or rely upon for the performance of the Securitization Securities and underlying mortgage loans, have in many instances encountered and may encounter further financial difficulties, including insolvency, that could materially impair the operational capabilities or the capital position of Strategos' clients.

***Lack of Asset Diversification.*** The Investment Strategies are subject to limited diversification requirements and Strategos may invest a significant portion of a client's assets in the securities of a small number of issuers or indirectly in similar assets. As a result, a client may be more susceptible to risks associated with a single economic, housing, contract law, political or regulatory occurrence than a more diversified portfolio might be.

***Competition.*** Because the objectives of the Investment Strategies involve identifying securities that provide for attractive risk adjusted returns, competitive investment activity by other firms may reduce a client's opportunity for profit by reducing mispricing in the market as well as the margins available on such mispricing.

***Reliance on Industry Data Sources and Structuring Models.*** The Investment Strategies of Strategos often rely on the financial information made available (on a non-confidential basis) by the issuers, servicers, third party modeling firms, third party data providers and trustees of Securitization Securities. Events in the United States and around the world during the financial

crisis of 2008 demonstrated the material losses that investors in Securitization Securities can incur as a result of the difficulty in creating useable data to build adequate models. In addition, the unprecedented deterioration of mortgage loan performance and home price movements during the financial crisis of 2008 demonstrated the material losses that investors in Securitization Securities can incur as a result of unexpected performance changes.

***Quantitative Model Risks.*** As mentioned above, Strategos will employ quantitatively-based financial/analytical models to aid in the selection of investments for its clients. The success of Strategos' investment and trading activities will depend, to some degree, on the viability of these analytical models. There can be no assurance that the models are currently viable, or, if the models are currently viable, that they will remain viable during the existence of Strategos' relationship with any particular client. In fact, these models are based upon historical performance data and there can be no guarantee that similar conditions will prevail. Also, there can be no assurance that the investment professionals of Strategos utilizing the models will be able to (i) determine that any model is no longer viable, (ii) ensure that the models accurately capture relationships between asset classes and types or (iii) notice, predict or adequately react to any change in the viability of a model. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of a client.

***Leverage.*** Strategos may employ leverage in certain Funds or Managed Accounts. The amount of leverage which may be employed by Strategos on behalf of a client at a given time will be determined by Strategos consistent with its clients' investment policies, as well as market conditions and other factors.

The effect of leverage will amplify the performance of a client's investment return – both the upside performance and the downside performance.

In addition, Strategos may invest, on behalf of a client, in equity and subordinated debt investments of securitization vehicles, which, by their nature, exhibit a high degree of leverage inherent in their respective deal structures.

***Pairs Trading Risks.*** Strategos may, on behalf of a client, purchase one asset and short another asset. To the extent the price relationship between such positions remains constant, no gain or loss on the pairs trade will occur. However, there may be material financing costs associated with maintaining the corresponding short position, which would adversely impact performance. In addition, such positions do entail a substantial risk that the price differential could change unfavorably in which case material losses would occur at an accelerated rate given the decline in value of both positions.

***Derivatives Risk and Short Sales.*** Derivatives are financial contracts in which the value depends on, or is derived from, the value of an underlying asset, reference rate or index. Strategos may, on behalf of a client, use derivatives for speculative or hedging purposes. Strategos' use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in other securities and traditional investments. Derivatives involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, reference rate or index. Derivatives may also involve risks of counterparty non-performance. There may also be a significant degree of implied leverage

embedded in derivative instruments and losses incurred on these investments increase in direct proportion to the corresponding degree of implied leverage. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that Strategos will engage in these transactions on behalf of clients to reduce exposure to other risks when it would be beneficial.

Strategos may, but is not required to, engage in Short Sales (as defined below) on behalf of a client to the extent Strategos deems it appropriate. A short sale may be effected by selling a security that a client does not own, or selling a security that a client does own but does not deliver upon consummation of the sale (“Short Sales”). Strategos may also use derivative instruments to create short exposure in a client’s portfolio. There can be no assurances that the securities necessary to cover a Short Sale will be available for purchase and, accordingly, losses are potentially unlimited. In addition, purchasing securities to close out a Short Sale can itself cause the price of the securities to rise further, thereby increasing any loss incurred. Furthermore, clients may be forced to close out a short position prematurely if a counterparty demands that borrowed securities be returned, resulting in a loss on what might otherwise have been a profitable position.

***Credit Default Swaps.*** Strategos, on its client’s behalf, may enter into credit default swap agreements. The “buyer” in a credit default contract is obligated to pay the “seller” a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred. If an event of default occurs, the seller must pay the buyer the full notional value, or “par value,” of the reference obligation. A client may be either the buyer or seller in a credit default swap transaction. If a client is a buyer and no event of default occurs, the client will lose its investment and recover nothing. However, if an event of default occurs, the client (if the buyer) will receive the full notional value of the reference obligation that may have little or no value. As a seller, a client receives a fixed rate of income throughout the term of the contract provided that there is no default event. If an event of default occurs, the seller must pay the buyer the full notional value of the reference obligation. Credit default swap transactions involve greater risks than if a client had invested in the reference obligation directly. Swaps are subject to the risk of non-performance by the swap counterparty, including risks relating to the financial soundness and creditworthiness of the swap counterparty. Also, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) included provisions that have significantly altered the regulation of swaps and the over-the-counter derivatives markets in the United States.

***Risk of Counterparty Default.*** The stability and liquidity of repurchase agreements, swap transactions, credit default swaps, indices, forwards and other over-the-counter derivative transactions can depend in large part on the creditworthiness of the parties to the transactions. It is expected that Strategos will monitor on an ongoing basis the creditworthiness of firms with which it will enter into repurchase agreements, reverse repurchase agreements, interest rate swaps, caps, floors, collars or other over-the-counter derivatives. If there is a default by the counterparty to such a transaction, Strategos will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs, which could result in the net asset value of the investment being less than if Strategos had not entered into the transaction.

***Credit Risk.*** A client also is subject to credit risk, i.e., the risk that an issuer of securities will be unable to pay principal and interest when due, or that the value of the security will suffer because investors believe the issuer is less able to pay. This is broadly gauged by the credit ratings of the securities in which a client invests. However, ratings (i) are only the opinions of the agencies issuing them, (ii) may be slow to adapt to changing circumstances and (iii) are not absolute guarantees of the quality of the securities. Also, credit ratings and ratings agencies have been criticized for credit ratings which did not fully reflect the risks of certain securities or which did not reflect such risks in a timely manner. In the event that such ratings are inaccurate, otherwise misleading or untimely, the value of a client's portfolio may be adversely affected. Furthermore, a client's investments may not be rated by any rating agency or may be below investment grade. Clients will be more dependent upon the judgment of Strategos as to the credit quality of such unrated securities. A default, downgrade or credit impairment of any of its investments could result in a significant or even total loss of the investment.

***Liquidity Risk.*** A client's investments may at any given time be illiquid such that either no market exists for them or they are restricted as to their transferability under federal and state securities laws. Thus, the sale of these investments may be made at substantial discounts, delayed or impossible. In addition, the illiquidity of a security or other instrument held by a client may also make it difficult for Strategos to value such investments. For example, during the RMBS market dislocation, there were periods during which the majority of market participants did not provide mark to market quotes, engage in active market making, or maintain traditional inventory levels, and they effectively charged wide bid ask spreads for clearing bond purchases and sales between investors. During these periods, the ability to receive reliable, independent third party mark to market on assets and the ability to either buy or sell in a short period, if at all, at reasonable execution costs is severely challenged.

***Real Estate-Related Securities.*** Securities issued by entities which invest in real estate, including REITs, generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate. Such risks include, without limitation, the risks associated with both domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental, and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the risk of third-party borrowers to manage the real properties.

**Equity Securities and Equity Derivatives.** Strategos could hold equity securities and potentially equity derivatives as a result of a workout or restructuring. The value of these assets vary based upon the issuer's performance and movements in the broader equity markets. Numerous economic factors, as well as market sentiment, political, and market-related factors, among others, influence the value of equities. A portfolio could suffer losses if an equity's performance diverges from expectations or based on adverse equity market movements.

***Political Uncertainty.*** Social, political, economic and other conditions and events (such as natural disasters, epidemics and pandemics, terrorism, conflicts and social unrest) will occur that have

significant impacts on issuers, industries, governments and other systems, including the financial markets. As global systems, economies and financial markets are increasingly interconnected, events that once had only local impact are now more likely to have regional or even global effects. Events that occur in one country, region or financial market will, more frequently, adversely impact issuers in other countries, regions or markets. These impacts can be exacerbated by failures of governments and societies to adequately respond to an emerging event or threat. A Fund or Managed Account will be negatively impacted if the value of their portfolio holdings decrease as a result of such events, if these events adversely impact the operations and effectiveness of Strategos or key service providers or if these events disrupt systems and processes necessary or beneficial to the management of accounts.

**The Outbreak of COVID-19 Has Adversely Affected, and Could Continue to Adversely Affect, Credit Markets, Commercial Real Estate Markets and the Global Economy in General.** The global COVID-19 pandemic and the responses thereto have led, and will likely continue to lead, to disruptions in global financial markets, significant increases in unemployment, significant reductions in consumer demand and downturns in the economies of many nations, including the United States, and the global economy in general. While vaccines are being developed and distributed, new variants of COVID-19 have shown to be resistant to vaccines and could exacerbate or prolong the pandemic and its effects. Additionally, the effectiveness of unprecedented financial support and relief measures (such as the Coronavirus Aid, Relief and Economic Security Act) implemented by the United States government and other governments is not yet clear, nor is it known what (if any) new stimulus or relief efforts will be implemented and the effectiveness and impact of these measures cannot be predicted. As a result, the long-term effects of the social, economic and financial disruptions caused by the COVID-19 pandemic remain unknown.

### **C. Material Risks Associated with investing in RMBS, CMBS, ABS and REITs**

Strategos has provided a non-exhaustive list below of the material risks relating to investing in RMBS, CMBS, ABS (and certain other types of securities) and REITs. A more detailed list of such risks is also included in the current private placement memorandum or prospectus published by each Fund, which is available upon request from Strategos.

***Real Estate and REIT Risk.*** REITs are subject to the risks of the real estate market as a whole, such as taxation, regulations and economic and political factors that negatively impact the real estate market and the direct ownership of real estate. These may include decreases in real estate values, overbuilding, rising operating costs, interest rates and property taxes. In addition, some real estate related investments are not fully diversified and are subject to the risks associated with financing a limited number of projects. Investing in REITs involves certain unique risks in addition to those associated with the real estate sector generally. REITs whose underlying properties are concentrated in a particular industry or region are also subject to risks affecting such industries and regions. REITs (especially mortgage REITs) are also subject to interest rate risks. By investing in REITs, a shareholder will bear expenses of the REITs in addition to Fund expenses.

**RMBS.** An RMBS is a form of mortgage-backed security and is a general obligation of the issuer, which is typically secured by residential mortgages or residential mortgage-backed collateral. RMBS may be either (i) issued or guaranteed by U.S. government agencies or instrumentalities or (ii) issued (but not guaranteed) by private entities such as banks, savings and loans, mortgage bankers and other nongovernmental issuers. The material risks involved with investing in RMBS include:

- **Prepayment Risk.** Clients may invest, directly or indirectly, in RMBS and receive payments generally from payments that are made on mortgage loans securing the RMBS. The yield and payment characteristics of RMBS differ from traditional debt securities. Interest and principal prepayments are made more frequently, usually monthly, over the life of the mortgage loans and principal may be prepaid at any time because the underlying mortgage loans generally may be prepaid at any time. Faster or slower prepayments than expected on underlying mortgage loans can dramatically alter the yield to maturity of an RMBS, thus affecting the profitability of the Fund or Managed Account.
  - Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, general economic conditions and the relative interest rates on fixed-rate and adjustable-rate mortgage loans.
- **Interest Rate Changes.** The value of most RMBS, like traditional debt securities, tends to vary inversely with changes in interest rates (i.e., as interest rates increase, the value of such securities decreases). RMBS, however, may benefit less than traditional debt securities from declining interest rates because prepayment of mortgages tends to accelerate during periods of declining interest rates. Prepayments shorten the life of the security and the time over which the Fund or the Managed Account receives income at the higher interest rate. Additionally, when mortgage loans underlying RMBS are prepaid, the prepaid amounts are generally re-invested in other income yielding securities which will reflect the lower interest rates prevailing at the time.
  - Alternatively, during periods of rising interest rates, RMBS are often more susceptible to extension risk than traditional debt securities (i.e., rising interest rates could cause property owners to prepay their mortgages more slowly than expected when the security was purchased, which may further reduce the market value of such security and lengthen the duration of the security).
- **Valuation.** RMBS are not traded on an organized exchange and may, therefore, be difficult to value.
- **Credit Risk.** Investment in RMBS is subject to credit risk, i.e., the risk that an issuer of an RMBS will be unable to pay principal and interest when due, or that the value of the security will suffer because investors believe the issuer is less able to pay. A default, downgrade or credit impairment of any of these securities could result in a significant or even total loss of the investment.

**CMBS.** A CMBS is a form of mortgage-backed security which is typically secured by commercial mortgages or commercial mortgage-backed collateral. Commercial mortgage loans underlying commercial mortgage-backed securities are generally secured by income producing property, such as offices, malls, stores, industrial properties, multi-family housing or other commercial property, and may entail risks of delinquency and foreclosure.

CMBS are often backed by an underlying mortgage pool of only a few mortgage loans. A failure in performance of any one commercial mortgage loan in the underlying mortgage pool will have a much greater impact on the performance of the related CMBS. Credit risk relating to commercial mortgage-backed transactions is, as a result, property-specific. In this respect, commercial mortgage backed transactions resemble traditional non-recourse secured loans.

Rates of defaults and losses on commercial mortgage loans, and the value of any commercial property, may be adversely affected by risks generally incident to interests in real property including various events which the related borrower and/or manager of the commercial property may be unable to predict or control, such as: changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; acts of God; environmental hazards; and social unrest and civil disturbances. If a commercial mortgage loan is in default, foreclosure of such commercial mortgage loan may be a lengthy and difficult process, and may involve significant expenses and potential liabilities.

Prepayments on the underlying commercial mortgage loans in an issue of CMBS will be influenced by the prepayment provisions of the related mortgage notes such as prepayment penalties and defeasement and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related mortgage loans, the rate of prepayment on the underlying mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related CMBS issue.

Concentrations of CMBS of a particular type, as well as concentrations of CMBS issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the CMBS to additional risk. CMBS issues may be subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In general, subordinate classes are more sensitive to risk of loss and write-downs than senior classes of such securities.

***Resecuritization of Real Estate Mortgage Investment Conduit (“Re-REMIC”).*** A Re-REMIC is an investment vehicle that is generally backed by a static pool of CMBS and/or RMBS. The vehicle holds the CMBS and/or RMBS in trust, and issues securities representing an interest in the trust. The risk factors that apply to CMBS and RMBS, as outlined above, also apply to Re-REMICs.

***Collateralized Debt Obligations.*** Strategos may invest client monies in collateralized debt obligations (including without limitation collateralized loan obligations and collateralized bond obligations, collectively, “CDOs”). CDOs may be fixed pools or may be “market value” or managed pools of collateral which entitle the holders thereof to receive payments that depend primarily on the cash flow from the pool of assets, which may include commercial loans, high yield and investment grade debt, Structured Securities (as defined below) and derivative instruments relating to debt. Holders of CDOs bear various risks, including credit risk, liquidity risk, interest rate risk, market risk, operational risk, structural risk and legal risk. The pools of assets of CDOs are typically separated into tranches representing different degrees of credit quality, with lower rated tranches being subordinate to senior tranches. The senior tranches of CDOs, which represent the highest credit quality in the pool, have the greatest collateralization and pay the lowest spreads over LIBOR. Lower rated CDO tranches represent lower degrees of credit quality and pay higher spreads over LIBOR to compensate for the attendant risks. The bottom tranches specifically receive the residual interest payments (i.e., money that is left over after the higher tiers have been paid) rather than a fixed interest rate. The returns on the junior tranches of CDOs are especially sensitive to the rate of defaults in the collateral pool. In addition, the exercise of redemption rights, if any, by more senior CDO tranches and certain other events could result in an elimination, deferral or reduction in the funds available to make interest or principal payments to the junior tranches. Clients may acquire mezzanine or equity tranches of CDOs which are the most susceptible to these risks.

***Collateralized Mortgage Obligations.*** Strategos may invest client monies in collateralized mortgage obligations (“CMOs”). CMOs are debt instruments issued by special purpose entities which are secured by pools of mortgage loans or other mortgage-related securities. Similar to a bond, interest and prepaid principal is paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans or private mortgage bonds, but are more typically collateralized by portfolios of mortgage pass-through securities guaranteed by Ginnie Mae, Freddie Mac or Fannie Mae, and their income streams.

CMOs are structured into multiple classes, often referred to as “tranches,” with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including pre-payments. Actual maturity and average life will depend upon the pre-payment experience of the collateral. In the case of certain CMOs (known as “sequential pay” CMOs), payments of principal received from the pool of underlying mortgages, including pre-payments, are applied to the classes of CMOs in the order of their respective final distribution dates. Thus, no payment of principal will be made to any class of sequential pay CMOs until all other classes having an earlier final distribution date have been paid in full.

CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage- or asset-backed securities. In addition, investment in CMOs is subject to prepayment risk and interest rate risk.

***Stripped Mortgage-Backed Securities.*** Strategos may invest client monies stripped mortgage-backed securities (“SMBS”), which are derivative multi-class mortgage securities. SMBS may be issued by private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage bankers, commercial banks, investment banks and special purpose subsidiaries of the foregoing.

There are generally two classes of SMBS: (i) one (the interest only or “IO” class) entitles the holder thereof to receive distributions consisting solely or primarily of all or a portion of the interest on the underlying pool of mortgage loans or mortgage-related securities (“Mortgage Assets”) and (ii) the other (the principal only or “PO” class) entitles the holders thereof to receive distributions consisting solely or primarily of all or a portion of the principal of the underlying pool of Mortgage Assets. PO classes may generate income through the accretion of the deep discount at which such securities are purchased and while PO classes do not receive periodic payments of interest they receive monthly payments associated with scheduled amortization and principal payments from the Mortgage Assets underlying the PO classes. The cash flows and yields on IO and PO classes are extremely sensitive to the rate of principal payments (including prepayments) on the related underlying Mortgage Assets. For example, a rapid or slow rate of principal payments may have a material adverse effect on the market value and yield to maturity of IOs or POs, respectively. If the underlying Mortgage Assets experience greater than anticipated prepayments of principal, an IO investor may incur substantial losses. Conversely, if the underlying Mortgage Assets experience slower than anticipated prepayments of principal, the market value and yield on a PO class will be affected more severely than would be the case with a traditional mortgage-related security. In the current distressed market for legacy RMBS, Strategos expects that, in the case of deeply discounted principal and interest RMBS, bond principal payments will act in a manner similar to PO classes. If prepayment speeds accelerate the overall return may increase. In addition, in the current distressed market for legacy RMBS assets, on principal and interest bonds where Strategos does not expect any principal payments, the timing of losses and the overall payment of underlying mortgage interest, including the impact of modifications by servicers, will be the primary drivers of bond performance.

***Adjustable Rate Mortgage-Backed Securities.*** Strategos may invest client monies in adjustable rate mortgage-backed securities. Adjustable rate mortgage-backed securities are generally collateralized by or represent interests in mortgage loans with variable rates of interest. Such variable rates of interest reset periodically to align themselves with market rates. The value of adjustable rate mortgage securities may vary to the extent that current yields on adjustable rate mortgage securities are different than market yields during interim periods between coupon reset dates or if the timing of changes to the index upon which the rate for the underlying mortgages is based lags behind changes in market rates.

***Economic Residuals.*** Strategos may invest client monies in the economic residuals from underlying mortgage-backed deals where excess interest and over-collateralization is used as a form of credit enhancement. These investments represent the difference of the underlying mortgage loan cash flows, including but not limited to principal, interest, servicing advances, and recoveries, less deal obligations including bond principal, interest, unpaid obligations, maintenance of required enhancement, and losses.

***Repurchase Agreements.*** Strategos may, for the Funds or Managed Accounts, utilize repurchase agreements (“Repos”). Repos generally involve the sale of a security by a client to another party, usually a bank, broker-dealer or other financial institution, concurrently with an agreement by the client to repurchase the same security at an agreed upon price and date. A Repo is functionally equivalent to borrowing money and pledging the security as collateral. The use of Repos involves certain risks. Repos involve the risk that the client is obligated to repurchase a security at a time when the market value of the security has declined below the agreed upon repurchase price of the

security. Additionally, in the event that the counterparty to a Repo becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, Strategos' ability to reacquire the underlying security may be restricted.

***Structured Securities Generally.*** Strategos may invest client monies in interests in securitization vehicles organized and operated solely for the purpose of restructuring the investment characteristics of other debt securities (collectively, "Structured Securities"). This type of restructuring generally involves the deposit with or purchase by an entity, such as a corporation or trust, of specified instruments and the issuance by that entity of one or more classes of securities backed by, or representing interests in, the underlying instruments. The cash flow on the underlying instruments may be apportioned among the newly issued security to create securities with different investment characteristics such as varying maturities, payment priorities and interest rate provisions, and the extent of the payments made with respect to such securities is dependent on the extent of the cash flow on the underlying instruments. Certain classes of such securities may be subordinated to the right of payment of another class. Subordinated structured investments typically have higher yields and present greater risks than unsubordinated structured investments.

Many Structured Securities are highly complex instruments and may be sensitive to changes in interest rates, prepayment rates or both. There is no guarantee that a liquid market will exist for any Structured Security that Strategos, on behalf of a client, may wish to sell.

Structured Securities generally are limited or non-recourse obligations payable solely from underlying assets or collateral securities or the proceeds thereof. Consequently, holders of Structured Securities must rely solely on distributions on the underlying assets or collateral securities or proceeds thereof for payment in respect of the Structured Securities. The underlying assets are subject to, among other things, credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks and may fluctuate with the financial conditions of the underlying issuers and obligors. In the event that issuers of the underlying collateral securities or obligors on the underlying assets default on their obligations, or distributions on the underlying assets or collateral securities are insufficient to make payments in respect of the Structured Securities, no other assets will be available for the payment of the deficiency. There is no guarantee that liquidation of underlying assets and collateral securities will be sufficient to repay investors for their investment in such Structured Securities.

In addition, Structured Securities may involve risks different from those of the assets or securities underlying or backing such Structured Securities. The failure by a servicer, sponsor or manager of a Structured Security to perform adequate credit review of underlying assets or collateral securities or to otherwise fulfill its obligations with respect to a Structured Security may lead to the liquidation of, or default on, such Structured Security. Such failures and defaults may have a negative impact on the return of the Structured Security and the performance of a client's investment return.

**LIBOR Replacement.** The terms of many investments, financings or other transactions in the U.S. and globally have been historically tied to LIBOR, which functions as a reference rate or benchmark for various commercial and financial contracts. LIBOR may be a significant factor in determining payment obligations under derivatives transactions, the cost of financing of portfolio

investments or the value or return on certain other fund investments. As a result, LIBOR may be relevant to, and directly affect, a portfolio's performance.

The Financial Conduct Authority, the United Kingdom's financial regulatory body and regulator of LIBOR, has announced that after 2021 it will cease its active encouragement of banks to provide the quotations needed to sustain LIBOR due to the absence of an active market for interbank unsecured lending and other reasons. As a result, it is anticipated that LIBOR will be discontinued or will no longer be sufficiently robust to be representative of its underlying market around that time. However, it is possible that certain LIBOR tenors may continue beyond 2021 and the most widely used LIBOR tenors may continue until mid-2023. Various financial industry groups have begun planning for that transition and certain regulators and industry groups have taken actions to establish alternative reference rates (e.g., SOFR, which measures the cost of overnight borrowings through repurchase agreement transactions collateralized with U.S. Treasury securities and is intended to replace U.S. dollar LIBOR with certain adjustments). However, there are challenges to converting certain contracts and transactions to a new benchmark and neither the full effects of the transition process nor its ultimate outcome is known.

The transition process might lead to increased volatility and illiquidity in markets for instruments with terms tied to LIBOR. It could also lead to a reduction in the interest rates on, and the value of, some LIBOR-based investments and reduce the effectiveness of hedges mitigating risk in connection with LIBOR-based investments. Although some LIBOR-based instruments may contemplate a scenario where LIBOR is no longer available by providing for an alternative rate-setting methodology and/or increased costs for certain LIBOR-related instruments or financing transactions, others may not have such provisions and there may be significant uncertainty regarding the effectiveness of any such alternative methodologies. Instruments that include robust fallback provisions to facilitate the transition from LIBOR to an alternative reference rate may also include adjustments that do not adequately compensate the holder for the different characteristics of the alternative reference rate. The result may be that the fallback provision results in a value transfer from one party to the instrument to the counterparty. Additionally, because such provisions may differ across instruments (e.g., hedges versus cash positions hedged), LIBOR's cessation may give rise to basis risk and render hedges less effective. As the usefulness of LIBOR as a benchmark could deteriorate during the transition period, these effects and related adverse conditions could occur prior to the end of 2021 with respect to certain LIBOR tenors or mid-2023 for the remaining LIBOR tenors. There also remains uncertainty and risk regarding the willingness and ability of issuers to include enhanced provisions in new and existing contracts or instruments, notwithstanding significant efforts by the industry to develop robust LIBOR replacement clauses. The effect of any changes to, or discontinuation of, LIBOR on a portfolio will vary depending, among other things, on (1) existing fallback or termination provisions in individual contracts and the possible renegotiation of existing contracts and (2) whether, how, and when industry participants develop and adopt new reference rates and fallbacks for both legacy and new products and instruments. Portfolio investments may also be tied to other interbank offered rates and currencies, which also will likely face similar issues.

In many cases, in the event that an instrument falls back to an alternative reference rate, including the Secured Overnight Financing Rate, the alternative reference rate will not perform the same as LIBOR because the alternative reference rate does not include a credit sensitive component in the

calculation of the rate. Alternative reference rates generally reflect the performance of the market for U.S. treasury securities, which are secured by the U.S. treasury, and not the inter-bank lending markets. In the event of a credit crisis, floating rate instruments using certain alternative reference rates could therefore perform differently than those instruments using a rate indexed to the inter-bank lending market.

Various pending legislation, including in U.S. Congress and the New York state legislature, may affect the transition of LIBOR-based instruments as well by permitting trustees and calculation agents to transition instruments with no LIBOR transition language to an alternative reference rate selected by such agents. Those legislative proposals include safe harbors from liability, which may limit the recourse a portfolio may have if the alternative reference rate does not fully compensate the portfolio for the transition of an instrument from LIBOR. It is uncertain whether such legislative proposals will be signed into law.

Certain classes of instruments invested in by a portfolio may be more sensitive to LIBOR cessation than others. For example, certain asset classes such as floating rate notes may not contemplate a LIBOR cessation and/or might freeze a last-published or last-used LIBOR rate for all future payment dates upon a discontinuation of LIBOR. Also, for example, syndicated and other business loans tied to LIBOR may not provide a clear roadmap for LIBOR's replacement, leaving any future adjustments to the determination of a quantum of lenders. Securitizations and other asset-backed transactions may experience disruption as a result of inconsistencies between when collateral assets shift from LIBOR and the rate with which those assets replace LIBOR and when the securitization notes shift from LIBOR as well as the rate with which the securitization notes replace LIBOR.

These developments could negatively impact financial markets in general and present heightened risks, including with respect to a portfolio's investments. As a result of this uncertainty and developments relating to the transition process, a portfolio and its investments may be adversely affected.

***Servicing Risk.*** Under certain circumstances, including a failure to perform its servicing obligations or a bankruptcy of the servicer or certain loss and/or delinquency triggers being exceeded, investors may be entitled to remove and replace the existing servicer. There is no guarantee, however, that a suitable servicer could be found to assume the obligations of the existing servicer or, if found, on the same terms as the prior servicer. The transition of servicing responsibilities to a replacement servicer could have an adverse effect on performance of servicing functions during or following a transition period and could result in increases in delinquencies and losses and decreases in recoveries. The loss by a servicer of its right to service a mortgage loan portfolio would decrease servicing revenues and may result in reputational damage as a servicer.

Certain RMBS purchased on behalf of Strategos' clients may be RMBS which were originated or are serviced (or both) by mortgage companies who have filed bankruptcy proceedings or had regulatory enforcement actions against them which may affect their ability to continue to service or subservice mortgage loans. Servicers who have sought bankruptcy protection may, due to applicable law, also no longer be required to make servicer advances. Servicer discretion to modify existing loans in a securitization can negatively impact certain bonds in the securitization capital

structure. For example, a securitization could see immediate losses due to modifications that hurt the most subordinate tranches. Also, servicer behavior can be difficult to predict from a cash flow perspective because their servicing agreements allow them to stop advancing on certain loans that are deemed non-recoverable.

Since 2008, servicers have been merging and consolidating. This consolidation reduces diversification in the servicer market which exposes securitizations to increased servicer specific risks.

### ***Monetary Policy Risk and Governmental Intervention.***

The U.S. Federal Reserve (the “Federal Reserve”) and global central banks, including the European Central Bank, have—in addition to other governmental actions to stabilize markets and seek to encourage economic growth—acted to hold interest rates to historic lows. It cannot be predicted with certainty when or how, these policies will change, but actions by the Federal Reserve and other central bankers have a significant effect on interest rates and on the U.S. and world economies generally, which in turn can affect the performance of a Strategos’ assets. Further financial crises could result in additional governmental intervention in the markets. In addition, the consequences of the extensive changes to the regulation of various markets and market participants contemplated by the legislation and increased regulation arising out of the financial crisis are difficult to predict or measure with certainty.

***Synthetic Securities.*** Strategos may invest client monies in synthetic securities. Synthetic securities are securities in which the value is determined by reference to changes in the value of specific currencies, interest rates, bonds (or bond portfolios), commodities, indices, or other financial indicators (a “Reference”) or the relative change in two or more References. The interest rate or the principal amounts payable upon maturity or redemption may vary depending upon changes in the applicable Reference. Synthetic securities may be positively or negatively indexed, so that appreciation of the Reference may produce an increase or decrease in the interest rate or value of the security at maturity. In addition, changes in the interest rates or the value of the security at maturity may be a multiple of changes in the value of the Reference. Consequently, synthetic securities may present a greater degree of market risk than other types of securities and may be more volatile, less liquid and more difficult to value accurately than less complex securities.

***Preferred Shares.*** Strategos may invest client monies in preferred shares, which may have fixed or variable dividend rates. Clients may acquire preferred shares directly or indirectly through investment in securitization vehicles where preferred shares represent part or all of the underlying holdings. Preferred shares generally have a preference as to dividends and liquidation over an issuer’s common shares but rank junior to debt securities in an issuer’s capital structure. Unlike interest payments on debt securities, preferred share dividends are payable only if declared by an issuer’s board of directors. Preferred shares may be subject to optional or mandatory redemption provisions and may be illiquid. The ability of preferred shares to generate income is dependent on the earnings and continuing declaration of dividends by the issuers of preferred shares.

## **Item 9      Disciplinary Information**

Neither Strategos nor any of its management personnel have any legal or disciplinary events to disclose that are material to a client's or prospective client's evaluation of Strategos' advisory business or the integrity of Strategos' management.

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

Investments in any of the Funds for which Strategos acts as an investment manager are conducted on a private placement basis and prospective investors are solicited only by means of the current private placement memorandum or prospectus of the relevant Fund. The following is a list of Funds for which, as of the date hereof, Strategos acts as an investment manager:

- Strategos Deep Value Fund LP;
- Strategos Deep Value Fund Ltd.;
- Strategos Deep Value Master Fund II LP;
- Strategos ECS Onshore Fund II, L.P.;
- Strategos ECS Offshore Fund II, L.P.; and
- Strategos ECS Master Fund II, L.P.

Strategos is also affiliated with Goshen Rock Capital, LLC ("Goshen Rock"), through common ownership. Goshen Rock is registered as an investment adviser with the SEC and acts as sub-adviser to the AlphaCentric Strategic Income Fund, an investment company registered under the 1940 Act. Strategos and Goshen Rock share personnel and facilities, including with respect to personnel involved in portfolio management and trading activities. Clients of Strategos and Goshen Rock are likely to follow similar investment strategies or, for other reasons, could have overlapping investments. To the extent that shared personnel of Strategos and Goshen Rock identify an investment opportunity in which multiple accounts can invest consistent with each account's investment mandate and the firms determine that such opportunity is appropriate for more than one account, Strategos and Goshen Rock will reasonably determine a *pro rata* allocation among such accounts generally on the basis of the relative asset size, further subject to available cash, while taking into consideration: relative exposure to market trends; investment programs/guidelines and portfolio positions of such accounts; concentration limits and other limitations; whether any particular account has an outsized AUM compared to the remaining accounts and the impact of such disparity; the applicable tax, legal and regulatory restrictions; and other relevant factors and considerations. Strategos and Goshen Rock can deviate from the general *pro rata* allocation where appropriate to avoid creating "odd lots" as long as allocations are fair and equitable as among the applicable accounts over time.

Strategos does not advise clients as to investments in any fund advised by Goshen Rock nor do any such funds invest in the Funds that Strategos advises. However, investors in a Strategos Fund or a Goshen Rock fund could, if eligibility requirements are met, determine to invest in a fund advised by the other adviser or, in the case of an investor in a Goshen Rock fund, establish a separate account relationship with Strategos. No compensation is paid by either Strategos or Goshen Rock to the other in connection with any such investments.

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

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

Strategos has a fiduciary duty to its clients to act in the best interest of the clients and to always place the clients' interests before its own. Strategos takes its compliance and regulatory obligations seriously and requires all staff to comply with applicable law as well as Strategos' policies and procedures. Furthermore, Strategos maintains a Privacy Policy and strives to handle clients' non-public personal information in such a way as to protect information from falling into hands of persons that have no legitimate business reason to know such information. Strategos maintains a Code of Ethics for its advisory representatives, supervised persons and staff which establishes Strategos' expectations for business conduct and contains provisions for, among other things, standards of business conduct in order to comply with federal securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, violations reporting requirements, and the safeguarding of material non-public information about client transactions.

Strategos will provide a copy of its Code of Ethics to any client or prospective client upon request.

### **B. Participation or Interest in Client Transactions and Personal Trading**

Strategos and its access persons must give priority on all prospective investments to the clients of Strategos prior to the execution of transactions for any: (i) personal accounts of Strategos' access persons or for which an access person maintains a beneficial interest; (ii) securities account maintained for any person that is not a client of Strategos or Goshen Rock in which an access person exercises control or provides investment advice; and (iii) proprietary securities accounts (if any) maintained for Strategos, Goshen Rock or their respective or shared access persons, as applicable.

Accordingly, trading for such accounts must be conducted so as not to conflict with the interests of any client of Strategos. Whether a specific transaction or other action represents a conflict will vary based on the relevant facts and circumstances of each transaction or other action. However, an inherent conflict of interest exists in each of the following situations, each of which is prohibited by Strategos' Code of Ethics:

- contemporaneously purchasing the same securities for a client account and an account of a Strategos access person without making an equitable allocation of the securities to the client first, on the basis of such considerations as available capital and current positions, and then to the account of the access person;
- knowingly purchasing or selling securities, directly or indirectly, in such a way as to cause an adverse effect on the value of a client's account;
- using knowledge of securities transactions by a client to profit personally, directly or indirectly, by the market effect of such transactions; and

- giving to any person information not generally available to the public about contemplated, proposed or pending purchases or sales of securities by or for a client, except to the extent necessary to effectuate such transactions.

## **Item 12 Brokerage Practices**

Strategos does not permit clients to direct Strategos to execute transactions through a specified broker-dealer. Strategos seeks to obtain best execution at all times. In selecting broker-dealers to effect portfolio transactions and determining the reasonableness of such broker-dealer's compensation, Strategos will consider such factors as:

- price;
- the ability of such broker-dealer to effect the transaction;
- the broker-dealer's facilities, reliability and financial responsibility;
- the commissions charged for the services;
- the market niches served by such broker-dealer;
- the quality of execution provided; and
- the operational support provided and the financial ability of such broker-dealer to handle large orders in the market place.

However, due to the nature of the Structured Credit markets in which Strategos primarily trades, the primary drivers directing brokerage for a particular portfolio transaction are availability and price. In selecting broker-dealers to effect portfolio transactions, neither Strategos nor any of its related persons receive client referrals from broker-dealers or third parties.

Other than as set forth below, Strategos presently has no soft dollar arrangements in place. To the extent the following are deemed to constitute soft dollar arrangements, then the following are hereby disclosed as soft dollar arrangements: (i) certain broker-dealers that execute client transactions may provide Strategos with over-the-transom, proprietary research at no stated cost or requirement of execution, and (ii) broker-dealers from whom Strategos purchases securities for a client generally provide Strategos and/or the client at each month-end following such purchase, free of charge, an indicative mark (valuation) on such purchased security (and at times certain broker-dealers may provide Strategos with indicative marks (free of charge) for securities that the client did not purchase through such broker-dealer). To the extent that Strategos and Goshen Rock share management and trading personnel, the foregoing benefits will generally be shared and available in connection with each firm's management of relevant accounts.

In the event, Strategos initiate a soft dollar service arrangement, the Chief Compliance Officer must first approve the arrangement. Soft dollar service arrangements could give rise to a conflict of interest because client brokerage commissions could be used to pay for research, execution and other services that Strategos would have otherwise been required to pay for directly. Furthermore, Strategos would have an incentive to select a broker-dealer that provides such research, execution and other services over those that do not provide such services. However, notwithstanding such incentive, Strategos remains obligated to seek to obtain best execution in executing portfolio transactions on behalf of clients.

The Funds and/or Managed Accounts, or a fund advised by Goshen Rock, could follow the same or a similar Investment Strategy (and/or there could be investment opportunity overlap between Investment Strategies), and, within the mandates of the applicable strategy, Strategos (in some cases, together with Goshen Rock) can determine to purchase or sell a security through aggregated or batched transactions and then allocate the investments or proceeds acquired among the participating accounts in a manner that it believes is fair and equitable, as discussed in Item 10, above. Each account that participates in an aggregated order will participate at the average price for such transaction. The decision to aggregate a security for purchase or sale is generally made to promote more efficient execution or to provide for fair and equitable treatment among accounts over time.

Notwithstanding the foregoing, other factors influence the purchase of a security on behalf of a Fund or Managed Account or the sale of a security out of a Fund or Managed Account and the determination of whether to aggregate the purchase or sale of such securities for various accounts. Future costs that could arise if trades are not aggregated often cannot be quantified with precision at the time a transaction is being considered for execution. Strategos and Goshen Rock always seek to obtain best execution in the sale or purchase of securities for their various clients and strive to minimize costs and maximize the return objectives of each client.

As discussed in Item 10, Strategos and Goshen Rock share personnel and facilities, including with respect to personnel involved in portfolio management and trading activities. To the extent that shared personnel identify an investment opportunity in which multiple accounts can invest consistent with each account's investment mandate and the firms determine that such investment opportunity is appropriate for more than one account, Strategos and Goshen Rock will reasonably determine a *pro rata* allocation generally on the basis of the relative asset size of each account, further subject to available cash, while taking into consideration: relative exposure to market trends; investment programs/guidelines and portfolio positions of such accounts; concentration limits and other limitations; whether any particular account has an outsized AUM compared to the remaining accounts and the impact of such disparity; applicable tax, legal and regulatory restrictions; and other relevant factors and considerations.

### **Item 13    Review of Accounts**

Strategos reviews the transactions, portfolio securities, and cash balances of each client account on a regular basis in an effort to optimize returns. Strategos generally receives and analyzes monthly remittance data from third-party data providers related to certain portfolio securities. Strategos also reviews the net asset values prepared for each client account on a monthly basis (see [Item 6](#) for further information on Strategos' valuation policy). The reviews described above are intended to assist Strategos in making investment decisions on behalf of its client accounts. All such reviews are done by the Chief Executive Officer/Chief Investment Officer and Deputy Chief Investment Officer.

Periodically, Strategos provides a written status report to current investors in the Funds, which includes current market commentary, unaudited performance figures, certain investment portfolio characteristics and other historical investment data.

Periodically, Strategos provides each Managed Account with an account statement (depending on the underlying contractual agreement), which includes a detailed list of holdings with market valuations and account activity, as well as unaudited performance figures for the time period covered by the statement.

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

Strategos receives no economic benefit from any non-clients for providing investment advice or other advisory services to its clients.

Strategos has engaged (and may in the future engage) certain third parties (e.g., promoters, arrangers or placement agents) to refer prospective clients to the Firm and/or prospective investors to the Funds. Such third parties may be entitled to receive a portion of the management fees or Performance Compensation otherwise payable to Strategos. Strategos may also pay certain retainer amounts to such third parties. For the avoidance of doubt, any fees paid to such third parties do not result in an increase in the fees or expenses otherwise paid by the Managed Accounts or the investors in the Funds.

#### **Item 15 Custody**

In general, the assets of the Funds are maintained by unaffiliated broker-dealers or banks acting in the capacity of “qualified custodians.” Notwithstanding, under Rule 206(4)-2 of the Advisers Act (the “Custody Rule”), Strategos (or an affiliate thereof) may be deemed to have custody of the assets of the Funds due to Strategos’ or an affiliate’s role as general partner of the Fund or where it or an affiliate acts in a similar capacity with respect to a Fund that is not organized as a limited partnership.

In order to satisfy compliance with the Custody Rule, (i) the Funds are audited in accordance with U.S. generally accepted accounting principles on an annual basis by an independent public accountant that is registered with and subject to regular inspection by the Public Company Accounting Oversight Board and (ii) Strategos distributes each Fund’s audited year-end financial statements to each investor in the relevant Fund within 120 days of the Fund’s fiscal year-end. The audited financial statements should be closely reviewed by each investor.

#### **Item 16 Investment Discretion**

Strategos provides investment advisory services on a discretionary basis to the Funds and Managed Accounts in a manner consistent with their investment objectives and restrictions as set forth in the relevant contractual arrangements entered into between the client and Strategos. Strategos has discretionary authority to determine, without obtaining specific client consent, the securities, and amount of securities, to be bought and sold for the Funds and Managed Accounts and the executing broker-dealer for any transaction.

Strategos has historically accepted certain investment guidelines or restrictions over the management of the Funds and/or Managed Accounts that may serve to limit Strategos’ investment discretion. These include (but are not limited to):

- Prohibitions against investing in the debt, equity or other securities of issuers organized to invest primarily in non-U.S. assets;
- Limitations on engaging in Short Sales;
- Limitations on investing in certain derivatives contracts;
- Limitations or guidelines on the use of leverage; and
- Adherence to certain concentration limits or guidelines.

Notwithstanding the foregoing, the relevant contractual arrangements shall dictate whether or not any of the investment guidelines or restrictions described above (or any other investment guidelines or restrictions) are currently in effect for a particular client account.

## **Item 17 Voting Client Securities**

### Generally

As required under Rule 206(4)-6 of the Advisers Act, Strategos has adopted and implemented written policies and procedures that: (i) are reasonably designed to ensure that Strategos votes client securities in the best interests of clients and (ii) address material conflicts of interest that may arise between the interests of clients and the interests of Strategos.

Strategos' proxy voting policies and procedures do not mandate that Strategos vote every proxy that it receives in regard to securities held in client accounts. There may be circumstances when refraining from voting a proxy is in a client's best interest. Further, Strategos will not vote proxies for which a client has expressly retained voting authority. Accordingly, when Strategos has the discretionary authority to vote the proxies of its clients and determines that it is in the best interests of its clients to do so, it will vote those proxies in the best interest of its clients and in accordance with its proxy voting policy (as summarized below).

One of the principals of Strategos (the "Program Administrator") is responsible for ensuring that all decisions with regard to the voting of securities on behalf of clients are made in accordance with Strategos' proxy voting policies and procedures.

### Voting Matters

The Program Administrator will track each securities position held by clients and will maintain a log of upcoming events, if any, that would require Strategos to vote on behalf of its clients. The Program Administrator is responsible for ensuring that he or she has received all relevant disclosure materials and proxies or consents such that he or she is in possession of all documentation and information necessary to cast votes in a timely manner.

### Voting Process

The Program Administrator will determine whether there is, or appears to be, a material conflict of interest that could influence the voting decision in a manner that would be adverse to the interests of any client.

### Identifying Material Conflicts of Interest

It is not possible for Strategos to enumerate all potential conflicts of interest which may be material, but the following relationships are illustrative of conflict potential and are issues (among others) that the Program Administrator considers each time a vote arises:

- Strategos has a business or financial conflict of interest in voting the securities in a manner adverse to any client because:
  - Strategos or an affiliate manages a separate account or currently performs financial services for the issuer that is the subject of the voting matter, or for an affiliate of such issuer, or for any member of the senior management or any pension plan of such issuer, or is actively seeking such party(s) as a client;
  - The issuer that is the subject of the proxy or voting matter, or an affiliate of such issuer or any member of the senior management of such issuer is a client or a substantial investor in a Fund; or
  - An employee (or spouse) of Strategos:
    - Is a director or a member of the senior management of the issuer that is the subject of the voting matter; or
    - Owns a substantial interest in the shares of the issuer that is the subject of the voting matter or otherwise has a substantial financial interest in the outcome of the vote.

If the Program Administrator determines there is no material conflict of interest, then the Program Administrator will make the voting determination and will be responsible to take the required voting action. The Program Administrator must ensure that voting action takes place on a timely basis and will maintain a written record of the actual voting action and the basis of the voting determination.

#### Resolving Material Conflicts of Interest

If the Program Administrator has identified a material conflict of interest, he or she must determine:

- whether the conflict involves Strategos, an affiliate or an employee;
- whether the Program Administrator himself or herself is a conflicted party and, if so, whether an alternative senior employee could be assigned to be responsible for voting, who would not be so conflicted; and
- whether Strategos or any senior employee is capable of making an independent determination as to the voting decision.

If the Program Administrator determines due to conflicts of interest that no senior employee is capable of making an independent determination as to the voting decision, then the voting decision will be escalated to the Chief Compliance Officer. If the conflict cannot be resolved, then Strategos will abstain from voting or obtain approval from the relevant clients, following disclosure of the conflict, as to how to vote.

#### Client Participation

Generally, clients do not have the authority or ability to direct how securities held in their accounts are voted, provided that, clients investing through a Managed Account may have the right to vote the securities in their account upon written notice to Strategos.

#### Available Information

Clients may request information from Strategos about how Strategos voted client securities by contacting any of the individuals listed on the cover page of this Brochure or any of Strategos' advisory personnel assisting the client. In addition, clients may obtain a copy of Strategos' proxy voting policies and procedures upon request.

#### **Item 18 Financial Information**

There are no financial conditions of Strategos that are reasonably likely to impair Strategos' ability to meet its contractual commitments or financial obligations to its clients as of the date hereof.