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This Disclosure Brochure provides information about the qualifications and business practices of Ellington Financial Management LLC. If you have any questions about the content of this brochure, please contact us at the telephone number listed above. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT ELLINGTON FINANCIAL MANAGEMENT OR ANY PRINCIPALS OR EMPLOYEES OF ELLINGTON FINANCIAL MANAGEMENT POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.

Additional information about Ellington Financial Management is also available on the SEC's website at www.adviserinfo.sec.gov.

The date of this Disclosure Brochure is

March 31, 2021

The delivery of the Disclosure Brochure at any time does not imply that the information contained herein is correct as of any time subsequent to the date shown above.

Material Changes to Disclosure Brochure

No material changes have been made to this Brochure since the prior update dated March 30, 2020.

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Ellington Financial's Advisory Business

Ellington Financial Management LLC ("EFM," or "the firm"), a U.S. Securities and Exchange Commission ("SEC") registered investment adviser, is one of several affiliated entities in the Ellington family of companies. This family also includes five other registered or relying investment advisers: Ellington Management Group, L.L.C.; Duke Funding Management, L.L.C.; and Ellington Global Asset Management, LLC; Ellington Residential Mortgage Management LLC; Ellington Portfolio Solutions LLC; and Ellington CLO Management LLC; and includes Ellington Management Group (UK) LLP, a U.K. affiliate authorized by the U.K. Financial Conduct Authority.

In addition, certain of EFM's principals and executive officers are also principals or executive officers of certain other partnerships or limited liability companies that serve as the general partner or managing member of pooled investment vehicles managed by Ellington Management Group, L.L.C. These principals and executive officers may also be the principals or executive officers of other entities affiliated with EFM. Please see "Other Financial Industry Activities and Affiliations" below for a further discussion of entities affiliated with EFM. These entities, together with EFM and its affiliated advisers and their employees, are referred to below collectively as the "Ellington Group" or simply "Ellington."

EFM has been in business since 2007 and is owned primarily by Michael Vranos indirectly through his ownership interest in EFM's majority owner EMG Holdings, L.P.

Types of Advisory Services Offered

EFM provides investment management services to Ellington Financial LLC ("EFC"), a publicly traded specialty finance company investing primarily in mortgage-related, mortgage-backed, or asset-backed securities and related instruments. The Ellington Group in general provides investment management services to pooled investment vehicles and institutional managed accounts investing primarily in mortgage-related or mortgage-backed securities and related instruments, asset-backed securities, or equity securities. The vehicles and accounts managed by EFM or other members of the Ellington Group are referred to below as "Clients" or "Client Accounts."

Ellington customarily analyzes securities and markets through use of proprietary and external computer applications, and seeks to mitigate certain risks related to those securities at times through the use of derivative instruments, including swaps, options, forwards, and futures.

Ellington may also offer advice with respect to an extremely broad range of securities, derivatives, and other financial instruments. For further information, EFC shareholders and prospective shareholders should review the prospectus and periodic reports filed by EFC with the Securities and Exchange Commission, which are available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.

Client Assets Under Management

EFM provides discretionary investment advisory services to EFC. As of December 31, 2020, EFM provided these services to EFC with respect to approximately \$3,413,863,000 in regulatory assets under management.

Fees and Compensation

EFM is compensated for providing services to EFC pursuant to a management agreement under which EFM receives a base management fee quarterly in arrears in an amount equal to 1.50% per annum of the equity of EFC's operating partnership (calculated in accordance with GAAP) as of the end of each fiscal quarter (before deductions for base management fees and incentive fees payable with respect to such fiscal quarter), provided that equity of the operating partnership will be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between EFM and EFC's independent directors and approval by a majority of EFC's independent directors in the case of non-cash charges.

In addition to the base management fee, with respect to each fiscal quarter EFC pays EFM an incentive fee equal to the excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) adjusted net income for the incentive calculation period (which means such fiscal quarter and the immediately preceding three fiscal quarters) over (2) the sum of a hurdle amount for the incentive calculation period, over (ii) the sum of the incentive fees already paid or payable for each fiscal quarter in the incentive calculation period preceding such fiscal quarter. For further information, investors in EFC should consult the most recent periodic report prepared for the company on Form 10-K and available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.

In addition, in some cases, the Ellington Group serves as the administrator or in a similar role with respect to certain investments and transactions in which Clients have invested, and in that capacity the Ellington Group in some cases is paid a periodic fee for providing these administrative services.

Please see "Performance-Based Fees and Side-by-Side Management" and "Administrative, Servicing, and Other Fees" below for further discussion of such fees and the conflicts of interest they can create.

Valuation

The amount of management or incentive fees earned by EFM depends in part upon the valuations assigned to the portfolio investments of its Clients. These portfolio investments are valued in accordance with Ellington's valuation policy, unless provided otherwise in the relevant management or governing document. Ellington's Clients and investors should be aware that many investments held in Client portfolios may be illiquid, infrequently traded, and difficult to value. Ellington is deeply involved in the valuation procedures that are used to determine the value of such investments, including by deciding whether to solicit third-party

price indications and the number of such indications to be solicited, the parties from whom to solicit such prices, and whether to reject specific price indications as erroneous or unreasonable or to override prices calculated by averaging such indications. In some cases, investments may be valued by Ellington in good faith without regard to third-party price indications. Ellington may consequently have a conflict of interest in determining the valuation of Clients' assets and liabilities, especially since higher valuations will have the effect of increasing the amount of fees paid to Ellington.

Expenses and Allocation of Expenses

In addition to management or incentive fees paid to Ellington, Ellington Clients, unless provided otherwise, also pay ordinary operating expenses related to their Accounts. The expenses that Clients pay can vary, and Clients and investors in Ellington-managed pooled vehicles should review the applicable management agreement, offering memorandum, or periodic disclosure document to determine which expenses they may pay. You should review the discussion of expenses contained in the periodic reports filed by EFC with the SEC, including EFC's most recent Form 10-K, for further discussion of expenses paid by EFC. Such periodic reports are available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.

Unless provided to the contrary in the management agreement, or offering or similar document governing a Client Account, the expenses that may be paid by Ellington Clients include the following:

- organizational and all initial and ongoing offering expenses (including expenses related to preparation of side letters and similar agreements with investors); the costs (including, without limitation, administration costs) of forming and operating any special-purpose vehicle ("SPV") or any other entity through which the Client makes or holds an investment (including, without limitation, the Client's pro rata share of any establishment or operational costs of any CLO, SPV, or related entity or vehicle in which the Client makes or holds an investment);
- investment expenses (such as brokerage commissions, custodial fees, bank service fees, interest expense, and expenses incurred in connection with conducting due diligence on potential investments and surveillance of investments (including, without limitation, travel, meal, and accommodation expenses (together "travel expenses") of the Ellington Group));
- legal and compliance expenses, including costs of external legal and compliance consultants and advisers; litigation, settlement, and indemnification expenses; expenses associated with the Ellington Group's internal legal counsel; expenses associated with regulatory and statutory filings, including filings made by the Ellington Group with respect to the Client's activities even if filing under investment advisory, National Futures Association, Commodity Futures Trading Commission, or tax-related rules or regulations (such as filings for Foreign Account Tax Compliance Act

- (“FATCA”), Common Reporting Standard (“CRS”), and Form D and blue sky exemptions); industry association expenses;
- insurance expenses (including the Client’s allocated portion of professional liability insurance of the Ellington Group, directors and officers insurance, errors and omissions insurance, and cyber insurance); the cost of fidelity bonds intended to comply with the requirements of ERISA;
 - research and research-related expenses (including research-related travel expenses of the Ellington Group); the costs of financial and research databases, market, news, and other data services (such as Bloomberg), surveys, licenses, subscriptions and publications, and computer software; licensing, programming, information technology and security, and data processing costs (including costs of installation, integration, data transfer, data hosting, connectivity, servicing and maintenance, data management and recovery services, custom development, and related consultation);
 - fees and expenses paid to third parties associated with sourcing, investigating, and analyzing investments and potential transactions (whether or not consummated); costs of background checks relating to existing or potential investments;
 - printing and mailing expenses and fees; all expenses incurred in connection with communications with investors;
 - accounting, audit and tax preparation expenses; withholding and transfer taxes and any other entity level taxes; administrator’s, directors’, consultants’, experts’ and other professionals’ fees and expenses (including fees and expenses of temporary personnel engaged through a third party service); cost of valuation, pricing, and proxy voting services; registrar and transfer agency fees and expenses;
 - the cost of third-party service providers, including those providing accounting, administrative, back-office, middle-office, operational, software development, data, tax and legal services; and
 - other expenses associated with the operation of the Client; and all extraordinary expenses.

In cases in which multiple Clients of or members of the Ellington Group, including Ellington and its affiliates, use or benefit from the same service, Ellington determines how the cost of that service is allocated among them and may have a conflict of interest in making such allocations. Moreover, the Ellington Group and subsequent Ellington Group Client Accounts may benefit from the products or services for which a Client has borne allocated expenses.

Termination of Services

The management agreement between EFM and EFC has a current term that expires periodically, and will automatically renew for additional terms each anniversary date unless notice of non-renewal is delivered by either party to the other party at least 180 days prior to the expiration of the then current term. EFC’s independent directors will review EFM’s performance annually and the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of

EFC's independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding common shares, based upon unsatisfactory performance that is materially detrimental to EFC or a determination by EFC's independent directors that the base management and incentive fees payable to EFM are not fair, subject to EFM's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees.

Performance Based Fees and Side-by-Side Management.

The Ellington Group charges certain Clients incentive fees based on the performance of the Client Account. The amount and structure of these performance-based fees differs by Client, and in some cases such fees may be paid to a company affiliated with Ellington which acts as the general partner or managing member of a pooled investment vehicle.

The prospect of earning performance-based fees may create an incentive for Ellington to make investments that are riskier or more speculative than it would make in the absence of a performance-based fee.

Ellington's management of Client Accounts that pay performance-based fees side-by-side with Client Accounts that do not pay such fees can create conflicts of interest because Ellington has an incentive to favor Client Accounts from which it expects to receive greater fees. For example, when allocating a limited investment opportunity among multiple Clients, Ellington has an incentive to allocate opportunities that are expected to be more profitable preferentially to Clients who pay a performance-based fee because the firm will be expected to receive greater fees if the investment generates a positive return. Please see "Participation or Interests in Client Transactions" below for further discussion of the allocation of investment opportunities and of other circumstances in which the existence of a performance-based fee creates an incentive for Ellington to favor one or more Clients.

Types of Clients

EFM provides investment advice to EFC, a publicly traded specialty finance company. The Ellington Group generally provides investment advice to pooled investment vehicles (e.g. hedge funds) or to institutional Clients for whom the firm manages a separate account or dedicated investment vehicle.

Methods of Analysis, Investment Strategies and Risk of Loss

Ellington primarily uses proprietary and external models and computer applications to analyze mortgage-backed, mortgage-related, and asset-backed securities and related loans and other instruments, and equity securities. In addition, Ellington, through use of such models or applications, customarily seeks to identify and opportunistically mitigate certain risks related to such securities, at times through the use of derivative instruments, including swaps, options, forwards, and futures.

Reliance on models like those used by Ellington entails significant risks, particularly in the event that the models or the data on which they rely prove to be incorrect, misleading, or incomplete. In such cases, reliance on models may lead Ellington to purchase assets at

prices that are too high, to sell assets at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging activities that are based on faulty models or data may prove to be unsuccessful. In addition, Ellington stores the majority of the data upon which these models rely in computer databases. The failure of such computer systems could adversely affect Client Accounts for whom such models are used. To the extent the firm receives personally identifiable or similarly confidential information from clients or investors in Ellington-managed funds, it may be stored in similar databases or on networked computer storage systems. While the firm takes steps to ensure the security of such information, it is nevertheless subject to the risk that a cyber-security breach compromises or exposes that information.

Ellington's methods and strategies differ among Client Accounts. In addition, the risks associated with the instruments and strategies with respect to which the firm provides advice are complex. Certain of those risks are identified briefly in this Brochure. EFC shareholders and potential shareholders, however, should review the detailed explanation of risks included in the prospectus and periodic reports filed by the company and available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.

The securities and strategies with respect to which the firm provides advice are speculative and involve substantial risks. **Investing in securities and other financial instruments involves risk of loss that Clients should be prepared to bear.**

Certain Risks of Mortgage-backed, Mortgage-related, Asset-backed and Loan Strategies

As noted above, you should review the applicable periodic reports filed by EFC with the SEC for more detailed discussion of the risks associated with investment in mortgage-backed and asset-backed securities and mortgage-related instruments. These risks include, but are not limited to, risks related to:

- Changes in interest rates;
- Rates at which borrowers default on loans backing such securities;
- Rates of recovery on loans which have defaulted or are in foreclosure or on properties owned following foreclosure;
- The frequency with which borrowers pre-pay loans backing such securities;
- The effect of changes in indices or interest rates on interest payable on variable rate securities;
- Changes in home prices;
- The structure of collateralized-mortgage obligations and mortgage-backed derivatives such as "inverse floaters" and interest-only or principal-only securities;
- Ownership of subordinated or junior securities, including securities which are leveraged with respect to defaults;
- Reliance on third-party service providers such as loan servicers;

- Ownership of distressed, unrated, non-investment-grade, “high yield,” or “junk” debt instruments;
- Reliance on credit ratings;
- Direct ownership of whole loan residential mortgages;
- Direct ownership of commercial real estate loans or of securities backed by such loans;
- Direct ownership of residential or commercial real estate, including real estate acquired through foreclosure;
- Direct ownership of corporate loans or privately issued equity of companies undergoing re-organization or that may be distressed;
- Direct ownership of consumer loans, including auto loans and unsecured consumer loans
- Changes in government policy, including policy changes affecting guarantees provided by government-sponsored enterprises related to agency residential mortgage-backed securities;
- Dramatic or extreme falloffs in liquidity of the markets for mortgage-backed securities such as that commencing in the second half of 2007;
- Volatility in the markets for mortgage-backed and asset-backed securities;
- The use, terms, and availability of leverage or financing, including repurchase agreements;
- Correlation of performance among mortgage-backed, mortgage-related, and asset-backed securities;
- Reliance on models and data;
- Investment in derivatives, including swaps, options, futures, and forwards;
- Investment in illiquid or infrequently traded securities;
- Concentration of exposure to derivative or financing counterparties;
- The failure of attempts to hedge or mitigate certain risks and losses related to hedging instruments; and
- The cumulative impact and mutual reinforcement of individual risks.

Force Majeure Events

The activities of the Ellington Group, including portfolio management activities on behalf of Client Accounts, as well as the activities and performance of issuers in which Client Accounts have invested, could be affected by force majeure events. Force majeure events such as war or the widespread outbreak of an infectious disease could have broad adverse effects on the world economy and business activity in general. Force majeure events include, but are not limited to: acts of God, war, riots, fire, flood, hurricane, earthquake, explosion, outbreaks of an infectious disease, pandemic or any other serious public health concern, acts or threats of terrorism, labor strikes, theft, cyber-attacks, malicious damage, electricity line rupture, energy blackouts, failure of technology, social instability, etcetera. The risk of and consequences of such events can, by their nature, be difficult to predict or manage and the adverse effects of such events on Client Accounts may be prolonged, material, and adverse.

Disciplinary Information

The Ellington Group is a long-standing, complex family of companies which, over time, has participated in civil litigation in the ordinary course of business. As discussed in more detail below in “Litigation and Regulatory Matters,” the firm has also, from time to time, been asked to produce documents and information by various regulatory authorities.

To date, however, neither EFM nor any member of the Ellington Group nor any member of Ellington’s management has been involved in any legal or regulatory action or other disciplinary event believed to be material to a Client’s evaluation of the firm.

Other Financial Industry Activities and Affiliations

As noted above, EFM is one of several affiliated, registered or relying investment advisers, which also include:

- Ellington Management Group, L.L.C., which advises pooled investment vehicles and institutional managed accounts;
- Ellington Global Asset Management, LLC, which advises traditional mandate, lower-risk, or long-only funds and accounts;;
- Duke Funding Management, L.L.C., which acts as collateral manager to certain collateralized debt obligations, or CDOs;
- Ellington Residential Mortgage Management LLC, which advises Ellington Residential Mortgage REIT, a publicly traded mortgage REIT;
- Ellington Portfolio Solutions LLC, which provides portfolio advice to banks and similar financial institutions; and
- Ellington CLO Management LLC, which acts as collateral manager to certain collateralized loan obligations, or CLOs.

Ellington has also established a U.K. affiliate, Ellington Management Group (UK) LLP, which is authorized by the U.K. Financial Conduct Authority and which acts as a sub-advisor with respect to a portion of assets managed by the Ellington Group for certain Clients.

The Ellington Group provides advisory services to a number of pooled investment vehicles, institutional managed accounts, and dedicated investment vehicles, and companies affiliated with Ellington serve as the general partner or managing member of some of these vehicles. These advisers, Ellington’s employees, and the affiliated general partners or managing members are referred to collectively in this Brochure as “the Ellington Group” or simply as “Ellington” and their client vehicles and accounts are referred to as “Clients” or “Client Accounts.”

In some circumstances, multiple Client Accounts may invest in or through a special-purpose vehicle, or SPV, formed to hold certain assets (for example residential whole mortgage loans), or formed to address certain tax, legal, accounting, regulatory, financing, or other concerns. Members of the Ellington Group may manage or act as the general partner or managing member of such SPVs. Joint participation in SPVs by multiple Client Accounts can lead to conflicts among them when, for example, one Client seeks to end its participation or seeks the resolution or disposition of an SPV's assets while other Clients seek continued participation. In some cases in order to address tax, licensing, or other issues, Client Accounts own participation interests in loans or similar instruments through a nominee or licensee SPV owned by one or more members of the Ellington Group. Though the Ellington Group as owner of the nominee SPV owns no beneficial or economic interest in the instruments so held, holding such participation interests through a nominee vehicle of this sort can create conflicts between Client Accounts and the Ellington Group.

Ellington Management Group, L.L.C is registered with the Commodity Futures Trading Commission, or CFTC, as a commodity pool operator and commodity trading advisor. In addition, a number of Ellington affiliates that act as general partners or managing members of pooled investment vehicles advised by Ellington are registered as commodity pool operators, Ellington Global Asset Management, LLC is registered as a commodity trading advisor and commodity pool operator, and Ellington expects that other affiliates will become so registered in the future. Certain other affiliated companies rely on exemptions from CFTC registration requirements.

Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading

Code of Ethics and Personal Trading

The Ellington Group has adopted a Code of Ethics that sets forth standards of conduct expected of all of the firm's personnel. The Code describes key legal and fiduciary standards and requires personnel to comply with all applicable laws and regulations. The Code also includes policies addressing outside activities, giving and receiving of gifts or entertainment, and personal securities trading by personnel in their own accounts.

Under the Code, personnel are permitted to trade in their own accounts, but, with certain exceptions, are required to receive trade-by-trade pre-clearance from Ellington's compliance group before doing so. This policy is intended to help mitigate the risk that Ellington personnel misuse inside information or otherwise engage in inappropriate trading for their own accounts.

A copy of Ellington's Code of Ethics is available to Clients and prospective Clients upon request.

Participation or Interest in Client Transactions

Ellington, other members of the Ellington Group, and Ellington's employees and other related persons have interests in certain of Ellington's Client Accounts. In some cases, the Ellington Group may have invested in or hold shares of a Client Account, or may own most or all of an Account. In some cases, as explained above, members of the Ellington Group may receive performance-based fees from a Client Account.

For all of these reasons, the Ellington Group may have differing interests with respect to different Client Accounts or with respect to individual transactions or investments made by or contemplated for those Accounts. Conflicts of interest among Client Accounts, for example when they compete for limited investment opportunities, may be more pronounced because of differing direct or indirect interests of Ellington or its affiliates with respect to those Accounts.

Set forth below is a summary of some of the circumstances in which such conflicts of interest may and do arise:

Allocation of Investment Opportunities and Order Aggregation

Ellington exercises reasonable, good faith judgment when determining which investment opportunities are appropriate for each Client Account. Investment opportunities are generally allocated on the basis of capital available for such opportunities and other relevant factors particular to an Account, including, but not limited to, target position size, the strategy pursued for the Account and applicable investment restrictions (including allocation of trades intended to improve an Account's status with respect to investment restrictions), tax considerations, ERISA and other regulatory considerations, risk parameters, a Client's pre-existing position, the desire to avoid creation of odd lot positions, and the appropriate overall composition of each Client Account.

Because many of the opportunities targeted for Ellington's Clients are regularly available only in limited quantities, Ellington often is not able to buy or sell as much of any given instrument as may be required to satisfy the needs of all eligible Accounts. In these cases, Ellington's investment allocation procedures typically allocate such opportunities to multiple Accounts in proportion to their needs and available capital. The policies permit departure from such proportional allocation when such allocation would result in an inefficiently small amount of the instrument being allocated to an Account. In such cases, some Accounts do not receive an allocation; Ellington's policy, however, allows for a protocol of allocating opportunities so that, on an overall basis, each Account is treated equitably. Ellington may at times allocate opportunities on a preferential basis to Client Accounts that are in a "start-up" or "ramp-up" phase.

Because Ellington allocates investment opportunities among multiple Client Accounts, conflicts may arise when certain Client Accounts seek to sell investments when other Client Accounts hold similar or the same investments. For example, Client Accounts in liquidation or wind-down, or Client Accounts with differing liquidity or redemption terms, may seek to sell commonly held investments before other Client Accounts. Sale by such Client Accounts of the same or similar investments, depending upon the volume of sales and the nature of the market, may affect the market value of investments that continue to be held by other Client Accounts.

Transactions executed for Client Accounts may be effected independently or on an aggregated basis. Aggregation of Client orders can achieve better execution or result in more favorable commission rates. Such aggregation of orders, however, may not always be to the benefit of every Client Account with regard to the price or quantity executed. Ellington's policy is to allocate executions of aggregated Client orders on a fair and equitable basis among participating Clients.

Cross or Principal Transactions

EFM or a member or principal account of the Ellington Group may buy securities from or sell securities to a Client Account where consistent with the best interests of participating Clients, applicable law and the governing, advisory, and other documents related to the participating Clients.

A Client Account may purchase securities from or sell securities to another Client Account where consistent with the best interests of those Clients, applicable law and the governing, advisory and other documents related to the participating Clients. In some cases, an Ellington Client may acquire loans or similar instruments from an originator or other seller owned by the Ellington Group or an Ellington Group Client, or in which the Ellington Group or an Ellington Group Client owns an interest.

Receipt of Material Non-public Information

The Ellington Group comes into possession of material non-public information or other confidential information as a result of its business activities. Ellington has adopted policies with respect to insider trading and receipt of confidential information which include restrictions on trading for personal and Client Accounts in some circumstances in which the firm has received confidential information. As a consequence, in such cases, the possession of such information will limit the ability of Ellington's Client Accounts to buy or sell a security or otherwise to participate in an investment opportunity.

Differing Advice

Client Accounts may buy or sell securities of an issuer that are also bought or sold by the Ellington Group or other Client Accounts of the Ellington Group. In this regard, Ellington may give advice and recommend securities, derivatives, and other financial instruments to a Client Account which may be identical to or may differ from advice given to or instruments recommended or bought or sold for or by other Accounts, affiliates, or employees, even though their investment objectives may be the same or similar. Differing advice may be given to Client Accounts pursuing overlapping though differing strategies, for example when one Client Account pursues a sub-set of the sub-strategies pursued for another Client Account, and such differing advice may result in execution of different transactions for such Accounts, including with respect to the same financial instrument.

Differing Interests in an Issuer or Securitization

Client Accounts, from time to time, make an investment in an issuer (including a securitization of mortgages or other assets) in a different level of whose capital structure the Ellington Group or one or more other Client Accounts has invested. Such circumstances may result in a conflict among or with such Client Accounts to the extent that a Client Account holds securities with rights, preferences, or privileges with respect to an issuer that are different than those held by other Client Accounts or the Ellington Group. In such instances, Ellington, in its sole discretion when acting in the best interests of each Client, may make recommendations and decisions regarding such rights or privileges for other entities that may be the same as or different from those made by or on behalf a Client Account and may take actions (or elect to take no action) in the context of these other economic interests or relationships the consequences of which may be adverse to the interests of a particular Client Account.

Investment in other Client Accounts

When consistent with applicable investment objectives, Client Accounts from time to time invest in other entities managed by the Ellington Group. Such investments will only be made when Ellington determines that they are in the best interests of the participating Accounts.

For example, a Client Account may purchase interests in a structured vehicle managed by the Ellington Group, either at original issuance or in the secondary market. Ellington's policy in such circumstances is generally to waive, offset, or rebate for the benefit of that Client Account the relevant portion of any collateral management or incentive fees received by the Ellington Group with respect to an interest in an Ellington-managed structured vehicle purchased by the Account at the time of the original issue, though, in some cases, such fees may not be waived or offset as consented to by the Client or the governing body of the Client,

including the board of directors or an investors or limited partners committee, as applicable. Ellington will not, however, ordinarily waive or rebate for the benefit of a Client Account any portion of any management or incentive fees received with respect to an interest in an Ellington-managed structured vehicle purchased by that Account in the secondary market. Given the prospect of earning fees related to interests held by third parties in such structured vehicles, the Ellington Group may face a conflict of interest when deciding whether to sell an interest held by a Client Account in such a structured vehicle.

Joint Guarantees or Obligations

In some cases, Client Accounts, either individually or jointly and severally with other Client Accounts, provide guarantees or incur indemnification obligations to third parties in connection with the purchase or sale of certain assets or instruments. Client Accounts also enter into financing arrangements through joint SPVs or similar entities. The joint nature of such guarantees, obligations, or SPVs can create conflicts of interest among participating Accounts. For example, counterparties to a financing SPV may have recourse to collateral that has been financed via the SPV by any participating Client, or may have joint and several indemnification claims against each Client providing an indemnification in connection with a purchase, sale, or financing.

Joint Participation in Securitization

In some cases, Client Accounts, either individually or together with other Client Accounts, participate in the securitization of assets. Clients participate in such transactions for a variety of reasons, including to finance or achieve leverage on the assets contributed to the securitization. Joint participation in such transactions can create conflicts of interest. Client Accounts may, for example, enter into joint and several indemnification or similar obligations in connection with the transaction. Client Accounts may both contribute assets to the securitization, either directly or indirectly, and purchase tranches issued by the securitization. In such cases, conflicts can arise to the extent the nature or amount of contributed collateral differs among participating Clients, or the nature or amount of purchased tranches differs among participating Clients. In some cases, an affiliate of Ellington acts as the administrator to the securitization and receive a customary administration fee, and, in some cases, Ellington or an affiliate may purchase tranches of the securitization to satisfy risk retention or similar regulations. Such circumstances can create conflicts of interest among Ellington and the participating Clients.

Third-party Co-investment

In some cases, for example when a contemplated investment is larger in size than Ellington believes advisable for eligible Clients, the firm may, on behalf of participating clients, seek co-investors in order to make or bid on

an investment. Co-investors may include third parties, and may include parties who have been Ellington Clients or who may in the future become Ellington Clients. Third party co-investors are generally expected to bear their own expenses with respect to potential co-investments and are not generally expected to share in expenses incurred for Ellington Clients in connection with such an investment except where the third-party co-investor has contractually agreed to share expenses. The prospect of a future advisory or similar relationship with a third-party co-investor can therefore create a conflict of interest when the firm is negotiating with a co-investor on behalf of the participating Clients or making decisions or recommendations concerning Client participation in an investment with co-investors. Because co-investors make investments in the same instrument or transaction that Ellington's Clients do, such co-investors effectively benefit from Ellington's investment management advice and related decision-making with respect to the investment though the co-investor may not be paying Ellington a management fee or be an Ellington client.

Administrative, Servicing, and Other Fees

In some cases, Clients of the Ellington Group participate in investments and transactions, including securitizations, for which the Ellington Group or a Client the Ellington Group serves as the administrator or in a similar administrative role and is paid a periodic fee for such services. Such fees can create a conflict of interest to the extent the prospect of earning administrative fees creates an incentive for the Ellington Group to recommend or engage in transactions for Clients that otherwise would not have been recommended. In cases in which the Ellington Group elects to offset administrative or other fees attributable to Client investments, the prospect of discontinuing such offsets and earning the administrative fees when Client interests are sold to third parties can create a conflict of interest when the Ellington Group is deciding whether to sell an interest held by a Client Account.

In some cases a company in which the Ellington Group or clients of the Ellington Group have invested or own an interest, or an affiliate or member of the Ellington Group or an Ellington Group Client, may act as a servicer, valuation agent or advisor, or in a similar capacity with respect to loans or other instruments owned by a Client of the Ellington Group and, in such capacity, earn servicing or other fees. Such interests held in servicers and similar service providers can create a conflict of interest when the Ellington Group is selecting servicers or other service providers to use in connection with Client investments.

Differing Interests of Individual Investors

Individual investors in pooled investment vehicles advised by the Ellington Group may have conflicting investment, tax, or other interests

with respect to their investments. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by that Client Account, the structuring of the acquisition of such investments, or the timing of disposition of investments. In such circumstances, Ellington will consider the investment and other objectives of a Client Account and its respective investors as a whole, and not the investment or other objectives of any individual investor exclusively.

Use and Cost of Service Providers

The Ellington Group determines whether certain services provided to Client Accounts will be provided by third-party service providers or by the Ellington Group utilizing its own personnel and infrastructure. Such services include, without limitation, accounting, administrative, back-office, middle-office, operational, software development, data, tax and legal services. The costs and expenses of third-party service providers are borne by the Client Accounts where permitted under the relevant agreement or governing document, while the costs and expenses of services provided by the Ellington Group are generally borne by the Ellington Group. As a result, the Ellington Group may have a conflict of interest in making determinations with respect to whether to utilize third-party service providers with respect such services.

Certain service providers, or their affiliates, may provide services with respect to Client Accounts and also provide services to or have business, personal, familial, political, financial or other relationships with the Ellington Group. Such service providers may be investors in Client Accounts, sources of investment opportunities for the Ellington Group or its Clients, or may otherwise be co-investors with or counterparties to transactions involving the foregoing. These relationships may influence the Ellington Group in deciding whether to select or recommend any such advisor or service provider to perform services for Client Accounts. Notwithstanding the foregoing, the Ellington Group seeks to engage advisors and service providers for Clients on the basis of the overall quality and value of services provided.

In addition, the Ellington Group has a conflict of interest where a service provider (e.g., legal counsel or accountants) provides services directly to the Ellington Group, and separately provides services to a Client Account, in that the Ellington Group may potentially obtain services at a lower cost than it otherwise could have as a result of the service provider's work performed on behalf of, and the compensation paid to the service provider by, the Client Accounts. The Ellington Group may use some of the same service providers as are retained on behalf of Clients and, in some cases, fee rates, amounts or discounts may be offered to the Ellington Group and its affiliates by a third party service provider which differ from those

offered with respect to Client Accounts as a result of scheduled or ad hoc rate changes, differences in the scope, type or nature of the service or transaction, alternative fee arrangements and negotiation.

Other Activities and Affiliations

EFM and the Ellington Group are not restricted from forming additional funds or vehicles, from entering into other investment advisory relationships, or from engaging in other business, academic, public policy, or charitable activities, even though such activities may be in competition with a Client Account or its interests or may involve substantial time and resources of Ellington's principals or employees. Although Ellington and its principals and employees will devote as much of their time to the activities of Client Accounts as they deem necessary and appropriate, these other activities could be viewed as creating a conflict of interest in that the time and effort of Ellington and its related persons will be allocated among various Client Accounts and business activities.

Brokerage Practices

"Soft Dollar" Practices

Ellington utilizes various broker-dealers to execute, settle and clear securities transactions. In selecting brokers and dealers to effect transactions for Clients, Ellington considers such factors as price, the ability of the brokers and dealers to effect the transactions, their facilities, reliability, creditworthiness and financial responsibility, and any research- or execution-related services or equipment provided by such brokers and dealers. Accordingly, if Ellington determines in good faith that the commissions charged by a broker or the prices charged by a dealer are reasonable in relation to the value of the trading and research-related services and facilities provided by such broker or dealer, a Client Account may pay commissions to such broker or prices to such dealer that are greater than those another broker or dealer might charge (even though the research services may not be for the exclusive benefit of that Client Account). Brokers and dealers sometimes suggest a level of business they would like to receive in return for the various services they provide.

Research-related services and equipment provided by brokers and dealers through which transactions for Client Accounts are executed, settled and cleared may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities, on-line quotations or analytic tools, news and research services, and other services providing lawful assistance to the Ellington Group in the performance of its investment decision-making and execution responsibilities on behalf of its Clients. Such items are sometimes referred to as "soft dollar" items. Acceptance of such items can create a conflict of interest because they may be used by or benefit Client Accounts other than the Account that paid the commission, or may benefit the Ellington Group itself.

Section 28(e) of the U.S. Securities Exchange Act of 1934 permits the use of soft dollar items in certain circumstances, provided that Ellington determines that the commissions charged are reasonable in relation to the value of the brokerage, execution, and research-related services provided by that broker-dealer.

Other Relationships with Brokers and Counterparties

The Ellington Group may have other interests in or business arrangements with brokers and dealers used to execute transactions for Client Accounts.

Certain brokers or other counterparties for Ellington's Client Accounts may offer capital introduction services. Capital introduction is a service designed to introduce fund managers to potential investors, typically through individual meetings or in a conference format. Although capital introduction is customarily offered as a free service, various conflicts of interest are presented by such arrangements. Ellington may, for example, have an incentive to use the services of a specific broker due to the broker's ability to raise capital for management by Ellington or another member of the Ellington Group.

The Ellington Group may have other business arrangements with brokers and dealers used to execute transactions for Clients. For example, brokerage firms and their affiliates and representatives may also be Ellington Clients or invest in pooled investment vehicles managed by the Ellington Group. Brokerage firms may also provide financing, underwriting, placement or other services to the Ellington Group or other Client Accounts.

Brokerage firms and their employees may offer gifts to Ellington's employees, and may invite employees to entertainment and social events. Acceptance of such gifts and entertainment is subject to policies set forth in Ellington's Code of Ethics. Ellington policy prohibits consideration of factors such as receipt of gifts and entertainment when selecting brokers and counterparties to execute transactions for Client Accounts.

Please also see "Client Referrals and Other Compensation" below.

Trade Error Policy

Unless provided otherwise in the offering memorandum or investment management, partnership, or operating agreements applicable to a Client Account, **any negative or positive results of trade errors generally will be borne by the affected Client Account rather than by the Ellington Group so long as the error was not the result of fraud, bad faith, gross negligence or willful misconduct.**

This policy with respect to trade errors, however, will not be construed so as to provide for the exculpation of the Ellington Group for any liability (including liability under Federal securities laws which, under certain circumstances, impose liability even on persons that act in good faith), to the extent (but only to the extent) that such liability may not be waived, modified or limited under applicable

law, but will be construed so as to effectuate the foregoing policy to the fullest extent permitted by law.

You should review the discussion of indemnification and limitations on liability contained in the periodic reports filed by EFC with the SEC, including EFC's most recent Form 10-K, for further discussion of indemnification arrangements between EFC and Ellington Financial. Such periodic reports are available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.

Intermediation

From time to time, Ellington may execute over-the-counter trades with a broker-dealer acting on an agency or a principal basis who in turn transacts with another broker-dealer or market maker. The use of an intermediating broker-dealer can provide anonymity in connection with a transaction. In addition, the broker-dealer may, in certain cases, have greater expertise or greater capability in connection with both accessing the market and executing a transaction. Ellington believes that the use of an intermediating broker-dealer in such instances is consistent with obtaining best execution for its Client Accounts.

Review of Accounts

Ellington generally reviews daily portfolio risk or similar reports for each Client Account. Periodically, and in the event of a substantial move in the relevant markets, additional risk reports and measures may be reviewed. Accounts are also customarily reviewed in light of emerging trends and developments as well as market volatility.

EFC files periodic reports with the SEC, which are available to investors through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>. Information related to press releases or other public statements by EFC is available through the company's website at www.ellingtonfinancial.com.

In some cases, Ellington advises institutional managed accounts or dedicated investment vehicles that pursue strategies similar to or that overlap with those of other Ellington pooled investment vehicles or that are intended to parallel such vehicles. These Clients typically have access to detailed information about their Accounts, including current portfolio holdings, which Ellington does not customarily make available to investors in pooled investment vehicles. Because of this, such Clients may be able to take action, including more timely action, with respect to their Accounts that investors in pooled vehicles with similar or parallel strategies cannot take.

Client Referrals and Other Compensation

In some cases, the Ellington Group uses independent, third-party solicitors to refer Clients to the firm, and may engage underwriters, brokers, or dealers as placement agents to assist in the offering of interests in pooled investment vehicles managed by the Ellington Group, including where necessary to comply with marketing regulations in non-U.S. jurisdictions. As compensation, such solicitors and placement agents may

receive a portion of Ellington's fees related to Clients they refer or investors they introduce. Ellington may engage and has in the past engaged placement agents that are or are affiliated with a broker-dealer used to execute or clear transactions on behalf of a Client Account or act as counterparty to transactions for a Client Account.

Custody

With certain exceptions, Rule 206(4)-2 under the Investment Advisers Act, commonly known as the "Custody Rule," requires registered investment advisers who are deemed to have custody of client funds and securities to satisfy certain requirements. An adviser is deemed to have custody of client assets when it has the authority to obtain possession of them. Under this standard, the Ellington Group is deemed to have custody of the funds and securities of many of its Client Accounts.

Ellington satisfies the requirements of the Custody Rule by keeping required client funds and securities at a "qualified custodian" such as a broker-dealer or a bank, and, customarily, by arranging for delivery of annual audited financial statements to Clients or to investors in Client Accounts. No client securities or assets required to be held at a "qualified custodian" are currently held by a custodian affiliated with the Ellington Group.

Investment Discretion

Ellington customarily has and exercises discretionary investment authority over Client Accounts, and Ellington exercises such discretion with respect to EFC. Investors and potential investors should review the prospectus and periodic reports filed by EFC with the SEC for further discussion of the discretion exercised by Ellington with respect to EFC. Such reports are available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.

Voting Client Securities

In many cases, Ellington has authority to vote securities on behalf of the pooled investment vehicles it advises. Institutional Clients for whom Ellington manages separate accounts or dedicated investment vehicles may retain authority to vote securities or may grant authority to vote them to Ellington. Many Client Accounts advised by the Ellington Group, however, including EFC, do not typically invest in corporate equity securities as a material part of their strategies and Ellington does not customarily vote equity proxies for such Clients.

Ellington has adopted a policy regarding the voting of proxies as required under Rule 206(4)-6 under the Advisers Act. Under that policy, Ellington will vote proxies, ordinarily through use of a proxy service, for Client Accounts that take long equity positions as a material part of their strategy when Ellington has determined that the benefit of voting proxies exceeds the cost of voting them. When, however, Ellington has determined that the cost of voting proxies for a particular strategy or Client Account exceeds the benefit to that Client Account, Ellington may not vote such proxies. Conflicts of interest that arise in the course of voting client proxies may, depending upon the nature and degree of the conflict, be addressed by use of a third-party proxy service,

by review of proxy votes by Ellington's chief compliance officer, or by consultation with a fund's directors, limited partner committee, or similar governing body.

Upon request, Ellington will provide to any Client or investor in a Client Account at no cost a copy of its proxy policy and information about the way in which proxies, if any, have been voted for that Client Account. Those wishing to receive this information should contact Ellington by telephone during normal business hours.

Where authorized to do so, Ellington may also submit claims in securities or similar class action settlements on behalf of Client Accounts, or engage a third party service to process and submit claims on behalf of Client Accounts. The cost of such services may reduce the amount recovered for such Clients. Ellington may also elect not to file such claims depending upon the firm's evaluation of the prospects for recovery and other factors.

Financial Information

Ellington is not currently aware of any financial condition affecting the firm that is reasonably likely to impair its ability to meet its contractual commitments to its Clients.

Litigation or Regulatory Matters

The Ellington Group may be subject to regulatory inquiries or proceedings from time to time. At any time, industry-wide or company-specific regulatory inquiries or proceedings can be initiated and we cannot predict when or if any such regulatory inquiries or proceedings will be initiated that involve us or our affiliates. For example, over the years, Ellington and its affiliates have received, and we expect in the future may receive, inquiries and requests for documents and information from various federal and state regulators.

We can give no assurances that regulatory inquiries will not result in investigations of Ellington or its affiliates or enforcement actions, fines, or penalties or the assertion of private litigation claims against Ellington or its affiliates. In the event regulatory inquiries were to result in investigations, enforcement actions, fines, penalties, or the assertion of private litigation claims against Ellington or its affiliates, the firm's ability to perform its obligations under its agreements with its Clients could be adversely affected.

Investors and potential investors should review the prospectus and periodic reports filed by EFC with the SEC for periodically updated discussion of litigation or regulatory matters. Such reports are available through the SEC's website at <http://www.sec.gov/edgar/searchedgar/webusers.htm>.