

ITEM 1
COVER PAGE

PART 2A OF FORM ADV: FIRM BROCHURE

BAYVIEW ASSET MANAGEMENT, LLC

MARCH 2021

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Bayview Asset Management, LLC (the “Registrant” or “BAM”). If you have any questions about the contents of this Brochure, please contact us at (305) 854-8880 or IR@bayview.com.

Additional information about the Registrant also is available on the SEC’s website at www.adviserinfo.sec.gov (click on the link “Investment Adviser Search,” select “Investment Adviser Firm” and type in the Registrant’s name). Results will provide you with both Parts 1 and 2 of the Registrant’s Form ADV.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. The Registrant is registered with the SEC as an investment adviser, which does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, serve as information for you to use to evaluate the Registrant and should be considered in your decision whether to hire the Registrant or to continue to maintain a mutually beneficial relationship.

ITEM 2

MATERIAL CHANGES

Since its last annual filing, on March 30, 2020, the Registrant has amended Item 4 to update the list of clients for which it provides advisory services; Item 5.C to clarify the responsibility of clients to pay for certain operational and investment-related expenses related to third party technology, valuation, and regulatory reporting services; and Item 8 to note the potential risks presented by COVID-19 for investments in mortgage-related assets.

Please review this Brochure carefully and in its entirety.

Unless otherwise indicated, all information included in this Brochure is as of December 31, 2020 and you should not assume that valuations of investments, regulatory assets under management (including in Item 4.E) or other matters are current as of any later date. The COVID-19 pandemic continues to have serious and adverse consequences to business conditions in North America and Europe, the principal geographic areas in which the Registrant operates, and elsewhere around the globe following December 31, 2020, including limitations on travel, transportation, education, production of goods, provision of services and businesses operations generally. Specifically, the equity and other securities markets (including the markets for asset and mortgage-backed securities in which the Registrant invests) have experienced significant volatility during the pandemic and the long-term economic fallout of COVID-19 is difficult to predict.

The Registrant, at any time, may update this Brochure and either send you a copy or offer to send you a copy (either by electronic means (email) or in hard copy form). If you would like another copy of this Brochure, please download it from the SEC website as indicated above or you may contact BAM's Investor Relations Department at (305) 854-8880 or IR@bayview.com.

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ITEM 4

ADVISORY BUSINESS

This Brochure generally includes information about BAM and its relationships with its affiliates and the Funds (as defined below). While much of this Brochure applies to all such affiliates and Funds, certain information included herein applies to specific affiliates or Funds only. References in this Brochure to “clients” are references to the Funds.

A. General Description of Advisory Firm

The Registrant is a Delaware limited liability company that commenced operations in 2008 and has investment advisory offices in Coral Gables, Florida; Urbandale, Iowa; and New York, New York. The principal owner of the Registrant is Bayview Asset Management Holdings, LLC, a Delaware limited liability company (“BAM Holdings”). BAM Holdings is the managing member of, and directly owns all of the equity interests in, the Registrant. David Ertel ultimately controls the Registrant through his indirect majority ownership interest in BAM Holdings. David Ertel also controls the Registrant’s affiliated general partner and investment manager entities that advise the Funds (as defined below).

B. Description of Advisory Services

The Registrant and its affiliated general partner and management company entities (together with their controlled affiliates, “Bayview”) provide discretionary investment management services to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a “Fund” and collectively, the “Funds”). Bayview Fund Management, LLC (the “Management Company”), a relying adviser and Delaware limited liability company that is a wholly-owned subsidiary of the Registrant, serves as the management company to the Funds.

Additionally, Oceanview Asset Management, LLC, a relying adviser and Delaware limited liability company that is a wholly-owned indirect subsidiary of the Registrant, acts as investment manager to certain insurance and re-insurance company subsidiaries of Oceanview Holdings, Ltd. (collectively, the “Oceanview Group”), as well as certain accounts of unaffiliated insurance companies that are re-insurance clients of the Oceanview Group (with respect to investment accounts related to such reinsurance arrangements for which the Oceanview Group is the economic beneficiary). The Oceanview Group is wholly-owned by the BOF-V Oceanview Funds.

As of December 31, 2020, the Funds include:

(i) Bayview Opportunity Domestic IIIa, L.P. (“BOF-IIIa Domestic”), Bayview Opportunity Offshore IIIa, L.P. (“BOF-IIIa Offshore”) and Bayview Opportunity Master Fund IIIa, L.P. (“BOF-IIIa Master” and together with BOF-IIIa Domestic and BOF-IIIa Offshore, the “BOF-IIIa Funds”). Bayview Capital GP IIIa, LLC serves as the general partner of BOF-IIIa Domestic and BOF-IIIa Master. Bayview Capital GP IIIa, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as general partner of BOF-IIIa Offshore and has delegated its authority to manage the affairs of BOF-IIIa Offshore to the Management Company.

(ii) Bayview Opportunity Domestic IVa, L.P. (“BOF-IVa Domestic”), Bayview Opportunity Offshore IVa, L.P. (“BOF-IVa Offshore”) and Bayview Opportunity Master Fund IVa, L.P. (“BOF-IVa Master” and together with BOF-IVa Domestic and BOF-IVa Offshore, the “BOF-IVa Funds”). Bayview Capital GP IVa, LLC serves as the general partner of BOF-IVa Domestic and BOF-IVa Master. Bayview Capital GP IVa, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as general partner of BOF-IVa Offshore and has delegated its authority to manage the affairs of BOF-IVa Offshore to the Management Company.

(iii) Bayview Opportunity Domestic IVb, L.P. (“BOF-IVb Domestic”), Bayview Opportunity Offshore IVb, L.P. (“BOF-IVb Offshore”) and Bayview Opportunity Master Fund IVb, L.P. (“BOF-IVb Master” and together with BOF-IVb Domestic and BOF-IVb Offshore, the “BOF-IVb Funds”). Bayview Capital GP IVb, LLC serves as the general partner of BOF-IVb Domestic and BOF-IVb Master. Bayview Capital GP IVb, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as general partner of BOF-IVb Offshore and has delegated its authority to manage the affairs of BOF-IVb Offshore to the Management Company.

(iv) Mortgage Fund IVc, LP (“Fund IVc”). Mortgage Fund GP IVc, LLC serves as the general partner of Fund IVc.

(v) Koitere Fund, LP (“Koitere Fund,” and together with the BOF-IVa Funds, the BOF-IVb Funds, Fund IVc, the “BOF-IV Funds”). Koitere GP, LLC serves as the general partner of Koitere Fund.

(vi) Bayview Opportunity Domestic V, L.P. (“BOF-V Domestic”), Bayview Opportunity Offshore V, L.P. (“BOF-V Offshore”) and Bayview Opportunity Master Fund V, L.P. (“BOF-V Master” and together with BOF-V Domestic and BOF-V Offshore, the “BOF-V Funds”). Bayview Capital GP V, LLC, a Delaware limited liability company, serves as the general partner of BOF-V Domestic, BOF-V Offshore and BOF-V Master.

(vii) Bayview Opportunity Domestic V AIV, L.P. (“BOF-V AIV Domestic”), Bayview Opportunity Offshore V AIV 1, L.P. (“BOF-V AIV 1 Offshore”), Bayview Opportunity Offshore V AIV 2, L.P. (“BOF-V AIV 2 Offshore”) and Bayview Opportunity V Oceanview, L.P. (“BOF-V Oceanview” and together with BOF-V AIV Domestic, BOF-V AIV 1 Offshore and BOF-V AIV 2 Offshore, the “BOF-V Oceanview Funds”). Bayview Capital GP V, LLC, a Delaware limited liability company, serves as the general partner of BOF-V AIV Domestic, BOF-V AIV 1 Offshore, BOF-V AIV 2 Offshore, and BOF-V Master.

(viii) Bayview Opportunity Domestic VI 1, L.P. (“BOF-VI Domestic 1”), Bayview Opportunity Domestic VI 2, L.P. (“BOF-VI Domestic 2”), Bayview Opportunity Domestic VI 3, L.P. (“BOF-VI Domestic 3”), Bayview Opportunity Offshore VI 2, L.P. (“BOF-VI Offshore 2”), Bayview Opportunity Offshore VI 4, L.P. (“BOF-VI Offshore 4”), Bayview Opportunity Offshore VI 5, L.P. (“BOF-VI Offshore 5”), and Bayview Opportunity Master Fund VI, L.P. (the “BOF-VI Master Fund”), collectively, the “BOF VI Funds.” Bayview Capital GP VI, LLC, a Delaware limited liability company, serves as the general partner of the BOF-VI Funds.

(ix) Bayview Opportunity Domestic VIa 1, L.P. (“BOF-VIa Domestic 1”), Bayview Opportunity Domestic VIa 2, L.P. (“BOF-VIa Domestic 2”), Bayview Opportunity Domestic VIa 3, L.P. (“BOF-VIa Domestic 3”), Bayview Opportunity Offshore VIa 1, L.P. (“BOF-VIa

Offshore 1”), Bayview Opportunity Offshore VIa 2, L.P. (“BOF-VIa Offshore 2”), Bayview Opportunity Offshore VIa 4, L.P. (“BOF-VIa Offshore 4”), and Bayview Opportunity Master Fund VIa, L.P. (the “BOF-VIa Master Fund”), collectively, the “BOF VIa Funds” and together with the BOF-III Funds, the BOF-IV Funds, the BOF-V Funds, and the BOF-VI Funds, the “BOF Funds.” Bayview Capital GP VIa, LLC, a Delaware limited liability company, serves as the general partner of the BOF-VIa Funds.

(x) Bayview MSR Opportunity Domestic, L.P. (“MSR Domestic”), Bayview MSR Opportunity Offshore, L.P. (“MSR Offshore”), Bayview MSR Opportunity Master Fund, L.P. (“MSR Master” and together with MSR Domestic and MSR Offshore, the “MSR Funds”). Bayview Capital GP MSR, LLC serves as the general partner of MSR Domestic and MSR Master. Bayview Capital GP MSR, Ltd., a Cayman Islands exempted company that is not affiliated with Bayview, serves as general partner of MSR Offshore and has delegated its authority to manage the affairs of MSR Offshore to the Management Company.

(xi) Ivalo Fund, L.P. (“Ivalo Fund”). Ivalo GP, LLC serves as the general partner of Ivalo Fund.

(xii) Bayview Mortgage Securities Domestic, L.P., (“BMS Domestic”), Bayview Mortgage Securities Offshore, Ltd. (“BMS Offshore”) and Bayview Mortgage Securities Master Fund, L.P. (“BMS Master” and together with BMS Domestic and BMS Offshore, the “BMS Funds”). Bayview Mortgage Securities GP, LLC serves as the general partner of BMS Domestic and BMS Master. The directors of BMS Offshore are not affiliated with Bayview and have delegated authority to manage the affairs of BMS Offshore to the Management Company.

(xiii) Bayview Liquid Credit Strategies Domestic, L.P. (“Liquid Credit Strategies Domestic”), Bayview Liquid Credit Strategies Offshore, L.P. (“Liquid Credit Strategies Offshore”) and Bayview Liquid Credit Strategies Master Fund, L.P. (“Liquid Credit Strategies Master” and together with Liquid Credit Strategies Domestic and Liquid Credit Strategies Offshore, the “Liquid Credit Strategies Funds”). Bayview Liquid Credit Strategies GP, LLC serves as the general partner of Liquid Credit Strategies Domestic and Liquid Credit Strategies Master. Bayview Liquid Credit Strategies Offshore GP, LLC, a Delaware limited liability company registered as a foreign company in the Cayman Islands, serves as general partner of Liquid Credit Strategies Offshore.

(xiv) Seaview Strategic Fund, Ltd., (“Seaview Offshore”) and Seaview Strategic Master Fund L.P. (“Seaview Master,” and together with Seaview Offshore, the “Seaview Fund”). Seaview Strategic GP, LLC, a Delaware limited liability company, serves as the general partner of the Seaview Fund.

As more fully set forth in Item 8,

- the BOF Funds invest primarily, although not exclusively, in residential and commercial whole loans, consumer loans, real estate owned and real estate, asset-backed securities and other credit-sensitive financial instruments. The BOF Funds generally focus on the acquisition and, primarily through the Registrant’s subsidiaries and affiliates, the management and servicing of credit-sensitive loans and real estate owned, asset-backed securities and related derivative instruments.

- Certain BOF Funds also invest in corporate equity and debt instruments, including instruments issued by financial services businesses that are private and/or less liquid, and in mortgage servicing rights (through an investment in the Bayview MSR Funds).
- The MSR Funds invest primarily in mortgage servicing rights (“MSRs”), credit risk transfer instruments, mortgage-related securities, and agency mortgage loans.
- The BMS Funds, Ivalo Fund, and Seaview Fund invest primarily in asset-backed securities.
- The Liquid Credit Strategies Funds invest primarily, although not exclusively, in asset backed securities, equity and debt securities of finance and mortgage related issuers, and derivatives related thereto.
- The BOF-V Oceanview Funds invest in a controlling equity interest in the Oceanview Group, a group of insurance companies that invest primarily, although not exclusively, in mortgage loans, mortgage-related securities, and other mortgage-related assets.

The Registrant is also a sub-advisor to the Blackstone Alternative Multi-Strategy Fund, an investment company registered under the Investment Company Act of 1940 that trades under the ticker BXMIX (“BXMIX”), and the Blackstone Diversified Multi-Strategy Fund, a fund authorized by the Central Bank of Ireland pursuant to the Undertaking for Collective Investments in Transferable Securities Directive that trades under the ticker BXDMS (“BXDMS” and together with BXMIX, the “Blackstone Funds”) that are sponsored by another SEC-registered investment adviser. The Registrant has discretionary investment authority with respect to its sub-advised portion of the Blackstone Funds. The Blackstone Funds’ adviser seeks capital appreciation by allocating the Funds’ assets among a variety of non-traditional or “alternative” investment strategies, and Bayview’s allocated portions of such Funds invest primarily in asset-backed securities.

C. Availability of Customized Services for Individual Clients

While several Funds have similar and overlapping investment objectives and investment parameters, Bayview’s advice with respect to the Funds is made in accordance with the investment objectives and guidelines as set forth in each Fund’s constituent documents, which include any confidential private placement memoranda, organizational documents and/or investment management agreements. Bayview has the right to enter into agreements, such as side letters, with certain underlying investors of the Funds that may, in each case, provide for terms of investment that are more favorable than the terms provided to other underlying investors of the Funds.

D. Wrap Fee Programs

Not applicable.

E. Assets Under Management

Bayview manages approximately \$19,193,865,000 as of December 31, 2020 on a discretionary basis. This figure represents the unaudited net asset value of the Funds as of December 31, 2020, plus any uncalled capital commitments for commitment-based Funds that are either still in their investment periods or subject to call to fund transactions committed to prior to the end

of their investment periods, and Bayview's allocated portions of the Blackstone Funds. As of the date of this filing, Bayview manages no assets on a non-discretionary basis.

ITEM 5 FEES AND COMPENSATION

A. Fees and Compensation

Management Fee

Generally, the Funds pay the Management Company a fee for investment management services (the “Management Fee”) for each fiscal quarter ranging from approximately 0.25% (1.00% per annum) to 0.5% (2.0% per annum) of the beginning net asset value of each investor’s capital account for such fiscal quarter. With respect to certain Funds that are private equity-style funds, or with respect to investors who have elected to be charged private-equity style fees, the Management Fee is generally based on commitments during the investment period and net asset value thereafter. In consideration for the Management Fee, the Management Company provides to the Funds certain office space and utilities, secretarial, clerical and other personnel services.

The Management Fee is calculated and paid in advance but is amortized monthly by each Fund over the quarter for which such Management Fee is paid. With respect to certain Funds, the Management Fee generally will be prorated for any capital contribution or withdrawal by an investor that is effective other than as of the first day of a quarter. With respect to certain Funds, in the event of a withdrawal by an investor other than as of the last day of the quarter, the Management Company will repay to the Fund a *pro rata* portion of the Management Fee, based on the actual number of days remaining in such quarter.

In the sole discretion of the Management Company, the Management Fee may be waived, reduced or calculated differently with respect to certain investors. The Management Fee may be calculated differently with respect to certain Funds that are set up for a single investor or a group of related investors, in accordance with the relevant Fund’s constituent documents.

Incentive Allocation and Carried Interest

The general partner of each hedge fund-style Fund generally will receive an annual performance-based allocation or fee (an “Incentive Allocation” or “Incentive Fee”, as applicable) of a portion of the net capital appreciation allocated to each investor’s capital account, as more fully described below.

Generally, at the end of each calendar year of certain of the hedge-fund style Funds, net capital appreciation, if any, allocated or apportioned to an investor’s capital account in such Fund will generally be reallocated or reapportioned by the Fund, as applicable, in the following order of priority (as more fully described in such Fund’s constituent documents): (i) first, to the investor until the investor has made up previous losses; (ii) second, to the investor until it has achieved a hurdle rate of return; (iii) third, to the general partner and the investor pursuant to a catch-up allocation until the general partner has received 20% of such net capital appreciation for such year; (iv) fourth, an 80/20 split between the investor and the general partner, respectively, until the return equals a threshold amount; and (v) fifth, a 70/30 split between the investor and the general partner, respectively.

The general partner of each private equity-style Fund generally will receive a carried interest distribution (a “Carried Interest Distribution”) representing a portion of each distribution of capital to each investor, as more fully described below.

Generally, in certain of the private equity-style Funds, distributions are apportioned between each investor and the general partner in the following order of priority (as more fully described in such Fund's constituent documents): (i) first, to the investor until it has received an amount equal to the aggregate capital contributions made by such investor; (ii) second, to the investor until it has achieved a preferred rate of return on its aggregate capital contributions; (iii) third, to the general partner and the investor pursuant to a catch-up provision until the general partner has received 20% of the amounts distributed to the investor; and (iv) fourth, an 80/20 split between the investor and the general partner, respectively.

In the sole discretion of the relevant Bayview entity, the Incentive Allocation, Incentive Fee, Carried Interest Distributions or Sub-Advisory Fee (as defined below) may be waived, reduced or calculated differently with respect to certain investors. With respect to certain Funds that are set up for a single investor or a group of related investors, the Incentive Allocation, Incentive Fee, or Carried Interest Distributions, as applicable, may be calculated differently, in accordance with the relevant Fund's constituent documents.

Sub-Advisory Fee

As a sub-adviser of BXMIX, the Registrant generally will receive an annual sub-advisory fee (a "Sub-Advisory Fee") generally at a rate of 0.80% multiplied by the average daily net assets of the allocated portion of BXMIX's assets. As a sub-adviser of BXDMS, the Registrant generally will receive a Sub-Advisory Fee generally at a rate of 0.35% multiplied by the average daily net assets of the allocated portion of BXDMS and an annual performance-based fee based on the net aggregate realized and unrealized appreciation, if any, in the net asset value of the assets comprising the allocated portion of BXDMS.

B. Payment of Fees

Fees and compensation paid or allocated to the Management Company and the general partners by the Funds are generally deducted from the assets of such Funds (or reallocated from the investors' capital accounts to the general partners' capital accounts) at the times and in the manner discussed above. The investment adviser to the Blackstone Funds pays Registrant's Sub-Advisory Fee.

C. Additional Fees and Expenses

To the extent permitted under the relevant Funds' constituent documents, each Fund bears all of its (and, as applicable, a *pro rata* share of any such Fund's corresponding master fund's) legal and other organizational expenses incurred in the formation of such Fund (and the Fund's corresponding master fund), including all expenses relating to the offer and sale of interests in such Fund, including reasonable travel expenses; *provided* that legal and other organizational expenses incurred in the formation of a Fund (other than the fees payable to any placement agent for the interests in such Fund, which will be borne by the Management Company either directly or indirectly by offsetting management fees owed to the Management Company as provided below) may be subject to a cap. Bayview (and not the relevant Fund) bears any such legal and other organizational expenses in excess of any such cap. The Management Company may advance to the Funds amounts to pay for the Funds' organizational expenses and expenses incurred in connection with the initial offering and sale of interests, as well as other expenses related to the Funds, including those described below. The Management Company is entitled to reimbursement from the Funds of all such advanced expenses.

The Funds also bear their (and a *pro rata* share of their corresponding master fund's) operating and other expenses including, but not limited to, investment-related expenses (e.g., costs, fees and other out-of-pocket expenses directly related to (i) the investigation of investment opportunities (whether or not consummated), including domestic and international travel, and research-related expenses, including, without limitation, news and quotation equipment and services, market data services, data source providers, software, subscription services, inventory management systems, fees to third-party providers of research, portfolio risk management services (including trade capture, inventory, order and execution management systems) and brokerage costs and fees, (ii) the negotiation, acquisition, settlement, ownership, financing, hedging or sale of its investments and other transaction costs, including travel expenses, transaction fees, consulting, advisory, investment banking, legal and other professional fees relating to investments or contemplated investments, whether or not such investments are consummated, brokerage commissions, expenses relating to short sales, bank service fees, administrative expenses (including, without limitation, fees and expenses of the Fund administrator and other costs related to third-party technology to support the management and oversight of reconciliations and collateral management), and the costs and expenses related to special situations investments (whether or not consummated)), fund representative and paying agent fees, costs associated with financial and investor reporting and providing information to existing and prospective investors, information-related expenses, clearing and settlement charges, custodial fees, interest expenses, appraisal fees, pricing and valuation related costs, and expenses), legal, auditing and accounting expenses (including expenses associated with the preparation of feeder fund and corresponding master fund financial statements, regulatory reporting filings, tax returns and Schedules K-1 and any costs related to transfers; *provided* that in the event that expenses related to a transfer are in excess of the customary range of expenses, the Registrant may, in its sole discretion, require the transferor or transferee to such transfer to pay for all or a portion of any such expenses), expenses incurred in collection of monies owed to a feeder fund and/or corresponding master fund, insurance expenses (including, without limitation, directors' and officers' insurance, errors and omissions insurance and other similar policies), expenses related to the offering or transfer of interests (e.g., legal expenses incurred in connection with the preparation and negotiation of offering or transfer documents, operating agreements and side letters, printing and mailing costs, travel expenses related to the offer and sale of interests, and placement fees payable by such Fund in connection with the offering of interests therein (which placement fees will offset management fees dollar for dollar)), expenses related to professional liability insurance, regulatory expenses (including, without limitation, filing fees), the costs and expenses of third-party risk management products and services (including, without limitation, the costs of risk management software or database packages), and to the extent applicable, any entity-level taxes, fees or other governmental charges levied against the Fund or corresponding master fund, wind-up and liquidation expenses, extraordinary expenses (such as litigation-related and indemnification expenses) and expenses comparable to the foregoing.

In addition, the MSR Funds bear expenses associated with any hedging and swap transactions to give the MSR Funds economic exposure to the MSRs owned by Lakeview Loan Servicing ("Lakeview"), an indirect wholly-owned subsidiary of the MSR Funds, loan portfolios in the pipeline or in inventory, Lakeview's operations, rent and overhead expenses, and the salary and benefits of Lakeview's employees. Lakeview may lease office space from Bayview at terms no less favorable than those on which Lakeview could have leased comparable office space from an unrelated party in an arm's length transaction. While Bayview and CLS (as defined below) currently provide a substantial portion of the back-office support for Lakeview, Lakeview has assumed and is expected to continue to assume more of its own operations over

time, particularly to the extent advisable from a regulatory perspective. As Lakeview continues to expand, the expenses of Lakeview are expected to increase significantly. The MSR Funds also bear the expenses of entities controlled directly or indirectly by the MSR Funds or that are under common control with the MSR Funds, in each case that have been organized to carry out the business principally of and for the benefit of the MSR Funds (including, without limitation, Bayview MSR Opportunity Corp. (“Fund Corp”), Lakeview Community Capital, LLC, Lakeview Household Insurance Solutions, and Lakeview) (each, a “Controlled Affiliate”).

The BOF-V Oceanview Funds also bear expenses associated with the Oceanview Group’s operations, rent and overhead expenses and the salary, and benefits of the Oceanview Group’s employees. The Oceanview Group may lease office space from Bayview at terms no less favorable than those on which the Oceanview Group could have leased comparable office space from an unrelated party in an arm’s length transaction. While Bayview currently provides a substantial portion of the back-office support for the Oceanview Group, the Oceanview Group is expected to continue to assume more of its own operations over time, particularly to the extent advisable from a regulatory perspective. As the Oceanview Group continues to expand, the expenses of the Oceanview Group are expected to increase.

Certain Funds also pay fees to Bayview (or a Bayview affiliate) for (i) sourcing investment opportunities, underwriting and managing the purchase process for certain of the Funds’ investments (such fees, the “Acquisition Fees”); (ii) servicing or overseeing the servicing of certain of the loans in such Funds’ portfolios (such fees, the “Servicing Fees”); (iii) with respect to the MSR Funds and other Funds, providing loss mitigation services, foreclosure services and bankruptcy services to subservicers with respect to mortgage loans underlying the MSR Funds’ MSRs or loans owned by Funds (such fees, the “Component Fees”); and (iv) providing loan origination services, third-party origination services and information technologies services including, without limitation, services relating to various sales functions in connection with sourcing eligible third party originated loans, loan underwriting and loan processing, capital market activities, credit policy and lender management, new loan set-up and other support functions (such fees, the “Origination Fees”).

BAM subsidiaries, including Community Loan Servicing (formerly known as Bayview Loan Servicing, LLC) (“CLS”), Silver Hill Funding (“SHF”), and Bayview Loans (“BL”), may originate a new loan to a borrower, originate a new loan to refinance an existing loan owned by a Fund, or may accomplish modifications to an existing loan owned by a Fund that results in a new loan. In connection with any such refinancing, these BAM subsidiaries may charge certain Funds a fee based on the amount of such new or modified loan (the “Refinancing Fee”). If these BAM subsidiaries facilitate the origination of a new loan by a third party in connection with a refinancing of an existing loan owned by a Fund, they may charge such Fund an additional fee based on the amount of such new or modified loan (the “Facilitation Fee”). BAM subsidiaries may also originate loans (including PACE loans or assessments) and sell them to the Funds at an agreed upon price.

The Acquisition Fees, Servicing Fees, Component Fees, Origination Fees, Refinancing Fees and Facilitation Fees are described more fully in the confidential private placement memoranda of the Funds to which such fees apply.

Bayview from time to time incurs fees, costs, and expenses on behalf of one or more Funds. To the extent such fees, costs and expenses are incurred for the account of more than one Fund, each Fund bears a portion of any such fees, costs, and expenses generally in proportion to its

size, the size of its investment in the activity or entity to which the expense relates (subject to the terms of each Fund's applicable constituent documents), or in such manner as Bayview considers fair and equitable under the circumstances. Investment-related expenses that are common to more than one Fund, such as broken-deal expenses, generally will be allocated pro rata in the same proportion that the investment is or would have been allocated to the Funds. Bayview endeavors to allocate such fees, costs and expenses on a fair and reasonable basis pursuant to its expense allocation policy. Bayview is entitled to reimbursement from such Fund for any expenses incurred by the Fund and paid in advance by Bayview on behalf of such Fund.

See Item 12 for further discussion with respect to fees associated with brokerage practices.

D. Prepayment of Fees

Please see response to Items 5A and 5B above.

E. Additional Compensation and Conflicts of Interest

As discussed above, Bayview receives the fees discussed above in Item 5C in connection with sourcing investment opportunities, underwriting and managing the purchase process for certain Funds' investments, and providing loan originations services to certain Funds. Bayview also receives a due diligence fee from certain Funds for every loan reviewed for such Funds, which includes underwriting, appraisal review, title review and transaction management. In addition, Bayview receives a closing fee from certain Funds for every loan closed on behalf of such Funds. Certain of these fees give rise to a conflict of interest and may create an incentive for Bayview to make investments on behalf of certain Funds based on the compensation received by Bayview, rather than the Funds' needs. In order to mitigate the conflicts involved with these transactions, Bayview has agreed to a fee schedule in the relevant Funds' confidential private placement memoranda. These fees are described more fully in the confidential private placement memoranda of the Funds to which such fees apply.

ITEM 6

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As noted in Item 5, Bayview receives performance-based compensation from the Funds. Investors should be aware that performance-based compensation may be deemed to create a conflict of interest for Bayview, as there can be an incentive for Bayview to make investments that are riskier or more speculative than would be the case in the absence of performance compensation. In addition, in situations where certain Funds will pay smaller performance compensation (due to the existence of a loss carryforward, a higher preferred return, different compensation rates and structures or otherwise), there can be an incentive for Bayview to favor those Funds that pay higher performance compensation, for example, by allocating more opportunities to such Funds. To seek to mitigate this inherent conflict of interest, Bayview has implemented allocation policies and procedures (discussed more fully in Item 11D) that seek to ensure that strategy appropriate investments are allocated among the Funds and the Blackstone Funds on what Bayview deems to be an equitable basis.

ITEM 7

TYPES OF CLIENTS

Bayview provides investment advice to the Funds (and the Blackstone Funds), as described above in Item 4. Bayview also provides investment advice to the Oceanview Group, which is wholly-owned by certain Funds, as well as certain accounts of insurance companies that are re-insurance clients of the Oceanview Group (with respect to investment accounts related to such reinsurance arrangements for which certain Funds (through their ownership of the Oceanview Group) are the economic beneficiary), as described above in Item 4. With regard to the Funds, the constituent documents for each Fund set minimum amounts for investment by prospective investors. Bayview may modify or waive such minimum investment requirements from time to time; however, investors in each Fund must: (i) be "accredited investors"; (ii) be "qualified purchasers" or eligible "knowledgeable employees"; and (iii) meet other suitability requirements.

ITEM 8

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies

The investment programs for each of the Funds involve a substantial degree of risk and such activities could result in a substantial loss of capital, which investors should be prepared to bear.

The Funds (Generally)

Subject to any limitations in a particular Fund's constituent documents, Bayview is authorized to invest in all types of securities or other financial instruments and assets of issuers and counterparties located in any region of the world.

The securities, instruments, and other assets in which one or more of the Funds may invest include, but are not limited to debt or equity securities of any issuer (public or private), including capital stock; shares of beneficial interest; partnership interests and similar financial instruments; loans (including, without limitation, residential, commercial and consumer performing, non-performing and re-performing whole loans, agency, non-agency and commercial mortgage-backed securities, interest-only securities and inverse interest-only securities and real-estate owned ("REO")) and loan participations; structured products; bonds, notes and debentures (whether subordinated, convertible or otherwise); currencies; interest rate, currency, commodity, equity and other derivative products including, without limitation: (i) futures contracts (and options thereon) relating to stock indices, securities, currencies, commodities, U.S. Government and foreign government securities and other financial instruments; (ii) swaps, options, swaptions, puts, calls, warrants, debt securities, caps, collars, floors and forward rate agreements; (iii) spot and forward currency transactions; and (iv) agreements relating to or securing such transactions; real estate securities; credit risk transfer agreements; mortgage-backed obligations issued or collateralized by Federal agencies (including, without limitation, fixed-rate pass-throughs, adjustable rate mortgages, collateralized mortgage obligations and stripped mortgage-backed securities); MSRs; equipment lease certificates; equipment trust certificates; credit paper; accounts and notes receivable and payable held by trade or other creditors; trade acceptances; choses in action; contract and any other claims; executory contracts; participations; mutual funds; exchange-traded funds; money market funds; obligations of the United States or any state thereof, foreign governments and instrumentalities of any of them; commercial paper certificates of deposit; banker's acceptances; trust receipts; and other obligations and instruments or evidences of indebtedness of whatever kind or nature; in each case, of any person, corporation, government or other entity whatsoever, whether or not publicly traded or readily marketable; and real and personal property, including, without limitation, office, retail, industrial, hotel, residential, recreational, health care or mixed-use assets or land.

The BOF Funds

Bayview's investment strategy with respect to the BOF Funds involves investing primarily, although not exclusively, in residential and commercial whole loans, agency, non-agency and commercial mortgage-backed securities and other credit-sensitive financial instruments. While there are no material limitations on the assets in which the BOF Funds may invest, except with respect to a 10% limitation in certain Funds on non-agency loans originated by a Bayview

affiliate, these Funds generally focus on the acquisition and, through the Registrant's subsidiaries and affiliates, the management and servicing of the assets that are eligible for investment, which include, without limitation, residential and commercial mortgages; consumer performing, non-performing and re-performing whole loans; interest-only securities and inverse interest-only securities; REO; agency, non-agency, commercial mortgage and other asset-backed securities; mortgage-related credit and real estate derivatives; equity, debt or options in mortgage-related companies; and other industry similar assets, including loans and other assets secured by U.S. and non-U.S. collateral. The BOF Funds may also take long and short proprietary positions in corporate securities, credit derivatives and indices, either for investment or to hedge their loan strategies and cash and other synthetic positions.

While the specific investment opportunities available to the BOF Funds may change over time as supply/demand dynamics in the market and the origination industry evolve, Bayview generally focuses on a wide range of opportunities and strategies within the mortgage and consumer credit sectors and seeks to capitalize on its expertise in loan modifications and proprietary models to analyze underlying collateral in combination with active servicing through its affiliated servicers to engage in loss mitigation.

In pursuing the investment strategies of the BOF Funds, Bayview will seek to invest in assets that can be acquired at what it believes to be discounts to their principal economic value due to credit impairment, liquidity or other factors.

The BOF Funds will employ on occasion a credit facility ("Commitment Facility") to finance certain investments. Borrowing capital from the Commitment Facility (instead of drawing down investors' capital commitments) will increase the BOF Funds' leverage and thus may shorten the period required to attain an investor's hurdle amount and/or produce a higher internal rate of return (as these figures are based on net asset value) than if such figures were calculated based on the drawdown of capital commitments.

Fund IVc, BOF-VI, BOF-VIa have certain limits on investments that are not applicable to the other BOF Funds (as more fully described in their constituent documents).

The MSR Funds

Bayview's primary investment strategy with respect to the MSR Funds is to seek to generate attractive risk-adjusted returns by generating current income and capital appreciation through investments in MSRs and MSR-related assets. While the MSR Funds focus primarily on investing in MSRs and MSR-related assets, the MSR Funds may also invest in other mortgage-related and financial services-related investments, including, without limitation, investments in asset backed securities, other mortgage-related agency bonds (including first-loss tranches), interest-only securities and inverse interest-only securities, agency and non-agency mortgage-backed securities and mortgage-related credit, interest-only, and real estate derivatives, and real estate-backed residential and commercial loans. The MSR Funds may also make mortgage-related and financial services-related equity investments (e.g., equity investments in mortgage originators, servicers, lenders, mortgage insurers, banks and real estate investment trusts). These non-MSR-related investments generally will not comprise more than 25% of MSR Master's net asset value (measured at the time of investment).

The MSR Funds pursue this strategy primarily through a wholly-owned subsidiary, Lakeview Loan Servicing, LLC ("Lakeview"), which seeks to generate positive cash flow by engaging

subservicers to perform the primary servicing functions at a cost that is less than the servicing fees Lakeview is entitled to as owner of the MSRs. In evaluating whether a particular pool of MSRs is appropriate to purchase, Lakeview will consider numerous factors, including, without limitation: (i) potential for risk-adjusted returns based on the contemplated purchase price and asset structure; (ii) characteristics of the underlying mortgage loans; (iii) terms and conditions imposed by the relevant pooling and servicing agreements; and (iv) availability of a highly qualified subservicer on favorable economic terms. The ability of Lakeview to refinance or participate in a credit risk transfer arrangement with respect to the loans underlying the MSRs will also be considered in evaluating a particular MSR purchase.

The MSR Funds also will employ on occasion a credit facility (“Commitment Facility”) to finance certain investments. Borrowing capital from the Commitment Facility (instead of drawing down investors’ capital commitments) will increase the MSR Funds’ leverage and thus may shorten the period required to attain an investor’s hurdle amount and/or produce a higher internal rate of return (as these figures are based on net asset value) than if such figures were calculated based on the drawdown of capital commitments.

In addition to acquiring MSRs, Lakeview participates in the refinancing of mortgage loans underlying MSRs owned by Lakeview (e.g., through the origination of a new loan). Lakeview also participates in various other forms of third party originations, generally with the goal of selling the acquired loans to the agencies and retaining the MSRs. Under certain circumstances, Lakeview may acquire such newly originated loans contemporaneously with or shortly after the closing of such loan (i.e., table funding). Additionally, Lakeview may originate loans sourced by approved mortgage brokers. In each case, loans that are sold to the agencies will be sold typically at a discount to the cost of acquiring such loans, which discount will effectively be the cost of acquiring the MSR.

The MSR Funds indirectly recognize all profits and suffer all losses incurred by Lakeview.

The BMS Funds, Ivalo Fund, and Seaview Fund

Bayview’s investment strategy with respect to the BMS Funds, Ivalo Fund, and Seaview Fund is to generate risk-adjusted returns by investing globally primarily in primary and secondary market asset-backed securities and related derivatives and financial instruments. The Ivalo Fund may also invest in mortgage-related and financial services-related equity investments (e.g., equity investments in mortgage originators, servicers, lenders, mortgage insurers, banks and real estate investment trusts).

The Liquid Credit Strategies Funds

Bayview’s investment strategy with respect to the Liquid Credit Strategies Funds is to generate risk adjusted returns by employing a range of investment strategies globally, including investing in public and private securities and a broad array of other financial instruments and assets in both private and public markets. There are no substantive limits on the investment strategies that may be pursued by these Funds. The Liquid Credit Strategies Funds may invest in assets relating to the mortgage industry, including, mortgage-backed securities, collateralized debt obligations, collateralized loan obligations, risk transfer securities, commercial mortgage-backed securities, asset-backed securities, interest-only securities and inverse interest-only securities, mortgage-related credit and real estate derivatives, interest rate derivatives and equity, debt or options in real estate related or mortgage-related companies,

among other industry similar assets, including other assets secured by U.S. and non-U.S. collateral. These Funds may also engage in short selling for both investment and hedging purposes. The Liquid Credit Strategies Funds generally do not invest directly in whole loans.

BOF-V Oceanview

The BOF-V Oceanview Funds have invested in a controlling equity interest in the Oceanview Group, which currently is wholly-owned by the BOF-V Oceanview Funds. The Oceanview Group consists of certain insurance and re-insurance company subsidiaries of Oceanview Holdings, Ltd., as well as certain accounts of insurance companies that are re-insurance clients of the Oceanview Group (with respect to reinsurance arrangements for which the Oceanview Group is the economic beneficiary, “Cedent Accounts”), that focus primarily, although not exclusively, on residential and commercial whole loans, mortgage-backed securities, corporate debt securities, and other credit-sensitive financial instruments. Oceanview Asset Management, LLC, a relying adviser to the Registrant, acts as investment adviser for the Oceanview Group and the Cedent Accounts.

The Blackstone Funds

Bayview’s investment strategy with respect to its allocated portions of the Blackstone Funds is to generate capital appreciation by investing in certain residential mortgage-backed securities, commercial mortgage-backed securities, and consumer asset-backed securities within a defined investment mandate.

The descriptions set forth in this Brochure of specific advisory services that Bayview offers to clients, and investment strategies pursued and investments made by Bayview on behalf of its clients, should not be understood to limit in any way Bayview’s investment activities. Bayview may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Bayview considers appropriate, subject to each client’s investment objectives and guidelines. There can be no assurance that the investment objectives of any Fund will be achieved.

B. Certain Risks Relating to Investment Strategies

The following risk factors do not purport to be a complete list or explanation of the risks involved with the activities of Bayview, the Funds, or the Blackstone Funds. These risk factors include only risks that Bayview believes to be material, significant or unusual based on information currently available, and relate to particular investment strategies employed by Bayview and Fund investments made pursuant thereto (some of which also apply to Bayview’s allocated portions of the Blackstone Funds, particularly those relating to certain ABS and MBS (defined below)), and do not address material, significant or unusual risks associated with other factors, including, without limitation certain instrument types, structural risks and certain market risks, or risks applicable to the Blackstone Funds beyond the portion of their funds allocated to Bayview.

Overall Investment Strategy and Investment Risks

Risks of Investments Generally. All investments risk the loss of capital. No guarantee or representation is made that the Funds’ investment programs will be successful. The Funds’ investment programs involve, without limitation, risks associated with limited diversification

and concentration, leverage, investments in speculative assets and the use of speculative investment strategies and techniques, interest rates, currencies, volatility, tracking risks in hedged positions, credit deterioration or default or prepayment risks, systems risks and other risks inherent in the Funds' and any controlled affiliates' activities. Certain investment techniques of the Funds (*e.g.*, use of direct leverage or indirectly through leveraged investments) can, in certain circumstances, magnify the impact of adverse market moves to which the Funds may be subject. In addition, the Funds' investments may be materially affected by conditions in real estate markets, the financial markets and overall economic conditions occurring globally and in particular countries or markets where the Funds and any controlled affiliates may invest their assets.

The Funds' methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

Force Majeure Events; Public Health Crisis. The Funds may be affected by force majeure events (*i.e.*, events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism, labor strikes, major plant breakdowns, pipeline or electricity line ruptures, failure of technology, defective design and construction, accidents, demographic changes, government macroeconomic policies, social instability, etc.).

Coronavirus Risks. In December 2019, the virus SARS-CoV-2, which causes the coronavirus disease known as COVID-19, surfaced in Wuhan, China. The disease spread around the world, resulting in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across the globe, as well as the implementation of travel restrictions and remote working and "shelter-in-place" or similar policies by numerous companies and national and local governments. These actions caused the disruption of manufacturing supply chains and consumer demand in certain economic sectors, resulting in significant disruptions in local and global economies. Such disruptions continue to be felt, as many countries and U.S. states struggle to contain the virus and its variants. The short-term and long-term impact of COVID-19 on the operations of the Funds is difficult to predict. Any potential impact on such operations and performance will depend to a large extent on future developments and actions taken by authorities and other entities to contain COVID-19 and its economic impact. These potential impacts, while uncertain, could adversely affect the performance of the Funds.

COVID-19 related Risks to Mortgage Investments. As described above, the COVID-19 pandemic and other market dynamics created extreme volatility, destabilization and declines in the global financial markets in which the Funds participate, particularly the market for mortgage-related investments (including loans, MSRs, and MBS). The federal government extended the CARES Act, which allows borrowers with federally-backed loans to request temporary payment forbearance in response to the increased borrower hardships resulting from COVID-19. As a result of the CARES Act forbearance requirements, it is expected that there may be a record number of additional increases in delinquencies in servicing portfolios that may require mortgage servicers to finance substantial amounts of advances of principal and interest payments to the holders of the securities holding those loans, as well as advances of property taxes, insurance premiums and other expenses. It is also expected that the CARES Act forbearance requirements will reduce servicing income and increase servicing expenses due to

the increased number of delinquent loans, significant levels of forbearance that are granted and will continue to be granted, as well as the resolution of loans that are expected to ultimately default as the result of COVID-19.

Financial markets experienced substantial volatility and reduced liquidity, resulting in unprecedented federal government intervention to lower the federal funds rate to near zero and support market liquidity by purchasing assets in many financial markets, including the mortgage-backed securities market. The CARES Act forbearance requirements and the decline in financial markets have negatively impacted the fair value of many mortgage-related assets.

The short-term and long-term impacts of the COVID-19 pandemic and the CARES Act are unknown. The foregoing, including any potential unknown impacts, could adversely affect the Funds' business, financial condition and results of operations and, in turn, have a material adverse impact on the Funds.

Limited Diversification. In the normal course of making investments on behalf of the Funds, Bayview may be concentrated within the mortgage and consumer credit sectors. In addition, in some Funds, it is possible that Bayview may select investments that are concentrated in a limited number or type of financial instruments or assets. From time to time, a Fund's portfolio may consist of a significant portion of either loans or securities. Such concentration of risk may increase the losses suffered by the Funds or reduce their ability to hedge their exposure and to dispose of depreciating assets. Limited diversity could expose the Funds to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those financial instruments or assets. In the Funds that are concentrated in a limited number or type of financial instruments (such as MSRs), the overall adverse impact on the Funds of adverse movements in the value of their portfolios will be considerably greater than if the Funds were not permitted to concentrate their investments in such manner.

Leverage. The Funds generally intend to lever their assets through various types of financings, including seller financing, and through various securitization vehicles. Bayview may also cause the Funds to leverage their investment returns with options, short sales, swaps, forwards and other derivative instruments.

While leverage presents opportunities for increasing the Funds' total returns, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment by the Funds would be magnified to the extent the Funds are leveraged. The cumulative effect of the use of leverage by the Funds in a market that moves adversely to the Funds' investments could result in a substantial loss to the Funds, which would be greater than if the Funds were not leveraged. Leverage will increase the exposure of the Funds to adverse economic factors such as significantly rising interest rates, severe economic downturns or deterioration in the condition of the Funds' investments or their corresponding markets.

The Funds may engage in portfolio financings where several investments are cross-collateralized, pursuant to which multiple investments may be subject to the risk of loss. As a result, the Funds could lose their interests in performing investments in the event such investments are cross-collateralized with poorly performing or non-performing investments. In addition, recourse debt, which the Funds reserve the right to obtain, may subject other assets of the Funds' investments to risk of loss.

Illiquidity. A substantial portion of the Funds' portfolios may consist of loans, derivatives, MSRs or other financial instruments that are not actively or widely traded and the Funds may invest in illiquid securities, or securities that become illiquid after the Funds' investments in such securities. Mortgage/real-estate-backed loans and asset-backed securities are generally less liquid than other securities (e.g., stocks or bonds). Certain securities and other investments held by the Funds may also be illiquid because, for example, they are subject to legal or other restrictions on transfer. Valuation of the Funds' investments may be difficult or uncertain, including with respect to securities, because there may be limited information available about the issuer. In addition, the sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Even those markets which are expected to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid. Consequently, it may be relatively difficult for the Funds to dispose of certain investments rapidly and at favorable prices in connection with withdrawal requests, adverse market developments or other factors.

Investments Longer than Term. A Fund may make investments, which may not be advantageously disposed of prior to the date that the Fund will be dissolved, either by expiration of the Fund's term or otherwise. The Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. There can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the investors will occur.

General Economic and Market Conditions. The success of the Funds' activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, rules and regulations (including laws relating to taxation of the Funds' investments), trade barriers, currency exchange controls, national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity of the Funds' investments. Volatility or illiquidity could impair the Funds' profitability or result in losses.

Long/Short. The success of certain Funds' long/short investment strategy depends upon Bayview's ability to identify and purchase investments that are undervalued and identify and sell short investments that are overvalued. The identification of investment opportunities in the implementation of the Funds' long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the Funds' positions were to fail to converge toward, or were to diverge further from values expected by Bayview, the Funds may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Funds to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with the Bayview's long/short strategies may become outdated and inaccurate as market conditions change.

Long-Term. The success of the Funds' long-term investment strategy depends upon Bayview's ability to identify and purchase investments that are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, certain Funds

may forego value in the short-term or temporary investments in order to be able to avail themselves of additional and/or longer term opportunities in the future. Consequently, certain Funds may not capture maximum available value in the short-term, which may be disadvantageous, for example, for investors who withdraw all or a portion of their capital accounts before such long-term value may be realized by such Funds.

Investments in Undervalued Instruments. The Funds may invest in undervalued instruments. The identification of investment opportunities in undervalued instruments is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued instruments offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Funds' investments may not adequately compensate for the business and financial risks assumed.

Relative Value. The success of certain Funds' relative value investment strategy depends upon Bayview's ability to identify and exploit perceived inefficiencies in the pricing of securities, financial products, or markets. Identification and exploitation of such inefficiencies involve uncertainty. There can be no assurance that Bayview will be able to locate investment opportunities or to exploit pricing inefficiencies in the securities markets. Mispricings, even if correctly identified, may not be corrected by the market, at least within a timeframe over which it is feasible for Bayview to maintain a position. Even pure arbitrage positions can result in significant losses if Bayview is not able to maintain both sides of the position until expiration/maturity. A reduction in the pricing inefficiency of the markets in which Bayview seeks to invest will reduce the scope for the Funds' investment strategies. In the event that the perceived mispricings underlying the Funds' positions were to fail to converge toward, or were to diverge further from, relationships expected by Bayview, the Funds may incur losses.

Short Selling. Short selling involves selling securities which may or may not be owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Funds engage in short sales will depend upon the Funds' investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Funds of buying those securities to cover the short position. There can be no assurance that the Funds will be able to maintain the ability to borrow securities sold short. In such cases, the Funds can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Necessity for Counterparty Trading Relationships; Counterparty Risk in General. The Funds expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Funds to trade in any variety of markets or asset classes over time. In addition, with regard to the MSR Funds, Lakeview's loan origination business is relationship driven. Lakeview may work with various approved mortgage lenders, but these lenders may not be contractually obligated to do business with Lakeview, and Lakeview's competitors may also have relationships with these lenders and actively compete with Lakeview in its efforts to expand its network of approved mortgage lenders. There can be no

assurance that the Funds or Lakeview will be able to maintain such relationships or establish such relationships. An inability to establish or maintain such relationships would limit the Funds' trading activities and Lakeview's loan origination business and could create losses, preclude the Funds and/or Lakeview, as applicable, from engaging in certain transactions, financing, loan origination, derivative intermediation and prime brokerage services and prevent the Funds and/or Lakeview from trading at optimal rates and terms. Moreover, a disruption in the financing, loan origination, derivative intermediation and prime brokerage services provided by any such relationships before the Funds or Lakeview establishes additional relationships could have a significant impact on the Funds' and/or Lakeview's business, as applicable, due to the Funds' and/or Lakeview's reliance on such counterparties.

Some of the markets in which the Funds may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Funds to suffer a loss. In addition, in the case of a default, the Funds could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Funds have concentrated their transactions with a single counterparty or small group of counterparties.

Furthermore, there is a risk that any of the Funds' counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Funds' counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of the Funds' securities and other assets from the Funds' prime brokers or broker-dealers will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, the Funds may use counterparties located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in foreign jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Funds' assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the Funds and their assets.

The Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the Funds' internal credit function which evaluates the creditworthiness of the Funds' counterparties may prove insufficient. The ability of the Funds to transact business with any one or more counterparties, the lack of complete and "foolproof" evaluation of the financial capabilities of the Funds' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds.

Co-Investments with Third Parties. The Funds may co-invest with other Funds or third parties through joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-venturer may have

financial difficulties resulting in a negative impact on such investment; may have economic or business interests or goals that are inconsistent with those of the Funds; or may be in a position to take (or block) action in a manner contrary to the Funds' investment objectives. In those circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments and create potential conflicts of interest between such parties and the Funds.

Systemic Risk. Credit risk may also arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Funds interact on a daily basis.

Volatility Risk. The Funds' investment programs may involve the purchase and sale of relatively volatile instruments such as derivatives, which are frequently valued based on implied volatilities of such derivatives compared to the historical volatility of underlying financial instruments. Fluctuations or prolonged changes in the volatility of such instruments, therefore, can adversely affect the value of investments held by the Funds. In addition, many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and as a result, price volatility may be higher for the Funds' investments.

Interest-Rate and Foreign Exchange-Rate Risks. The prices of assets held by the Funds may be sensitive to interest-rate and foreign exchange-rate fluctuations. Such fluctuations could cause the U.S. dollar value of long and short positions to move in unanticipated directions. To the extent that interest-rate and foreign exchange-rate assumptions underpin the hedging of a particular position, fluctuations in rates could invalidate those underlying assumptions and expose the Funds to losses. The Funds are not obligated to hedge their exposure to interest-rate and foreign exchange-rate risks, or any other risks.

The value of the fixed rate securities in which the Funds invest generally will have an inverse relationship with interest rates. Current economic conditions may result in a rise in interest rates, which currently are near historic lows. If interest rates rise the value of the Funds' fixed rate securities may decline. Furthermore, the higher a fixed rate security's duration, the greater its price sensitivity to changes in interest rates. In addition, to the extent that the receivables or loans underlying specific securities are prepayable without penalty or premium, the value of such securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

In addition, if mortgage loan interest rates fall, an increasing number of homeowners will seek to refinance and prepay their mortgage loans. When a mortgage loan is prepaid, it will no longer produce any MSR-related revenue for the MSR Funds. Therefore, a sustained decline in mortgage loan interest rates will generally result in a reduction in servicing income to the MSR Funds. Because the value of MSRs is a function of the anticipated stream of revenues generated by servicing the mortgage loans, the value of MSRs will decline as mortgage loan interest rates fall and more prepayments are anticipated. Conversely, an increase in mortgage loan interest rates is likely to result in a decreased number of refinancings. The MSR Funds may attempt to hedge against the risks involved from interest rate changes by purchasing and/or selling certain

financial instruments. While the MSR Funds may hedge against any losses of servicing income and loss of value of the MSRs that may be incurred from interest rate fluctuations, there can be no assurance that such actions will be effective.

Competition; Availability of Investments. The markets in which the Funds invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Funds will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, independent mortgage loan servicers, large financial institutions, the public equity markets and other investors may reduce the availability of investment opportunities. Competitive investment activity by other firms and institutions will reduce the Funds' opportunity for profit by generally increasing price pressure on desired assets, reducing mispricings in the market as well as the margins available on those mispricings that can still be identified.

Equity Securities Generally. The Funds may invest in public and/or private equity and equity-related securities of U.S. and non-U.S. companies. Equity securities fluctuate in value in response to many factors, including the activities, results of operations and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments and movements in the equity markets in general. As a result, the Funds may suffer losses if they invest in equity instruments of issuers whose performance diverges from expectations or if equity markets generally move in a single direction and the Funds have not hedged against such a general move. In addition, the Funds may invest in equity securities of companies that they do not control. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which the Funds do not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Funds' interests, which could have a material adverse effect on the Funds. In addition, events such as domestic and international political instability, terrorism and natural disasters may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by the Funds.

Debt Instruments Generally. The Funds may invest in private and government debt securities and instruments. It is likely that many of the debt instruments in which the Funds invests may be unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these instruments and may have an adverse impact on the value of such instruments. It also is likely that any such economic downturn could adversely affect the ability of the issuers of such instruments to repay principal and pay interest thereon and increase the incidence of default for such instruments.

Hedging Generally. The Funds may invest in various securities, derivatives, indexes and cash equivalents and related instruments both to hedge their portfolio positions and to seek to meet the Funds' investment objectives opportunistically as more fully described above. The success of the Funds' hedging strategy is subject to the ability to correctly assess the degree of

correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many instruments change as markets change or time passes, the success of the instances when the Funds hedge portfolio positions is also subject to the ability for hedges to be continually recalculated, readjusted and executed in an efficient and timely manner. While the Funds may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in any such hedging transactions. For a variety of reasons, a perfect correlation may not be established between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Funds from achieving the intended hedge or expose the Funds to risk of loss. Moreover, the portfolio will always be exposed to certain risks that may not be hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Funds' portfolio holdings. The Funds will not be required to hedge any particular risk in connection with a particular transaction or their portfolio generally.

Global Investments. The Funds may invest a portion of their assets outside the United States. In addition to business uncertainties, such investments may be affected by political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly as to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such non-U.S. issuers.

The Funds may be subject to additional risks, which include possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the assets may be subject to brokerage taxes levied by governments, which have the effect of increasing the cost of such investments and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income earned, and gross sale or disposition proceeds received, by the Funds from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by the Funds will reduce their net income or returns (or increase their net loss) from such investments.

Laws that govern private and non-U.S. investment and transactions in financial instruments in non-U.S. countries may be relatively new and untested. As a result, the Funds may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and lack of enforcement of existing regulations. Furthermore, it may be difficult to obtain and enforce a judgment in certain non-U.S. countries in which assets of the Funds may be invested. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on the Funds and their operations. Furthermore, it may be difficult to obtain and enforce a judgment in a court outside of the United States.

Non-U.S. Taxation. With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of funds or other assets of the Funds, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

Identity and Reporting of Beneficial Ownership; Withholding on Certain Payments. In order to avoid a U.S. withholding tax of 30% on certain payments (including payments of gross proceeds) made with respect to certain actual and deemed U.S. investments, the Funds generally will be required to timely register with the Internal Revenue Service and generally will be required to identify, and report information with respect to, certain of their direct and indirect U.S. account holders (including debtholders and equityholders). Investors should consult their own tax advisors regarding the possible implications of these rules on their investment in the Funds.

Small Companies. The Funds may invest in small and/or unseasoned public or private companies. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, operating history, financial resources, product diversification and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of securities issued by larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations, reduced liquidity, losses and risks of insolvency or bankruptcy. Research resources, third-party analysis and information relating to smaller companies may be less available than that in respect of larger companies, making it more difficult to research an investment and make an informed investment decision.

Exposure to Material Non-Public Information. From time to time, Bayview may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Funds may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

Uncertain Exit Strategies. Due to the illiquid nature of many of the positions which the Funds have or are expected to acquire, as well as the uncertainties of the reorganization and active management process, Bayview is unable to predict with confidence what the exit strategy will ultimately be for any given investment, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

No Material Limitation on Strategies. The Funds will opportunistically implement whatever strategies or discretionary approaches they believe from time to time may be best suited to prevailing market conditions. There can be no assurance that Bayview will be successful in applying any strategy or discretionary approach to the Funds' trading.

Cybersecurity Risk. As part of its business, Bayview processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the

Funds and personally identifiable information of borrowers and investors. Similarly, service providers of Bayview or the Funds, especially the Administrator, may process, store and transmit such information. Bayview has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to Bayview may be susceptible to compromise, leading to a breach of Bayview's network. Bayview's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by Bayview or the Administrator to the Funds or investors may also be susceptible to compromise. Breach of Bayview's or the Administrator's information systems may cause information relating to the transactions of the Funds and personally identifiable information of borrowers or investors to be lost or improperly accessed, used or disclosed.

The service providers of Bayview and the Funds are subject to the same electronic information security threats as Bayview. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Funds and personally identifiable information of borrowers or investors may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of Bayview or the Funds' proprietary information may cause Bayview or the Funds to suffer, among other things, financial loss, the disruption of their business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Funds and investors' investments therein.

Commitment Facilities. Certain Funds are expected to borrow funds or incur indebtedness in the form of a Commitment Facility, which may include the grant of security interests in investors' unfunded capital commitments. Such facilities (sometimes referred to as subscription credit lines, or capital call facilities) have been utilized by private funds for many years to bridge the time between the closing of an investment and the calling of capital, or the time between the acquisition of an asset and its financing, or for broader cash management purposes. From the investor's perspective, such facilities can smooth cash flows and ease the administrative burden of responding to capital calls. In addition, Bayview is expected to use Commitment Facilities to permit the Funds to have ready access to cash in the event short-term funding obligations (e.g., margin requirements) arise, which Bayview believes allows for more efficient cash management as opposed to holding larger cash reserves. However, certain bodies, including the SEC and the Institutional Limited Partners Association ("ILPA"), have suggested that investors, and the private equity industry generally, take into account a number of matters when considering the use of such facilities. In guidelines recently released by ILPA, some of the concerns and risks that are noted regarding such facilities include the following: (i) the use of such facilities can impact IRR (i.e., if such facilities are drawn upon, the delay in calling capital can distort returns by condensing the period in respect of which the IRR is calculated); (ii) drawdowns from a Commitment Facility may delay or reduce the drawdown of capital contributions from Limited Partners and will not be subject to a preferred return; (iii) because the use of such facilities is not universal among fund managers, the use of such facilities makes it more challenging for investors to compare reported returns across funds; (iv) the use of such

facilities creates the potential for general partners to receive carried interest in cases where an unlevered IRR may not meet a preferred return hurdle; (v) such facilities give rise to partnership-level expenses, which can limit any positive leverage impacts on IRR and decrease multiples on invested capital to investors; and (vi) the terms and provisions that may apply to such facilities may pose legal risks for investors, including, without limitation, transfer restrictions, documentation requests and other requirements of lenders. Notwithstanding the foregoing, Bayview believes that the Funds' use of Commitment Facilities will be in the best interests of the Funds and consistent with Bayview's fiduciary duties to the Funds.

Risks Related to Investments in the U.S. Mortgage Market

Conditions in the U.S. Residential Mortgage Market May Adversely Affect the Performance of the Funds. The Funds intend to invest in assets involving the U.S. residential mortgage market, including in subprime or non-qualified (under the Qualified Mortgage Rule (as described below)) mortgage loans, securities and derivatives backed directly or indirectly by subprime or non-qualified mortgage loans and MSRs of subprime or non-qualified mortgage loans, and equity, debt or options in real estate-related or mortgage-related companies. The performance of residential mortgage loans and the performance of associated derivative securities (such as mortgage-backed securities (“MBS”) or credit risk transfer securities) are influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner behavior.

It is possible that delinquencies, defaults and foreclosures on residential mortgage loans will increase in the future. The increase in delinquencies, defaults and foreclosures may significantly affect (although not be limited to) “subprime” mortgage loans, which generally refers to loans made to borrowers with impaired credit, and may also affect “alt-A” mortgage loans, which generally refers to loans made to borrowers with good credit but for which limited documentation or no documentation of borrower income and/or assets was required in connection with their loan application, and even “prime” mortgage loans, which generally refers to loans made to borrowers with excellent credit who provide full documentation. Compared with prime loans, subprime and alt-A loans typically have higher loan-to-value ratios, reflecting the greater difficulty that these borrowers have in making down payments and the propensity of these borrowers to extract equity during refinancing. Historically, these borrowers pay higher rates of interest, go into delinquency more often and have their properties foreclosed on at a higher rate than prime borrowers. In addition, losses related to defaulted loans with higher initial loan-to-value ratios are generally higher than losses related to defaulted loans with lower initial loan-to-value ratios. As the Funds may invest in one or more of these types of mortgage loans and securities backed by such mortgage loans, the performance of the Funds may be sensitive to the same economic factors that affect these types of mortgage loans.

Market conditions may impair borrowers' ability to refinance or sell their residential properties, which may contribute to higher delinquency and default rates. These risks could be exacerbated to the extent that prevailing mortgage interest rates increase from current levels. If there is significant home price depreciation, it may also leave borrowers with insufficient equity in their homes to enable them to refinance. Borrowers who are unable to make the minimum monthly payments on their mortgage loans and intend to sell their homes may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their mortgage loans. While some mortgage loan originators and servicers have created or otherwise are participating in modification programs in order to assist borrowers with

refinancing or otherwise meeting their payment obligations, not all borrowers will qualify for or will take advantage of these opportunities.

Unfavorable economic conditions could increase the likelihood of delinquencies and defaults. A general unavailability of credit also affects the overall economy in ways that could result in increased delinquencies and defaults on residential mortgage loans.

Another factor that may in the future result in, higher delinquency rates in residential mortgage markets is the increase in monthly payments on adjustable-rate mortgage loans (“ARMs”) and/or pay option ARMs, each of which presents special default and prepayment risks.

Borrowers with ARMs are exposed to increased monthly payments (1) when the related mortgage interest rate adjusts upward from the then-current rate to the rate computed in accordance with the applicable index and margin, (2) if interest rates rise significantly, (3) in the case of interest-only mortgage loans that are still in an interest-only period, from the large increases in monthly payments when the interest-only terms expire and the monthly payments on these loans are recalculated to amortize the outstanding principal balance over the remaining term and/or (4) in the case of loans with negative amortization features, from the large increases in monthly payments when the payments are recalculated to amortize the outstanding principal balance, including amounts of deferred interest on such loans.

Regulation of the Mortgage Industry. Securities, futures and credit markets, and originators and servicers of residential mortgage loans are subject to comprehensive statutes and extensive regulation by federal, state and local governmental authorities. Loans, and their related origination and servicing practices, are highly regulated consumer finance products and are subject to federal, state and local laws. Violations or alleged violations of federal, state or local laws could result in a reduction in the amount available from a mortgage loan, and as a result its related MSRs, and could otherwise affect the performance of the Funds’ other investments. In addition, violations, or even alleged violations, by loan servicers of laws or regulations applicable to mortgage loan origination and servicing, could adversely affect any such entity’s ability to continue its performance of its obligations with respect to the mortgage loans.

In addition, the Dodd-Frank Act included extensive changes to the laws regulating financial services firms, which included the creation of (1) the Consumer Financial Protection Bureau (the “CFPB”) within the Federal Reserve to regulate consumer financial services and products and (2) the Financial Stability Oversight Council to identify, monitor and address emerging systemic risks posed by the activities of financial services firms and make recommendations to the Federal Reserve to alleviate those risks. The CFPB has sole rulemaking and interpretive authority under existing and future consumer financial services laws and supervisory, examination and enforcement authority over institutions subject to its jurisdiction. The law also provides for enhanced regulation of derivatives and securitization transactions (including the addition of risk retention requirements, third-party due diligence disclosure requirements, expanded asset-level data requirements and new standards relating to eligibility of securities as “mortgage-related securities” under the Exchange Act), restrictions on executive compensation and enhanced oversight of credit rating agencies. In addition, the law provided for the elimination of prepayment penalties for mortgage loans and expanded consumer protection in respect of high-cost loans.

The CFPB, U.S. Treasury Department, several regulatory bodies and state attorneys general have increased scrutiny of mortgage servicers and have imposed, or are seeking to impose,

requirements on servicers to substantially revise their servicing practices, including the establishment of national servicing standards that would be applicable to all residential mortgage servicers.

Lakeview and any of its subservicers may incur significant ongoing costs to comply with new and existing laws and governmental regulation of their residential mortgage servicing businesses. Further, if any new or more restrictive requirements increase the cost of servicing mortgage loans, then the subservicing fees subservicers will require are likely to increase, which could limit Lakeview's ability to purchase MSRs if it cannot engage subservicers at servicing fee rates that are consistent with the MSR Funds' investment objectives.

Actions that have been taken and may be taken in the future by the U.S. government or by state or municipal governments may have the effect of encouraging, or may require, that the terms of residential mortgage loans be modified in order to reduce the applicable interest rate, reduce the outstanding principal amount, extend the term to maturity or otherwise benefit the borrower to the detriment of the holder of the mortgage loan and the owner of the MSRs. These loan modifications may affect only residential mortgage loans that are in default or may also affect other loans as to which the borrower has negative equity in the mortgaged property or is otherwise considered to be disadvantaged or deserving of assistance. Investments held by the Funds could be adversely affected, resulting in decreased yield or losses to investors. With regard to the MSR Funds, while certain loan modifications may be beneficial to the owner of MSRs (*e.g.*, in the case of certain non-performing agency mortgage loans where owners of the MSRs may not be entitled to servicing fees or modifications in lieu of foreclosure), modifications that facilitate prepayment or reduce principal and interest can have an adverse effect on Lakeview's net cash flows from servicing fees and result in losses to the MSR Funds. Similarly, programs designed to facilitate refinancings by current borrowers who would not otherwise qualify also could have such an adverse effect.

There can be no assurance that governmental actions and regulations will have a beneficial impact on the financial markets. To the extent the market does not respond favorably to these initiatives or these initiatives do not function as intended, the Funds may not receive a positive impact. It is also possible that competitors may utilize the programs, which would provide them with attractive debt and equity capital funding from the U.S. government. In addition, the U.S. government, the Federal Reserve, the U.S. Treasury and other governmental and regulatory bodies may consider taking other actions that affect the mortgage industry. Bayview cannot predict whether or when such actions may occur, and such actions could have a dramatic impact on the business, results of operations and financial condition of the Funds.

Risks Associated with Foreclosure and Bankruptcy. In addition to the procedural delays and uncertainties generally incident to the mortgage foreclosure process in various jurisdictions, several courts and state and local governments and their elected or appointed officials also have taken unprecedented steps to slow the foreclosure process or prevent foreclosures altogether. Several laws have been enacted for these purposes, including in California. It has been widely reported that irregularities in foreclosure processes have been discovered with respect to certain servicers of residential mortgage loans.

The existing "right of redemption" in certain states may limit the ability of servicers to sell (or cause the sale of), or prevent a servicer from selling (or causing the sale of), an REO at what would otherwise be an appropriate time for sale. In some states, after a sale pursuant to a deed of trust or foreclosure of a mortgage, the borrower and foreclosed junior lienors are given a

statutory period in which to redeem the property from the foreclosure sale. In other states, including California, this right of redemption applies only to sales following judicial foreclosure, and not to sales pursuant to a non-judicial power of sale. In most states where the right of redemption is available, statutory redemption may occur upon payment of the foreclosure purchase price, accrued interest and taxes. In other states, redemption may be authorized if the prior borrower pays only a portion of the sums due. The effect of a statutory right of redemption is to diminish the ability of the lender to sell the foreclosed property. The exercise of a right of redemption would defeat the title of any purchaser from the lender subsequent to foreclosure or sale under a deed of trust. Consequently, the practical effect of the redemption right is to force the lender to retain the property and pay the expenses of ownership until the redemption period has run.

Similar to foreclosure considerations, bankruptcy proceedings that involve a mortgage loan could impede the related servicer's ability to take actions that are necessary or appropriate to preserve the value of the mortgage loan.

The bifurcation of mortgage loans into secured and unsecured portions and the resulting "cram-down" of secured portions of mortgage loans subject to Chapter 13 proceedings to newly established market values could have a negative impact on the value of mortgage loans if this results in losses on the related mortgage loans higher than those which would have occurred pursuant to traditional loss mitigation and loan modification procedures. Any such cram-down modification by a bankruptcy judge could have a significant impact on the principal and interest collections on the related loans, and therefore may have a significant impact on payments to the owner of the mortgage loans and the Funds.

Lack of Information Regarding Underwriting Standards; Higher Expected Delinquencies in Payment. Certain Funds may acquire mortgage or consumer loans or non-agency MSRs from unaffiliated institutions, finance companies and other sellers. When investing in such mortgage and consumer loans and MSRs, from time to time, the seller will not have information available to it as to the underwriting standards that were applied in originating the loans, and such mortgage loans may have been originated in accordance with standards less strict than those of the agencies. Similarly, when acquiring loans through third-party origination ("TPO"), the Funds may not be underwriting the loan and may have limited information on the underwriting standards that were applied in originating such loan. As a result, certain mortgage loans underlying the MSR Funds' MSRs and certain mortgage and consumer loans owned by the Funds may experience higher than expected rates of delinquency and defaults, which could result in losses to the Funds.

Brexit. The United Kingdom has withdrawn from the European Union effective January 31, 2020. Such withdrawal could cause an extended period of uncertainty and market volatility, not just in the United Kingdom but throughout the European Union, the European Economic Area and globally. It is not possible to ascertain the precise impact these events may have on the Funds or Bayview from an economic, financial or regulatory perspective but any such impact could have material consequences for the Funds.

Global Privacy and Data Protection Regulation. The global data privacy landscape continues to evolve. Fines and liability relating to data privacy and data breaches are becoming increasingly common and will likely become more significant over time as new laws take effect and regulators, and the competent data protection supervisory authorities in particular, increase their enforcement efforts. The E.U. General Data Protection Regulation 2016/679 ("GDPR")

came into effect in May 2018. GDPR was designed to provide greater protection to personal data of identified or identifiable natural persons in the E.U. by imposing extended obligations on firms involved in the processing of such data. GDPR significantly expands the territorial applicability of the E.U. data privacy laws. GDPR also strengthens the conditions for consent in regard to processing personal data, creates direct obligations and liability for firms processing such data, and imposes significantly increased penalties for non-compliance. Also, the Data Protection Law (as amended) of the Cayman Islands (the “DPL”) became effective on September 30, 2019. Under the DPL, certain Funds are characterized as a data controller in respect of personal data and subject to certain obligations. The Funds’ affiliates and/or delegates, such as the Funds’ administrator and Bayview may act as data processors (or data controllers in their own right in some circumstances) and investors have data rights in this respect. Furthermore, other data privacy regulations have been introduced in the U.S., such as the California Consumer Privacy Act (“CCPA”) which took effect on January 1, 2020. There are also ongoing discussions around a potential federal data privacy law. Changes to privacy laws in the U.S. and outside of the U.S. are expected to increase legal, financial and reputational risk for the Funds.

MiFID II. The package of European Union market infrastructure reforms known as “MiFID II” is expected to have a significant impact on the European capital markets. MiFID II increases regulation of trading platforms and firms providing investment services in the European Union. Among its many market infrastructure reforms, MiFID II has brought in: (i) significant changes to pre- and post-trade transparency obligations applicable to financial instruments admitted to trading on EU trading venues (including a new transparency regime for non-equity financial instruments); (ii) an obligation to execute transactions in shares and derivatives on an EU regulated trading venue; and (iii) a new focus on regulation of algorithmic and high-frequency trading. These reforms may lead to a reduction in liquidity in certain financial instruments, as some of the sources of liquidity exit European markets, and may result in significant increases in transaction costs. Although the full impact of these reforms is difficult to assess at present, it is possible that the resulting changes in the available trading liquidity options and increases in transactional costs may have an adverse effect on the ability of Bayview to execute the investment program.

European Union Risk Retention. The final risk retention rules promulgated under the Dodd-Frank Act require that, among other conditions, sponsors of ABS transactions (including, without limitation, securitizations of mortgage loans) or their majority-owned affiliates retain a minimum of 5% of the credit risk of the assets collateralizing such ABS (the “U.S. Retained Interests”) for, in the case of RMBS, a minimum of five years from the date of the transaction, or, in the case of other ABS, a minimum of two years from the date of the transaction (the “Dodd-Frank RR Rules”). Similarly, the European Union adopted the European risk retention rules (the “E.U. CRR Rules” and, together with the Dodd-Frank RR Rules, the “Risk Retention Rules”), with respect to ABS activities in Europe, requiring, among other conditions, that the originator or sponsor of any securitization retain a material net economic interest of not less than 5% of certain specified credit risk tranches or securitized exposures (the “E.U. Retention Interests” and collectively with the U.S. Retained Interests, the “Retention Interests”) in an entity of economic and operational substance for the life of the securitization. Failure by Bayview to comply with the Risk Retention Rules, where applicable, may result in investors that are required to comply therewith being subject to increased regulatory capital charges and decreased liquidity for the securities that they own.

Risks Related to Investments in Mortgage Loans

Re-performing Mortgage Loans. Certain Funds may invest in mortgage loans that have previously been in default or delinquent in payment and that, at the time such mortgage loans are acquired by the Funds, are in compliance with the terms of the related mortgage loan documents and are no longer delinquent. While these mortgage loans may have been acquired at a price that reflects the fact that the mortgage loans are re-performing at the time of acquisition, there can be no assurance that such mortgage loans will continue to be current and/or in compliance with the terms of the related mortgage loan document during the time period in which the Funds own such mortgage loans. It is therefore possible that re-performing loans may become non-performing loans and be subject to the same concomitant risks.

Greater Risk Involving Certain Property Types. The Funds may invest directly or indirectly in residential, commercial and consumer performing, non-performing and re-performing whole loans. The MSR Funds may also invest in MSRs for a variety of residential and commercial, performing and non-performing mortgage loans. Mortgage loans secured by multifamily property, mixed use property or commercial property may incur higher losses as a result of delinquency, foreclosure or repossession than mortgage loans secured by single-family residential property. In addition, any such losses could also reduce servicing fees on the related MSRs, increase servicing costs and therefore result in losses to the MSR Funds.

Higher Risk of Loss on Loans Secured by Non-Owner Occupied Properties. The Funds may invest directly or indirectly in mortgage loans that are secured by properties, including improved and unimproved land, held by borrowers for investment, or by second homes. The MSR Funds may also invest in MSRs for mortgage loans that are secured by commercial, multifamily or mixed use properties, or by properties, including improved and unimproved land, held by borrowers for investment, or by second homes. These mortgage loans may present a greater risk of loss, and the unimproved land may present a significantly greater risk of loss, if a borrower experiences financial difficulties, because these borrowers (i) may be more likely to default on a mortgage loan secured by non-owner occupied property than a mortgage loan secured by a primary residence of a borrower and (ii) may not have an incentive to maintain and upkeep a second home or a property held for investment to the same degree as the borrower's primary residence. Any such losses could also reduce servicing fees on the related MSRs, increase servicing costs and result in losses to the MSR Funds.

Troubled Origination. The investments chosen by Bayview may have been originated by financial institutions or other entities that are insolvent, in serious financial difficulty or no longer in existence. As a result, the standards by which such investments were originated, the recourse to the selling institution, or the standards by which such investments are being serviced or operated may be adversely affected.

Geographic Concentration of Mortgage Loans. The mortgage loans and securities backed by mortgage loans in which the Funds may invest may be concentrated in a specific state or states. Similarly, the MSRs in which the Funds invest may be related to mortgage loans that are concentrated in a specific state or states. Weak economic conditions in these locations or any other location (which may or may not affect real property values), may affect the ability of borrowers to repay their mortgage loans on time. Such inability of borrowers to repay their mortgage loans on time would also increase rates of loss and delinquency, reduce servicing fee revenues and increase servicing expenses of related MSRs held by the MSR Funds.

Properties in certain jurisdictions may be more susceptible than properties located in other parts of the country to certain types of uninsurable or underinsured hazards, such as earthquakes,

floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the residential real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in the loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the mortgage loans and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of or losses on the mortgage loans and reduce servicing fee revenues. Natural disasters, such as wildfires, severe storms, tornadoes, hurricanes and flooding affecting regions of the United States from time to time may also result in prepayments of or losses on mortgage loans. These factors and others may adversely affect the value of mortgage properties in some geographic regions and affect the performance of the Funds.

Risks Associated with Commercial Mortgage Loans. Certain Funds may invest in commercial mortgage loans, mortgage-backed securities on commercial mortgage loans and MSRs for commercial mortgage loans. The value of the Funds' commercial mortgage loans, mortgage-backed securities on commercial mortgage loans, and MSRs for commercial mortgage loans will be influenced by the rate of delinquencies and defaults experienced on the commercial mortgage loans and by the severity of loss incurred as result of such defaults. The factors influencing delinquencies, defaults and loss severity include: (i) economic and real estate market conditions by industry sectors (*e.g.*, multifamily, retail, office, etc.); (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Commercial mortgage loans are generally viewed as having a greater risk of loss through delinquency and foreclosure than lending on the security of single family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (*i.e.*, the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses and comply with applicable zoning and laws) rather than upon the existence of independent income or assets of the borrower. Many commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Commercial mortgage loans generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining "balloon" amount at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans and commercial mortgage-backed securities ("CMBS") bear the risk that the borrower will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation.

Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

European Loans. A portion of the mortgage loans in which certain Funds invest may be in foreign jurisdictions, including Italy, Spain and the United Kingdom. Investments in foreign jurisdictions may subject those Funds to legal, regulatory, political, currency and economic risks specific to those foreign jurisdictions. For example, the Italian, Spanish and U.K. economies, along with certain other European Union economies, experienced significant

slowdown during the recent financial crisis. Among other things, Italy's economy has been characterized by slow growth over the past few decades due to factors such as a high tax rate, rigid labor market and a generous pension system. Recently, the Italian government has experienced significant budget deficits and a high amount of public debt, causing credit agencies to lower Italy's sovereign debt rating. The Italian economy is also heavily dependent on trade with other European countries. The above-mentioned risks may have an adverse effect on the Funds that invest in Italian loans. Additionally, the United Kingdom's vote to leave the European Union (EU) has caused an extended period of uncertainty and market volatility, not just in the United Kingdom but throughout the EU, the European Economic Area and globally. It is not possible to ascertain the precise impact the United Kingdom's exit from the EU may have on the Funds from an economic, financial or regulatory perspective but any such impact could have material consequences for the Funds.

Repurchases of Loans. Certain Funds may sell individual loans or pools of loans. In connection with such transactions, the Funds generally expect to enter into agreements customary to the nature and size of the transaction. In those agreements, the Funds generally will be required to make certain representations and warranties regarding each loan or pool of loans. In the event of an uncured breach of certain representations or warranties contained in such agreements, the Funds may be obligated to repurchase loans or a pool of loans from the purchaser, which may adversely affect the performance of the Funds.

Credit Scores May Not Accurately Predict the Performance of the Mortgage Loans. Bayview may rely on credit scores as part of its due diligence process. Credit scores are obtained by many lenders in connection with mortgage loan applications to help them assess a borrower's creditworthiness. Credit scores are generated by models developed by a third party that analyzed data on consumers in order to establish patterns that are believed to be indicative of the borrower's probability of default over a two-year period. The credit score is based on a borrower's historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit and bankruptcy experience. Credit scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a credit score purports only to be a measurement of the relative degree of risk a borrower represents to a lender (*i.e.*, a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score). Lenders have varying ways of analyzing credit scores and, as a result, the analysis of credit scores across the industry is not consistent. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assess only the borrower's past credit history. Therefore, a credit score does not take into consideration the effect of mortgage loan characteristics (which may differ from consumer loan characteristics) on the probability of repayment by the borrower. There can be no assurance that the credit scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans. Any delinquencies or defaults on mortgage loans underlying an MSR could reduce servicing fees on the related MSRs, increase servicing costs and therefore result in losses to the MSR Funds.

Environmental Risks. Real property pledged as security for a mortgage loan may be subject to certain environmental risks. Under the laws of certain states, contamination of a property may give rise to a lien on the property to ensure payment of the costs of cleanup. In several states,

such a lien has priority over the lien of an existing mortgage against the property. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, a lender may be liable, as an “owner” or “operator”, for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property if agents or employees of the lender have become sufficiently involved in the operations of the borrower, regardless of whether or not the environmental damage or threat was caused by a prior owner.

A lender also risks such liability on foreclosure of the mortgage. Any such lien arising with respect to a mortgaged property would adversely affect the value of the mortgaged property and could make impracticable foreclosure on the mortgaged property in the event of a default by the related borrower. In addition, certain environmental laws impose liability for releases of asbestos into the air. Third parties may seek recovery from owners or operators of real property for personal injury associated with exposure to asbestos, lead paint, radon or other hazardous substances. Property owners in some areas have recently been subject to liability claims associated with mold.

Violation of Various Federal, State and Local Laws May Result in Losses on the Mortgage Loans. Violation of certain Federal, state or local laws and regulations relating to the protection of consumers, unfair and deceptive practices and debt collection practices may limit the ability of the Funds to collect all or part of the principal of or interest on the mortgage loans and, in addition, could subject the Funds to damages and administrative enforcement.

Homeowner Association Super Priority Liens. In some jurisdictions it is possible that the first lien of a mortgage may be extinguished by super priority liens of homeowners associations (“HOAs”), potentially resulting in a loss of the outstanding principal balance of the mortgage loan. In a number of states, HOA or condominium association assessment liens can take priority over first lien mortgages in certain circumstances. The number of these so called superlien jurisdictions has increased in the past few decades and may increase further. Rulings by the highest courts in Rhode Island, Nevada and the District of Columbia have held that the superlien statute provides the HOA or condominium association with a true lien priority rather than a payment priority from the proceeds of the sale, creating the ability to extinguish the existing senior mortgage and greatly increasing the risk of losses on mortgage loans secured by homes whose owners fail to pay HOA or condominium fees.

The laws of these superlien jurisdictions that provide for HOA superliens vary in terms of (a) the duration of the priority period (which in some cases may be unlimited), (b) the assessments secured by the HOA lien (charges can include not only unpaid HOA assessments but also late charges, collection costs, attorney fees, foreclosure costs, fines and interest), (c) whether the HOA must give lenders with liens encumbering the mortgaged property notice of the failure by the homeowner to pay the assessment and (d) the statute of limitations on HOA foreclosure rights.

There is currently no efficient mechanism available to loan servicers to track the status of payments of HOA assessments that are governed by superlien statutes. There is no unified database for HOA information nor is there a centralized place for HOAs and loan servicers to contact one another. Consequently, in some superlien jurisdictions there is often no practical, systemic method for a servicer to determine when an HOA assessment is unpaid or when the HOA initiates foreclosure of its lien. In some circumstances a servicer may make a servicing

advance to pay (i) delinquent HOA fees or (ii) the costs of determining whether any mortgaged property is subject to an HOA or related lien.

If an HOA, or a purchaser of an HOA superlien, completes a foreclosure in respect of an HOA superlien on a mortgaged property, the related mortgage loan may be extinguished. In those circumstances, the Funds could suffer a loss of the entire principal balance of such mortgage loan. The servicer might be able to attempt to recover, on an unsecured basis, by suing the related borrower personally for the balance, but recovery in these circumstances will be problematic if the related borrower has no meaningful assets against which to recover.

Special Assessments and Energy Efficiency Liens May Take Priority Over the Mortgage Lien. Mortgaged properties securing mortgage loans may be subject to the lien of special property taxes and/or special assessments. These liens may be superior to the liens securing the related mortgage loans, irrespective of the date of the mortgage. In some instances, individual mortgagors may be able to elect to enter into contracts with governmental agencies for Property Assessed Clean Energy (PACE) or similar assessments that are intended to secure the payment of energy and water efficiency and distributed energy generation improvements that are permanently affixed to their properties, possibly without notice to or the consent of the mortgagee. These assessments may also have lien priority over the mortgages securing the related mortgage loans. No assurance can be given that any mortgaged property so assessed will increase in value to the extent of the assessment lien. Additional indebtedness secured by the assessment lien would reduce the amount of the value of the mortgaged property available to satisfy the affected mortgage loan in the case of a sale or foreclosure of the related mortgaged property.

Additional Risks Related to Investments in Mortgage Servicing Rights

Sources of Servicing Income. Income related to MSRs is generated principally from three sources. Depending upon the servicing agreement applicable to the MSRs and the agreements that can be negotiated with subservicers, either the servicer or subservicer may be entitled to additional sources of servicing income. First, servicers are entitled to standard minimum servicing fees, which fees are based on a specified percentage of the mortgagor's interest payments actually collected by the servicer. This fee is payable on a monthly basis, by the servicer retaining a portion of the interest payment collected from the borrower as its servicing fee and forwarding the remainder to the mortgage investor. In most cases, the investor or guarantor on whose behalf the loans are being serviced has no contractual obligation to pay the servicing fee to the servicer. Rather, the fee is contingent entirely on the ability of the servicer to collect either the borrower's monthly payment or sufficient liquidation or insurance proceeds. Lakeview may share or split certain fees associated with the servicing of mortgage loans with a subservicer. Given the regulatory environment and the changes in servicing and origination laws and regulations, there can be no assurance that such sharing or splitting of fees will not be prohibited or curtailed. Changes to the negotiated fees Lakeview receives may have a material adverse impact on the MSR Funds.

The scheduled amortization of principal payments on the loans will cause a corresponding reduction in the amount of the aggregate servicing fees. This is referred to as the "run-off". Similarly, full or partial prepayment of a mortgage loan results in a termination of the servicing fee with respect to the prepaid balance of that mortgage loan. This means that the perceived likelihood of prepayment is a significant factor in valuing servicing.

A second source of servicing income is fees and charges imposed on the borrower, generally by the servicer, such as late charges, assumption fees and other fees relating to the performance of specific servicing tasks either at the request of the borrower or as a result of a borrower action or omission to act. These fees may be limited by applicable state and federal law, the mortgage loan documents, the terms of the servicing agreements or the applicable servicing guides.

Third, servicers can generate interest earnings, or “float,” on their maintenance of the principal and interest account and the escrow accounts between the time of the collection of payments by or on behalf of borrowers and the time of application of such funds. Many states, however, require servicers to pay interest to borrowers on their escrow accounts at a specified rate.

Approvals and Licensing of Mortgage Loan Servicers. Lakeview has been approved by Fannie Mae, Freddie Mac and Ginnie Mae to own MSRs. Lakeview and any of its subservicers are also subject to licensing requirements as owners of MSRs. If the number of states that require the licensing of owners of MSRs increases, or the states that require licensing impose additional obligations on the owners of MSRs, Lakeview’s costs could increase. Any of these outcomes may adversely affect Lakeview’s or any Subservicer’s operations or financial conditions and result in loss to the MSR Funds.

Unlike competitors that are banks, Lakeview is subject to state licensing and operational requirements that result in substantial compliance costs. Because Lakeview is not a depository institution, Lakeview does not benefit from a federal preemption of certain state mortgage banking, loan servicing or debt collection licensing and regulatory requirements. Lakeview must comply with state licensing requirements and varying compliance requirements in all fifty states and the District of Columbia, and it is sensitive to regulatory changes that may increase its costs through stricter licensing laws, disclosure laws or increased fees or that may impose conditions to licensing that it or its personnel are unable to meet. In addition, Lakeview is subject to periodic examinations by state regulators, which can result in refunds to borrowers of certain fees earned by Lakeview, and it may be required to pay substantial penalties imposed by state regulators due to compliance errors. Future state legislation and changes in existing regulation may significantly increase Lakeview’s compliance costs or reduce the amount of ancillary fees, including late fees, that it may charge to borrowers. This could make Lakeview’s business cost-prohibitive in the affected state or states and could materially affect Lakeview’s business.

Loss of Lakeview’s Licenses. Lakeview’s business would be adversely affected if Lakeview loses its licenses. Lakeview’s operations are subject to regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations. In most states in which Lakeview operates, a regulatory agency regulates and enforces laws relating to mortgage servicing companies and mortgage originations companies such as Lakeview. These rules and regulations generally provide for licensing as a mortgage servicing company, mortgage originations company or third party debt default specialist, requirements as to the form and content of contracts and other documentation, licensing of Lakeview’s employees and employee hiring background checks, licensing of independent contractors with which Lakeview contracts, restrictions on collection practices, disclosure and record-keeping requirements and enforcement of borrowers’ rights. In certain states, Lakeview is subject to periodic examination by state regulatory authorities. Some states in which Lakeview operates require special licensing or provide extensive regulation of Lakeview’s business. The states that currently do not provide extensive regulation of Lakeview’s business may later choose to

do so, and if such states so act, Lakeview may not be able to obtain or maintain all requisite licenses and permits. The failure to satisfy those and other regulatory requirements and/or maintain all requisite licenses and permits could result in a default under Lakeview's servicing agreements and have a material adverse effect on Lakeview's operations.

Subservicer and Termination Risk. None of the MSR Funds, Lakeview or any of their controlled affiliates will perform any servicing function or have the capacity to service MSRs. Lakeview expects it will customarily enter into subservicing agreements with subservicers that will undertake to subservice the mortgage loans for Lakeview and the MSR Funds for a specified term (*e.g.*, 2 or 5 years). The subservicers will be responsible for satisfying most of the legal requirements and agency and loan owner's guidelines that relate to the activities of collecting on, and enforcing the terms of, mortgage loans. Nevertheless, as Lakeview will be contractually obligated to service the underlying mortgage loans, Lakeview will have the ultimate responsibility to service the mortgage loans underlying the MSRs and to repurchase any loans from the underlying MSR pool in accordance with agency requirements. Therefore, a failure by a subservicer to satisfy the legal requirements or agency or mortgage investor's guidelines may lead to: (i) Lakeview's loss of approved status to service loans; (ii) demands for indemnification; (iii) criminal and civil liability; (iv) fines, penalties and loss of licensing; (v) administrative enforcement actions; and (vi) loan repurchase obligations. If a servicer termination event or event of default has occurred under a pooling and servicing agreement, Lakeview may be terminated as servicer without any right to compensation for the loss of such MSRs, other than the right to be reimbursed for any outstanding servicing advances as the related loans are brought current, modified, liquidated or charged off. Lakeview will generally provide in its subservicing agreements that subservicers will indemnify Lakeview and the MSR Funds for losses incurred from a subservicer's failure to comply with contractual or regulatory requirements. Lakeview, however, may incur expenses in attempting to obtain and enforce such indemnification and, in certain circumstances (such as the bankruptcy of the subservicer), may not obtain full indemnification for its losses.

In addition, servicing contracts may provide mortgage investors (or agencies) with the authority to terminate servicing rights without cause. In such a circumstance, Lakeview may be provided the right to sell the applicable MSRs to another servicer within a certain time frame. If the mortgage investor (or agency) does not provide Lakeview with such right, or Lakeview is unable to arrange a transfer of the MSRs in the time period provided, Lakeview may be paid a termination fee. The termination fee may be insufficient to cover the value of the MSR Funds' investment in the MSRs. The MSR Funds' loss of the MSRs would have a material adverse impact on investors. If (i) a subservicing agreement is terminated with respect to MSRs or (ii) a subservicer is permanently suspended as a servicer of mortgage loans by a regulatory agency or mortgage investor, there is no assurance that Lakeview will be able to find a suitable replacement subservicer at a cost acceptable to Lakeview. Bayview believes that any contractual arrangements with any subservicers could be replicated given the competitive state of the market and the availability of qualified alternate vendors. However, the inability of the MSR Funds to procure a suitable replacement subservicer at an acceptable cost would have a materially adverse effect on MSR investments.

Risks Associated with Mortgage Servicer Ratings. Moody's, Standard & Poor's and Fitch rate many mortgage servicers. These ratings are subject to change in the future without notice. Servicer ratings are important to any servicer's (including Lakeview) ability to finance servicing advances. For example, the amount of debt that is permitted to be outstanding under any advance financing facility may decrease with downgrades in the servicer ratings of the

subservicers. Downgrades in the servicer ratings of subservicers could also affect the terms of advance financing facilities that Lakeview may enter into, as lenders may require higher interest rates or may limit the amount of money that Lakeview can borrow to finance servicing advances if subservicers' ratings are deemed by the lenders to be too low. In addition, certain pooling and servicing agreements may also require that the servicer maintain specified servicer ratings. The failure of a subservicer to maintain the specified rating may result in Lakeview's termination as servicer. Accordingly, any such downgrade could have an adverse effect on Lakeview's business, financing activities, financial condition and result in losses to the MSR Funds.

Risks Associated with Loan Origination in the MSR Funds. Lakeview may be subject to liability for potential violations of various lending laws and additional costs associated with state and federal licensing in connection with loans that Lakeview originates as part of its loan origination business. Residential mortgage loan originators and servicers are required to comply with various federal, state and local laws and regulations, including anti-predatory lending laws and laws and regulations imposing certain restrictions and requirements on "high cost" loans. Licensing laws may also require disclosure of certain investors' names if their beneficial ownership exceeds a certain percentage (typically 5-10% or more) of the regulated servicer. Continued changes in legislation and licensing laws may also require technology updates and additional implementation costs for loan originators. Such legislative changes will likely continue for the foreseeable future and may increase Lakeview's operating expenses related to its loan origination services.

Additionally, in connection with the loan origination business, Lakeview may be required to repurchase loans previously originated by Lakeview or by third parties or may originate loans that are not salable to the agencies. There is a risk that Lakeview may be required to indemnify the agencies for loans it originates if such loans fail to meet certain criteria or characteristics. Many contracts with purchasers of whole loans (and the agencies) contain provisions that require originators to indemnify or repurchase the related loans under certain circumstances. While specific contracts will vary, they may contain provisions that will require Lakeview to repurchase loans if: (i) Lakeview's representations and warranties concerning loan quality and loan circumstances are inaccurate, including representations concerning the licensing of a mortgage broker; (ii) Lakeview fails to secure adequate mortgage insurance within a certain period after closing; (iii) a mortgage insurance provider denies coverage; or (iv) Lakeview fails to comply, at the individual loan level or otherwise, with regulatory requirements in the current dynamic regulatory environment. The risk of Lakeview's losses from representations and warranties may be mitigated if the originator or third party lender of a loan is obligated to repurchase such loan, although there can be no assurance that such mitigation will occur. Lakeview may have the right to seek a repurchase or indemnity from such originator or third party lender, although there can be no assurance that Lakeview will have such rights. However, to the extent Lakeview is required to indemnify or repurchase loans that it originates and sells or securitizes that result in losses that exceed its projections, this could adversely affect Lakeview's business operations and result in losses to the MSR Funds.

Foreclosure and Bankruptcy. When delinquent mortgage loans are resolved through foreclosure, the unpaid balance of such loans may cease to be a part of the aggregate unpaid principal balance. Also, delinquent mortgage loans resolved through foreclosure generally require more servicing advances over a longer time horizon prior to reimbursement as compared with servicing advances made with respect to delinquent mortgage loans that are resolved through repayment or permitted loan modifications. Accordingly, foreclosures could

reduce the return to Funds and amount of servicing fees to which Lakeview or other controlled affiliates are entitled and increase servicing costs, which could result in losses to MSR Funds. Further, some legislatures have instituted stringent proof of ownership requirements that a servicer must satisfy before commencing a foreclosure action, which could increase costs or provide delays in foreclosure.

Legal Proceedings. Legal proceedings, state or federal governmental examinations or enforcement actions and related costs could have a material adverse effect on Lakeview's liquidity, financial position and results of operations. Lakeview will be routinely involved in legal proceedings concerning matters that arise in the ordinary course of its business. These legal proceedings range from actions involving a single plaintiff to class action lawsuits. An adverse result in governmental investigations or examinations or private lawsuits, including purported class action lawsuits, may adversely affect Lakeview's financial results. In addition, a number of participants in the origination and servicing industry have been the subject of purported class action lawsuits and regulatory actions by state regulators, and other industry participants have been the subject of actions by state Attorneys General. Litigation and other proceedings may require that Lakeview pay settlement costs, legal fees, damages, penalties or other charges, any or all of which could adversely affect Lakeview's financial results. In particular, ongoing and other legal proceedings brought under state consumer protection statutes may result in a separate fine for each violation of the statute, which, particularly in the case of class action lawsuits, could result in damages substantially in excess of the amounts Lakeview earned from the underlying activities and that could have a material adverse effect on Lakeview's liquidity, financial position and results of operations.

Agency Compensatory Fee Risk to the MSR Funds. The agencies may impose compensatory fees if Lakeview does not complete foreclosure within prescribed time frames. The agencies require routine, uncontested foreclosure proceedings to be completed within prescribed foreclosure time frames, representing the allowable time lapses between the time the case is referred to the attorney (or trustee) to commence a foreclosure action and the completion of the foreclosure sale. These timelines are based on the agencies' interpretation of the legal requirements of the applicable jurisdiction and presume that there are no delays outside the control of the servicer or attorney. For instance, Freddie Mac and Fannie Mae reserve the right to charge a compensatory fee for delays in completing the foreclosure process based on Freddie Mac's or Fannie Mae's, as applicable, monthly monitoring of the servicer's management of the foreclosure process. The compensatory fee is calculated based on the outstanding principal balance of the mortgage loan (regardless of the value of the property or the estimated liquidation proceeds), the applicable pass-through rate, the length of the delay, and any additional foreclosure costs that are directly attributable to the delay. In addition to proving the reason for the delay, the servicer is required to demonstrate that it diligently worked toward resolution of the delay to the extent feasible and reported the reasons for the delay in a timely and accurate manner based on delinquency status codes established by the agencies. The agencies state that they rely on the delinquent loan status data submitted by the servicer as definitively and conclusively reflecting the status of a loan for purposes of the assessment and collection of compensatory fees for delays in liquidating delinquent loans and reserve the right to reject any information provided by the servicer to support a status code that is different from the one reported, even if they were not prejudiced by the changes in information. Compensatory fees are not imposed in lieu of other remedies that the agencies retain under their contracts for servicing breaches.

The timelines established by the agencies do not necessarily represent the average time it would take a servicer to diligently pursue an uncontested foreclosure in a particular jurisdiction and there is no certainty that Lakeview will meet these timelines in individual cases or report the reasons for the delay in a timely and accurate manner. Failure to meet these time frames on a regular basis likely will result in the imposition of significant compensatory fees.

It is anticipated that potential penalties will be priced into MSR acquisitions, however there can be no assurance that such anticipated penalties will be sufficient to cover the actual penalties. Even though servicing may be undertaken by subservicers, the ultimate responsibility for any penalty will be borne by Lakeview, as the owner of the MSRs.

Risk of Prepayment and Default. If a mortgage loan is prepaid, the related servicing rights will generate no further income for an MSR investor. If a mortgage loan goes into default, the servicer may not collect a servicing fee for such mortgage loan while it is in default. Following liquidation, the servicing rights on a defaulted mortgage loan will not generate further income for an MSR investor. In addition, the servicer may incur certain costs in connection with foreclosure proceedings on defaulted mortgage loans for which it may not be fully reimbursed. Rates of mortgage loan defaults and prepayments are determined by numerous factors beyond the control of the Funds, including, among others, changes in interest rates, economic trends both nationally and within particular geographical areas, changes in real estate values and changes in federal, state and local laws. The Funds may attempt to hedge against the risks involved from borrower prepayment and default by purchasing and/or selling certain financial instruments. There can be no assurance that such actions will be effective, and the Funds will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally.

Advance and Credit Risk. Pursuant to its servicing agreements, Lakeview may be obligated to make advances to pay taxes, mortgage and hazard insurance premiums, foreclosure expenses, repair and preservation expenses and other similar items. Bayview expects that the subservicing agreements will provide that the subservicers will make all advances and receive reimbursement from the servicer only if the advances are unrecoverable. In other cases, the servicer reimburses subservicers for advances made by such subservicers on a periodic basis prior to the subservicer's attempts to recover such advances. In certain instances, the servicer of mortgage loans will have an obligation to advance funds irrespective of its expectation or ability to be reimbursed, in the case, for example, of property taxes, hazard insurance premiums and principal and interest, if applicable. With respect to certain servicing agreements, primarily relating to MSRs in which the underlying mortgage loans have been pooled and securitized, the servicer may also be required to advance all or part of the scheduled mortgage payments where loan payments are delinquent.

If a mortgagor prepays a mortgage loan, the mortgage servicer may be required to pay interest on the related securities until the end of the month to which the prepayment relates. For the most part, the servicer will have the right to be reimbursed for such advances out of any available funds subsequently collected from (i) the resumption of mortgage payments by a delinquent borrower, (ii) in the case of non-agency MSRs, liquidation proceeds realized upon the sale of a mortgaged property following foreclosure or other means of acquiring title, (iii) in the case of Ginnie Mae MSRs, insurance proceeds realized upon the submission of a claim by the servicer on insurance policies maintained on behalf of the mortgage investor, or (iv) in the case of Fannie Mae and Freddie Mac MSRs, reimbursement by the mortgage investor if the other sources prove to be insufficient. Not all advances, however, are reimbursable. Advances

to securities holders for interest shortfalls on mortgage loan prepayments may not be recoverable. In the case of mortgage loans insured by the Federal Housing Administration (“FHA”), only two thirds of foreclosure related expenses, or the costs of acquiring title to the mortgaged property, are reimbursable and other fees and expenses are reimbursable only to prescribed limits. In addition, there may be deductions from the reimbursement if the foreclosure of loans in default is not conducted within prescribed time frames.

In addition, Lakeview may be required to absorb the costs of funds advanced during the time an advance is outstanding. Payments to servicers generally continue during the delinquency of a mortgage loan. Therefore, while certain advances relating to foreclosure proceedings on defaulted mortgage loans may be unrecoverable, the advance risk associated with nonrecourse servicing is primarily a matter of cash flow timing rather than a credit risk. The obligation to make advances and the delay in receipt of reimbursement could have a negative impact on the MSR Funds’ cash flow.

Ginnie Mae servicing, however, involves some recourse features with regard to certain U.S. Department of Veteran Affairs (the “VA”) and U.S. Department of Agriculture (“USDA”) loans where the servicer is required to share credit losses with the holders of the securities. For VA-guaranteed mortgage loans under the Ginnie Mae program, the servicer may be subject to a credit loss if the underlying mortgaged property is sold in foreclosure or valued by the VA at a price that is insufficient, along with VA guaranty benefits, to satisfy the outstanding indebtedness of a loan. Additionally, as part of the Ginnie Mae program, loans may be repurchased if they are delinquent or modified, which may result in Lakeview owning such whole loans.

Additional Risks Associated with Advances by Subservicers in the MSR Funds. Although Lakeview will be responsible for funding servicing advances, the subservicers will be responsible for ensuring that servicing advances are made in compliance with the terms of the pooling and servicing agreements relating to the MSRs and their stop loss policy so that the servicing advances with respect to a mortgage loan do not exceed the amount expected to be collected with respect to such mortgage loan. Servicing advances that are improperly made may not be eligible for financing under the advance financing facility relating to the MSRs and may not be reimbursable by the owner of the mortgage loan or the related securitization trust, which would reduce Lakeview’s liquidity and may result in losses to the MSR Funds. In the event a subservicer fails to remit advances, Lakeview and the MSR Fund would be responsible. If either Lakeview or the MSR Funds are unable to make such advances, it could result in the termination or loss of MSRs and/or other material adverse consequences to the MSR Funds and their investments. Furthermore, certain interest advanced by a servicer for a FHA loan may not be fully reimbursable by the FHA under its guidelines.

Violations of Federal, State and Local Laws that may Result in Losses on Mortgage Loans, Rescission of the Loans or Penalties that may Adversely Impact the Funds’ Income. A loan seller’s failure to comply with certain requirements of federal and state laws could subject the seller (and any subsequent holders of the mortgage loans) or servicer to monetary penalties or may limit the ability of the Funds to collect all or part of the principal of or interest on the mortgage loans, even if the subsequent holder or servicer was not responsible for and was unaware of those violations. These adverse consequences vary depending on the applicable law and may vary depending on the type or severity of the violation, but they can include:

- the inability of the holder of the loan to collect all of the principal and interest otherwise due on the loan;
- the right of the homeowner to a refund of amounts previously paid (which may include amounts financed by the loan), or to set off those amounts against his or her future loan obligations;
- the liability of the servicer and the mortgage investor for actual damages, statutory damages and punitive damages, civil or criminal penalties, costs and attorneys' fees; and
- in limited circumstances, the ability of the homeowner to rescind, or cancel, the loan.

The terms of the documents under which the MSR Funds intend to purchase MSRs may entitle the holders of the loans to contractual indemnification against these liabilities. For example, the sellers of loans typically represent that each mortgage loan was made in compliance with applicable federal and state laws and regulations at the time it was made. If there is a material breach of that representation, the seller may be contractually obligated to cure the breach or repurchase or replace the affected mortgage loan. If the seller is unable or otherwise fails to satisfy these obligations, the value of the MSRs might be materially and adversely affected. Due to the latest deterioration in the housing markets, many of the sellers that issued these indemnifications are no longer in business or are unable to financially respond to their indemnification obligations. Consequently, holders of interests of the MSRs might ultimately have to absorb the losses arising from the sellers' violations. While Bayview will attempt to take these factors into account in the prices to be paid for MSRs, there can be no assurances concerning the validity of the assumptions used in pricing decisions. Similar risks apply to the loans that serve as security for MBS and the documentation governing those loans and the MBS.

Risks Associated with Assumptions in Determining Purchase Price. The success of the MSR Funds will be highly dependent upon accurate pricing of MSRs and other assets. In determining the purchase price for MSRs (and MBS in certain instances), Bayview may make assumptions regarding: the rates of prepayment and repayment of the underlying mortgage loans, the amount of future servicing advances; projected rates of delinquencies and defaults; future interest rates; and the costs associated with engaging subservicers to service the loans. If any of Bayview's assumptions regarding the MSRs or other assets acquired are inaccurate or the basis for such assumptions change, the price paid to acquire such MSRs or other assets may prove to be too high, which could result in losses to the Funds.

Limited Investigation of MSRs. While Bayview will conduct reasonable due diligence of prospective MSRs prior to their purchase by the MSR Funds, it will not be possible to perform an investigation that is certain to identify all negative factors with respect to the seller or the MSRs due to the number of mortgage loans involved in each portfolio, the cost of conducting such an investigation and limitations on available time. Thus, various negative factors concerning the seller or the MSRs may come to light after the MSR Funds have acquired the portfolio. The acquisition agreements that the MSR Funds use when acquiring MSRs generally do not limit the MSR Funds' right to seek indemnification from the seller for defects in the MSRs that the MSR Funds either discovered or failed to discover during its investigation.

Origination Defects. The mortgage loans acquired through TPO or underlying the MSR Funds' MSRs may have been originated by financial institutions or other entities that are insolvent, in serious financial difficulty or no longer in existence. As a result, the standards by which such investments were originated, the recourse to the selling institution, or the standards by which such investments are being serviced or operated may be adversely affected.

Successor in Interest to the Representations and Warranties of the Originator. In many instances, servicing contracts may require that the servicer assume the original sales representations and warranties relating to the mortgage loans underlying the MSRs that were made by the seller of such mortgage loans. If those representations and warranties have been breached, Lakeview may be required to repurchase such mortgage loans. Any subsequent loss on such repurchased mortgage loans on their resale or foreclosure by Lakeview would be borne by the MSR Funds, subject to any indemnification rights the MSR Funds may have in its contract with the seller of the MSRs. The MSR Funds have provided, and intend to continue to provide, in their agreements relating to the acquisition of MSRs that the seller of MSRs to the MSR Funds will indemnify the MSR Funds for any losses they incur as a result of the seller's, any prior servicer's or any originator's non-compliance with contractual or regulatory requirements. Again, the MSR Funds may incur expenses in attempting to obtain indemnification and, in certain circumstances, may not obtain full indemnification for their losses. The MSR Funds have performed, and intend to continue to perform, due diligence investigations on MSRs the MSR Funds purchase, although there can be no assurance that such investigations will uncover all such breaches.

Additional Risks Related to Investments in Mortgage-Backed and Asset-Backed Securities

Mortgage-Backed and Asset-Backed Securities Generally. The Funds may invest in MBS and asset-backed securities ("ABS"), including subordinated tranches of such securities. The value of MBS and ABS will be influenced by factors affecting the value of the underlying assets, and by the terms and payment histories of such MBS and ABS.

Some or all of the MBS and ABS contemplated to be acquired by the Funds may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated MBS and ABS, or "B-pieces", in which the Funds intend to invest have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than "B" by the rating organizations can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner's equity in the property may be insufficient to protect the Funds from loss. As an investor in subordinated MBS and ABS in particular, the Funds will be first in line among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral.

The Funds may acquire subordinated tranches of MBS and ABS issuances. In general, subordinated tranches of MBS and ABS are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and also have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of non-payment than are senior tranches of MBS and ABS or MBS and ABS backed by third-party credit enhancement. In addition, an active secondary market for such subordinated securities is not as well developed as the market for certain other mortgage-

backed securities. Accordingly, such subordinated MBS and ABS may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

Some investment characteristics of MBS and ABS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying mortgages (or other assets) generally may be prepaid at any time. The frequency with which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans and other assets underlying MBS and ABS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. Although ABS are generally less likely to experience substantial prepayments than are residential MBS, certain of the factors that affect the rate of prepayments on residential MBS also affect the rate of prepayments on ABS. Typically, commercial mortgage loans are not prepayable or are subject to prepayment penalties or interest rate adjustments, while the principal on most residential mortgage loans generally may be prepaid at any time without penalty. Particular investments may experience outright losses, as in the case of an interest only security in an environment of accelerated actual or anticipated prepayments. Particular investments will be affected by the credit quality of their underlying loan and the creditworthiness of the borrower. Also, particular investments may underperform relative to hedges that the Funds may have constructed in these investments, resulting in a loss.

Residential MBS. The Funds may invest in residential MBS (“RMBS”) including subordinated tranches of RMBS. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. The value of RMBS will therefore be influenced by factors affecting the value of the underlying portfolio or mortgage loans, as discussed below, and by the terms and payment histories of such RMBS. These risks, which are discussed below in the context of the underlying mortgage loans and the mortgage market in general, include, without limitation, default, delinquencies, prepayment and modification risks, as well as interest rate and general market risks.

In addition, residential mortgage loans underlying RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, delay foreclosures or permit or encourage modifications, which could have an adverse effect on the value of a mortgage loan and the corresponding RMBS. Violation of such laws, public policies and principles may limit the servicer’s ability to collect all or part of the principal or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

The value of RMBS and other mortgage-backed securities in which the Funds may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities will decline. In addition, to the extent that the mortgage loans which underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

In addition, it is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Servicing Advances. Most RMBS transactions will have provided for the servicers to make certain monthly advances (of principal and interest) and servicing advances pursuant to the applicable servicing agreements. As indicated above, the costs of servicing an increasingly delinquent mortgage loan portfolio may be rising without a corresponding increase in servicing compensation. Any regulatory oversight, proposed legislation and/or governmental intervention designed to protect consumers or otherwise may have an adverse impact on servicers and, as a result, may have an adverse impact on mortgage loans and on RMBS. These factors, among others, may have the overall effect of increasing costs and expenses of servicers while at the same time decreasing servicing cash flow. Such financial difficulties may have a negative effect on the ability of servicers to pursue collections on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on the sale of underlying properties following foreclosure. Increased levels of delinquencies and defaults on subprime, Alt-A, other non-prime and prime mortgage loans also have resulted in increases in the amounts of advances by servicers of pooled mortgage loans. Many servicers are experiencing advance requirements that are significantly higher in total dollar amount than was anticipated and this can create liquidity or capacity pressures for these servicers. In addition, a servicer may generally stop advancing on a mortgage loan when, in the good faith exercise of its servicing judgment, it believes the proposed advance would not ultimately be recoverable from the related mortgagor, related liquidation proceeds or other recoveries in respect of the mortgage loan. There can be no assurance as to the current or continuing financial condition of any mortgage servicer or its ability to access markets for financing such advances.

When home values depreciate, servicers have to reconsider their assumptions regarding when to make monthly advances and servicing advances to avoid making such advances beyond the time that reimbursement for such advances would be unlikely. Falling home prices result in higher loan-to-value ratios and combined loan-to-value ratios which yield lower recoveries in foreclosure, and an increase in loss severities above those that would have been realized had property values remained the same or continued to increase. If servicers make advances that are not recoverable from the proceeds of the related foreclosure, the Funds' investments in RMBS could suffer losses. In addition, in the event an RMBS servicer determines not to advance, the related RMBS trust will suffer an interest rate shortfall which may result in bond interest shortfalls and may result in lower available credit protection provided that this interest serves as a form of credit enhancement ("excess interest"). This combined with the existence of modification programs, including the Home Affordable Modification Program ("HAMP"), and potentially any bankruptcy cramdown legislation or equivalent change based on industry settlements or regulatory requirements, where the servicer can recoup prior advances upon modification and reduce the mortgage interest rate or forbear principal of the underlying mortgage loans, there is the risk that the interest available to the underlying securitization will be reduced in some instances, increasing bond interest rate shortfalls and decreasing the overall credit protection of the bond. In addition, this modification of interest rates, specifically by changing adjustable rate loans into a modified loan with a fixed rate, will potentially increase the mismatch between the bond interest adjustment features and the underlying loans. This potential decline in RMBS bond interest may increase the risk of leverage and the basis mismatch between the underlying bonds and the financing.

Although RMBS transactions may provide that the loan servicer is required to make advances in respect of delinquent mortgage loans, servicers experiencing financial difficulties, including those resulting from or exacerbated by servicing-related settlements with governmental entities, regulators or as a result of various civil lawsuits, may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee. There may be contractual differences related to the requirement of the servicer to advance delinquent principal and interest.

Commercial MBS. Mortgage loans on commercial properties underlying MBS often are structured so that a substantial portion of the loan principal is not amortized over the loan term and is instead payable at maturity. Repayment of the loan principal therefore often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Many commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

Asset-Backed Securities. Through the use of trusts and special purpose corporations, various types of assets (for example, credit card receivables, automobile, boat and recreational vehicle installment sales contracts, commercial and industrial bank loans, home equity loans and lines of credit, manufactured housing loans, corporate debt securities, student loans and various types of accounts receivable) are securitized in pass-through structures. The Funds may invest either directly or indirectly, through collateralized debt obligations ("CDOs"), in these and other types of ABS that may be developed in the future.

Asset-backed securities present certain risks that are not presented by mortgage-backed securities. Primarily, these securities do not have the benefit of the same security interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby

reducing the balance due. Most issuers of automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related automobile receivables. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have a proper security interest in all of the obligations backing such receivables. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. Student loans receivables are highly susceptible to prepayment risk and extension risk due to actions taken by individual borrowers and other variables beyond the issuer's control. For example, student loans may be extended as a result of grace periods, deferment periods and, under some circumstances, forbearance periods, which may lengthen the remaining term of the student loans and delay principal payments. The risk of investing in asset-backed securities is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with MBS, ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement..

“Widening” Risk. For reasons not necessarily attributable to any of the risks enumerated above (for example, supply/demand imbalances or other market forces), the prices of the securities in which the Funds invest may decline substantially. In particular, purchasing assets at what may appear to be “undervalued” levels is no guarantee that these assets will not be trading at even more “undervalued” levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such “spread widening” risk.

Additional Risks Related to Investments in Commodities, Derivatives and Distressed and High-Yield Securities

Trading in Commodities and Derivatives. Certain Funds may utilize derivative instruments such as options, futures, forward contracts, total return swaps, credit default swaps, swaptions, and interest rate swaps, caps and floors, both for investment purposes and to hedge against fluctuations in the relative values of its positions. These are instruments whose values are based upon underlying assets, indices or reference rates or a combination of these, and generally represent future commitments to exchange cash flows or to purchase or sell other financial instruments (or make an equivalent cash payment) at specified future dates. Certain derivatives (options and credit default swaps in particular) may have intrinsic value separate from the value of underlying assets based upon market perception of creditworthiness or expected volatility in the value of the asset. The use of derivatives involves a variety of material risks, including the possibility of counterparty non-performance as well as of deviations between the actual and theoretical value of the derivatives. Derivatives also are inherently subject to two sources of risk: risk of loss due to adverse changes in the value of the underlying asset and risk of loss due to the insolvency or creditworthiness of the counterparty. In addition, the markets for certain derivatives may be illiquid.

Derivatives are typically intrinsically leveraged investments that may entail investment exposures that are greater than the initial amount of collateral required to enter into the derivative, meaning that an investment in a derivative could ultimately incur losses many times greater than the initial collateral requirements and could therefore have a disproportionate effect on the performance of such Funds. Funds could also experience losses if the derivatives that are acquired or sold as a hedge are poorly correlated with the investment to be hedged, or if such Funds are unable to liquidate a position because of an illiquid secondary market. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives.

Certain Funds may trade commodities, futures and options, and may enter into swap agreements. The prices of commodities contracts and all derivative instruments, including futures and options, may depend upon a number of factors, including the prices of the underlying assets and may be highly volatile. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, the Funds are subject to the risk of failure of any of the exchanges on which they trade, their clearinghouses or the clearing brokers through which their trades clear. In the case of commodity contracts traded on non-U.S. exchanges and certain derivative instruments, the Funds may be subject to the risk of the inability of, or refusal by, the counterparty to perform. In addition, profits realized in non-U.S. markets could be eliminated by adverse changes in the applicable currency exchange-rate, or the Funds could incur losses as a result of those changes.

General Risks of CDO and CLO Investments. The value of the CDOs and CLOs owned by the Funds generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO or CLO ("CDO/CLO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs and/or CLOs must rely solely on distributions on the CDO/CLO Collateral (as applicable) or proceeds thereof for payment in respect thereof.

CDO/CLO collateral may consist of high yield debt securities, loans, ABS and other instruments, which often are rated below investment grade (or of equivalent credit quality). The lower ratings of high yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. In addition, the lack of an established, liquid secondary market for some CDOs and CLOs (CDO and CLO equity securities in particular) may have an adverse effect on the market value of those CDOs or CLOs (as applicable) and will in most cases make it difficult to dispose of such CDOs or CLOs at market or near-market prices.

Total Return Swaps and Index Swaps. Certain Funds may enter into total return and index swaps. Total return and index swaps are used as substitutes for owning or shorting the physical securities that comprise a given market index, or to obtain long or short exposure in markets where no physical securities are available, such as an interest rate index. Total return refers to the payment (or receipt) of an index's total return, which is then exchanged for the receipt (or payment) of a floating interest rate. Total return swaps provide the Funds with the additional flexibility of gaining or shedding exposure to a market or sector index by using the most cost-

effective vehicle available. There can be no assurance that the price relationship between the cash-market security or index and the total return or index swap will remain constant, and events unrelated to the underlying securities or index (such as those affecting availability of borrowed money and liquidity, or the creditworthiness of a counterparty) can cause the price relationship to change. This risk is known as “basis risk.” Basis risk may cause the Funds to realize a greater loss on an investment in synthetic form than might otherwise be the case with cash-market securities. To the extent the Funds use total return or index swaps to hedge risk, basis risk may cause the hedge to be less effective or ineffective.

Structured Investment Products. Certain Funds may invest in, or otherwise participate in a variety of different structured investment products; for example, total return swaps, participating notes, credit risk transfer securities and agreements, options, credit default swaps and collateralized debt obligations. These structured products involve not only the risks of the underlying “reference asset,” but also other risks including, without limitation, acceleration of the financing embedded in the structure, counterparty credit risk, and/or restrictions imposed on the management and nature of the permissible reference assets and costs of creating the structured products.

Credit Default Swaps. Certain Funds may enter into credit derivative contracts such as credit default swaps (“CDS”), LCDS, CDX, CMBX and LCDX contracts. The typical CDS and LCDS contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities or loans issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic and/or upfront payments equal to a fixed percentage of the notional amount of the contract. The Funds may also purchase or sell credit default swaps on a basket of reference entities or an index. In circumstances in which the Funds do not own the debt or loans that are deliverable under a credit default swap, the Funds will be exposed to the risk that deliverable securities or loans will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze”. In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation had occurred. In either of these cases, the Funds would not be able to realize the full value of the credit default swap upon a default by the reference entity. As a seller of credit default swaps, the Funds incur leveraged exposure to the credit of the reference entity and are subject to many of the same risks they would incur if they were holding debt securities or loans issued by the reference entity. However, the Funds will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Funds following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Funds. Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact the Funds’ ability to otherwise productively deploy any capital that is committed with respect to such contracts.

Synthetics. The Funds may invest in various securities, derivatives, indexes and cash equivalents and related instruments both to hedge their portfolio positions and to seek to meet the Funds’ investment objectives opportunistically, including (i) futures and forward contracts; (ii) swaps, including, credit default swaps, baskets of credit default swaps, total return swaps

and index swaps, interest rate swaps; (iii) options, warrants, caps, collars, floors, swaptions and forward rate agreements; (iv) other synthetic opportunities (e.g., ABX, IOS, and CMBX); (v) other securities (including equities), indexes and exchange traded funds; and (vi) cash (including U.S. treasuries and RMBS). Investments in the agency market can take the form of derivatives such as interest only or inverse interest only securities, specified pools, TBAs, other structured bonds such as CMOs, as well as synthetic indices such as IOS, POS, CMBX and MBX. Synthetic indices can be used to express outright longs and shorts or as hedging tools against cash positions. The Funds may use such financial instruments for risk management purposes to: (i) protect against possible changes in the market value of the Funds' investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) enhance or preserve returns, spreads or gains on investments; (iii) protect against any increase in the price of any investment the Funds anticipate purchasing at a later date; or (iv) act for any other reason that the Registrant deems appropriate. The Funds will not be required to hedge any particular risk in connection with a particular transaction or their portfolio generally. While the Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that may not be hedged.

Hedging with Derivative Instruments. The Funds intend to use derivative financial instruments, including without limitation, futures, swaps, options, floors, total return swaps, and CDS, IOS, POS, LCDS, CDX, LCDX, ABX and CMBX contracts, primarily for leveraging and hedging purposes. The use of derivative instruments involves a variety of material risks, including the high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance, as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (*i.e.*, non-conformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to the Funds to close out positions in order either to realize gains or to limit losses.

Many of the derivatives which the Funds trade in will be principal to principal or "over the counter" contracts between the Funds and third parties entered into privately, rather than on an exchange. As a result, the Funds are not afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers' pricing of these instruments. However, the price at which dealers value a particular derivative and the price that the same dealers would actually be willing to pay for such derivative should the Funds wish or be forced to sell may be materially different. Such differences can result in an overstatement of the Funds' net assets and could materially adversely affect the Funds in situations in which the Funds are required to sell derivative instruments.

Interest-only securities ("IOS") may be utilized by the Funds for hedging or other investment purposes. An IOS is a synthetic total return swap index that references the interest component of various coupons of 30-year fixed rate agency pools of loans. Indices are generally categorized by net coupon and yearly vintage. IOS provide exposure to agency pool coupon cashflows via synthetic total return swap ("TRS") contracts. Net cashflow exchanges are a

function of the change in market value of the reference pool interest component and standard monthly exchanges of coupon and financing. Corresponding POS tranches represent the principal component and corresponding MBX tranches represent the entire cashflow stream. The Funds may make long or short investments in various tranches for hedging or other investment purposes.

Distressed and High-Yield Securities. The Funds may invest in securities issued by, or other indebtedness of, companies in weak and/or deteriorating financial condition, experiencing poor operating results, needing substantial capital investment, having negative net worth, facing special competitive or product obsolescence problems or involved in bankruptcy or reorganization proceedings. Investments of this type are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace, and further, may involve substantial financial and business risks, which are often heightened by an inability to obtain reliable information about the issuers. The investments can result in significant or even total losses. In addition, the markets for distressed and high-yield securities are frequently illiquid. The market prices of distressed and high-yield assets are subject to abrupt and erratic market movements and above-average price volatility, and the spreads between the bid and asked prices of such assets may be greater than those prevailing in other markets. It may take a number of years before the market price of the assets reflects their perceived intrinsic value, if they ever do. Distressed assets also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments and lender liability, as well as bankruptcy and other judicial courts' power to disallow, reduce, subordinate or disenfranchise particular claims.

Additional Risks Related to Investments in Insurance and Other Private Companies

Lack of Operating History. Certain Funds may invest in insurance companies that do not have any operating history upon which to evaluate the anticipated performance of the investment. The past performance of the Registrant is not indicative of the future performance of the investment in the insurance companies. There can be no assurance that the assessments of the short-term or long-term prospects of investments will prove accurate or that the investment program will prove successful.

Accuracy of Assumptions. The insurance companies' business, financial condition, liquidity, results of operations and cash flows will depend on the accuracy of its management's assumptions and estimates, and the insurance companies could face significant losses if these assumptions and estimates differ significantly from actual results. The insurance companies will make and rely on certain assumptions and estimates regarding many items, including interest rates, investment returns, expenses and operating costs, tax assets and liabilities, business mix, surrender activity, mortality and contingent liabilities, related to their business and anticipated results that affect amounts reported in their consolidated financial statements and notes thereto. They also will use these assumptions and estimates to make decisions crucial to their business operations, including establishing pricing, target returns and expense structures for their insurance products, determining the amount of reserves they are required to hold for their policy liabilities, the price they will pay to acquire or reinsure business, the hedging strategies to manage risks to the business and operations and the amount of regulatory and rating agency capital that they must hold to support their businesses. The factors influencing these business decisions cannot be predicted with certainty and, if the assumptions and estimates differ significantly from actual outcomes and results, their business, financial

condition, liquidity, results of operations and cash flows may be materially and adversely affected.

Acquisitions. The insurance companies' growth strategy may include acquiring business through acquisitions of other insurance companies and reinsurance of insurance obligations written by unaffiliated insurance companies, and their ability to consummate these acquisitions on economically advantageous terms acceptable in the future is unknown. The insurance companies may experience challenges identifying, financing, consummating and integrating such acquisitions. Competition exists in the market for profitable blocks of insurance and businesses. Such competition is likely to intensify as insurance businesses become more attractive acquisition targets. It is also possible that merger and acquisition transactions will become less frequent, which could also make it more difficult for the insurance companies to find suitable acquisition opportunities that are available at attractive valuations, if at all. Even if the insurance companies do find suitable acquisition opportunities, they may not be able to consummate the acquisitions on commercially acceptable terms. In addition, to the extent the insurance companies determine to finance an acquisition, suitable financing arrangements may not be available on acceptable terms, on a timely basis, or at all. Acquisition activities may also divert the attention of management from their business, which may have an adverse effect on their business and results of operations.

Occasionally, the insurance companies may acquire or seek to acquire an insurance company or business that writes traditional life insurance or other businesses that are not core to its business. As the insurance companies grow, the ability of their management to transfer or source sufficient reasonably priced reinsurance for traditional life insurance or other non-core businesses that the insurance companies may acquire and want to dispose of may be limited. As the insurance companies acquire new businesses and write a larger volume of business, it may be difficult to find buyers or reinsurers willing to assume increased risk, and added reinsurance may increase the associated costs. Ultimately, the insurance companies may not be able to find buyers or source adequate reinsurance at all. In the event that the insurance companies were unable to find buyers or purchase adequate reinsurance, they would have to accept an increase in their net risk exposures, revise their pricing to reflect higher reinsurance premiums, or otherwise modify their acquisitions and product offerings, each of which could have an adverse effect on their and the Funds' business, financial condition, results of operations and cash flows.

Integration of Future Acquisitions. The insurance companies may not be able to successfully integrate future acquisitions and such acquisitions may result in greater risks to the insurance companies, their business, financial condition, results of operations, cash flows and prospects. Any failure to manage their growth and integrate their future acquisitions successfully may adversely affect the insurance companies. Additionally, their ability to incorporate effectively the components of any businesses the insurance companies may in the future acquire into their previously existing framework is unknown. The insurance companies may encounter difficulties integrating new acquisitions. The failure to appropriately mitigate these difficulties and manage their growth effectively could have a material adverse effect on its and the Funds' business, financial condition, results of operations, cash flows and prospects.

Loss of Key Personnel. The insurance companies' success will depend in large part on their ability to attract, hire and retain key people, including senior executives, actuarial and finance professionals and information technology professionals. Intense competition exists for key employees with demonstrated ability, and the insurance companies may be unable to hire or

retain such employees. Accordingly, the future loss of services of one or more of such employees could delay or prevent the insurance companies from fully implementing their business strategy and, consequently, significantly and negatively impact their business and the Funds.

Agents and Distributors. If the insurance companies decide to market their financial products through an internal distribution network, they will need to attract and retain productive sales representatives to sell their insurance products and develop the necessary infrastructure, technology platform and internal development programs. Insurers compete for sales representatives with demonstrated ability primarily on the basis of product features, support services, compensation and financial position. Sales of insurance products, and, consequently, the results of operations and financial condition of the insurance companies and thus the Funds, could be materially affected if they are unsuccessful in attracting and retaining highly qualified and productive agents and developing related supporting infrastructure. Alternatively, a significant portion of the insurance companies' annuities may be sold through independent distribution networks. To the extent the insurance companies rely upon an independent distributor, a disruption in such relationship could have an adverse effect for a period of time, and may delay or prevent the insurance companies from fully implementing their business strategy and, consequently, significantly and negatively impact their business.

Interruption or Other Operational Failures. The insurance companies may be highly dependent on automated and information technology systems to record and process their internal transactions and transactions involving their customers, as well as to calculate reserves, value their investment portfolio and complete certain other components of their financial statements. The insurance companies could experience a failure of one of these systems, employees or agents could fail to monitor and implement enhancements or other modifications to a system in a timely and effective manner or employees or agents could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system or modifications to an existing system. Additionally, anyone who is able to circumvent security measures and penetrate their information technology systems could access, view, misappropriate, alter or delete information in the systems, including personally identifiable customer information and proprietary business information. Information security risks also exist with respect to the use of portable electronic devices, such as laptops, which are particularly vulnerable to loss and theft.

The insurance companies will endeavor to establish and implement appropriate security measures, controls and procedures to safeguard their information technology systems and to prevent unauthorized access to such systems and any data processed or stored in such systems, and they will periodically evaluate and test the adequacy of such systems, controls and procedures. In addition, the insurance companies will establish a business continuity plan which is designed to ensure that they are able to maintain all aspects of their key business processes functioning in the midst of certain disruptive events, including any disruptions to or breaches of its information technology systems. Despite the implementation of security and back-up measures, their information technology systems may be vulnerable to physical or electronic intrusions, viruses or other attacks, programming errors and similar disruptions. The insurance companies may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond their control (for example, natural disasters, acts of terrorism, epidemics, computer viruses and electrical or telecommunications outages). All of these risks are also applicable where the insurance companies rely on outside vendors to

provide services to them and their customers. The failure of any one of these systems for any reason, or errors made by their employees or agents, could in each case cause significant interruptions to its operations, which could harm their reputation, adversely affect their internal control over financial reporting or have a material adverse effect on their and thus the Funds' business, financial condition and results of operations.

The insurance companies will retain confidential information in their information technology systems and those of their business partners, and the insurance companies will rely on industry standard commercial technologies to maintain the security of those systems. Despite their implementation of network security measures, their servers could be subject to physical and electronic intrusions, and similar disruptions from unauthorized tampering with their computer systems. While the insurance companies will adopt a number of measures to protect the security of customer and company data, there is no guarantee that such an attack will not occur or be successful in the future. In addition, an increasing number of jurisdictions require that customers be notified if a security breach results in the disclosure of personally identifiable customer information. Any compromise of the security of their information technology systems that results in inappropriate disclosure or use of personally identifiable customer information could damage the reputation of their brand in the marketplace, deter purchases of their products, subject the insurance companies to heightened regulatory scrutiny or significant civil and criminal liability and require the insurance companies to incur significant technical, legal and other expenses.

Highly Competitive Industry. The insurance companies will operate in highly competitive markets and compete with large and small industry participants. These companies compete for an increasing pool of retirement assets, driven primarily by aging of the U.S. population and the reduction in, and concerns about the viability of, financial safety nets historically provided by governments and employers. The insurance companies will face intense competition, including from U.S. and non-U.S. insurance and reinsurance companies, broker-dealers, financial advisors, asset managers and diversified financial institutions, both for customers for their products and in the acquisition and block reinsurance markets. The insurance companies will compete based on a number of factors including perceived financial strength, credit ratings, brand recognition, reputation, quality of service, performance of products, product features, scope of distribution and price. A decline in their competitive position as to one or more of these factors could adversely affect the Funds' profitability. In addition, the insurance companies may in the future sacrifice competitive or market position in order to improve their short-term profitability, particularly in the highly competitive retail markets, which may adversely affect their long-term growth and results of operations. Alternatively, the insurance companies may sacrifice short-term profitability to maintain market share and longer term growth.

In recent years, there has been substantial consolidation among companies in the financial services industry due to economic turmoil resulting in increased competition from large, efficient, well-capitalized financial services firms. Many of the insurance companies competitors are large and well-established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk while maintaining financial strength ratings or have higher financial strength, claims-paying or credit ratings than the insurance companies have. Their competitors may also have lower operating costs or return on capital requirements, which may allow them to price products, reinsurance arrangements or acquisitions more competitively. The competitive pressures arising from consolidation could result in increased pressure on the pricing of certain

of the insurance companies' products and services, and could harm their ability to maintain or increase profitability. In addition, if their financial strength and credit ratings remain lower than the ratings of certain of their competitors, the insurance companies may experience increased surrenders and/or an inability to reach sales targets, which may have a material and adverse effect on their growth, business, financial condition, results of operations, cash flows and prospects.

Rating Agency Downgrade. A financial strength rating downgrade, potential downgrade or any other negative action by a rating agency could make the insurance companies' product offerings less attractive, inhibit their ability to acquire future business through acquisitions or reinsurance and increase their cost of capital, which could have a material adverse effect on their business. Various nationally recognized statistical rating organizations ("NRSROs") review the financial performance and condition of insurers and reinsurers, including their subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder obligations. These ratings are important to maintaining public confidence in the insurance companies' products, ability to market their products and competitive position. Any downgrade or other negative action by a NRSRO with respect to the financial strength ratings of the insurance companies, or an entity the insurance companies acquire, or their credit ratings, could materially adversely affect the insurance companies and their ability to compete in many ways.

In order to improve or maintain their financial strength ratings, the insurance companies may attempt to implement business strategies to improve their capital ratios. The insurance companies cannot guarantee any such measures will be successful. The insurance companies cannot predict what actions NRSROs may take in the future, and failure to improve or maintain current financial strength ratings could materially and adversely affect their business, financial condition, results of operations and cash flows. *Counterparty Risk.* The insurance companies will be subject to the credit risk of their counterparties, including ceding companies who reinsure business to the insurance companies, reinsurers who assume their liabilities and derivative counterparties. The insurance companies may cede insurance and transfer related assets and certain liabilities to third-party insurance companies through reinsurance. Under such reinsurance agreements, The insurance companies will be liable for losses on insurance risks if such reinsurers fail to perform under their respective reinsurance agreements. The insurance companies will also be exposed to credit loss in the event of nonperformance by their counterparties on derivative agreements. The insurance companies will seek to further reduce the risk associated with such agreements by entering into such agreements with large, well-established financial institutions. In addition, rules recently adopted by the U.S. Commodity Futures Trading Commission ("CFTC") and the prudential regulators will require the insurance companies and their swap dealer counterparties to collect and post initial and variation margin with respect to non-cleared swaps. Any initial margin required to be posted to swap dealer counterparties under these rules will be segregated with a third-party custodian. However, there can be no assurance that the insurance companies will not suffer losses in the event a counterparty or custodian fails to perform or is subject to a bankruptcy or similar proceeding.

Special Situation Investments. The Funds may make equity investments in private companies, including investments in operationally challenged companies, non-core/non-performing divisions or subsidiaries and businesses in liquidation, which involve a high degree of business and financial risk. Such risks may adversely affect the performance of such investments and result in substantial losses to the Funds. The Funds may have control positions in addition to

advisory roles in certain issuers, along with certain contractual rights to protect their investments. Notwithstanding the foregoing, the Funds may not always have control over an issuer. The Funds run the risk of refusal of management or shareholders of issuers to adopt the recommendations of the Funds, disagreement with existing management and any investment losses resulting from such refusal or disagreement. The aforementioned equity investments may be designated as "Special Situation Investments." The Funds may be required to hold Special Situation Investments for several years, if not longer. Special Situation Investments are also subject to unique risks relating to valuations and liquidity.

Control Investments; Non-Control Investments. The Funds may obtain controlling interests in certain of the portfolio companies in which they invests. The exercise of such control may result in additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations (including securities laws) or other types of liability in which the limited liability protection generally applicable to business ownership may be ignored. If any of these liabilities were to arise, the Funds could suffer a significant loss. The Funds may also hold non-controlling interests in certain portfolio companies and, therefore, may have a limited ability to protect their position in such portfolio companies. As a condition of making non-controlling investments in portfolio companies, the Funds will seek to obtain appropriate shareholder rights to protect the Funds' investment, but it may not be possible to obtain such rights in all cases. If the Funds do not have a controlling position or other shareholder rights to protect their interests, it is possible that a portfolio company could take actions that negatively impact the value of the Funds' investments or that prevent the Funds from disposing of their investments in portfolio companies.

Reliance on Management of Companies. There can be no assurance that any company in which the Funds have made an equity or other securities investment will have a management team that will be able to operate successfully. In addition, instances of fraud and other deceptive practices committed by the management team of companies in which the Funds have an investment may undermine due diligence efforts with respect to such companies. The success or failure of a portfolio company, including its compliance with applicable law, will depend to a significant extent on the company's management team.

Operating and Financial Risks of Companies. Companies in which the Funds invest could deteriorate as a result of, among other factors, an adverse development in their business, a change in their competitive environment, or an economic downturn. As a result, companies in which the Funds have invested may have expected to be stable, may operate at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive positions, or may otherwise be in a weak financial condition or be experiencing financial distress.

Uncertainty of Financial Projections. Bayview will generally establish the capital structure of companies on the basis of financial projections for such companies. Projections are forward-looking statements and are based upon certain assumptions. Projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions that Bayview believes are reasonable at the time that the projections are developed. Projections are subject to a wide range of risks and uncertainties, however, and there can be no assurance that the actual results may not differ materially from those expressed or implied by such projections. Moreover, the inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of a company to realize

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

ITEM 9
DISCIPLINARY INFORMATION

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Bayview's advisory business or the integrity of Bayview's management.

ITEM 10
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status

Not applicable.

B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.

Not applicable.

C. Material Relationships or Arrangements with Industry Participants

Registrant's Relationship with Other Bayview Entities

The Registrant and its affiliated general partner and management company entities provide discretionary investment management services to the Funds, as more fully discussed in Item 4.

Certain inherent conflicts of interest arise from the fact that the Registrant and its affiliates provide investment management services to multiple investment funds, and may in the future provide investment management services to other funds, client accounts or proprietary accounts (such other funds, clients and accounts, collectively the "Other Accounts"), in which the Funds will not have an interest.

Bayview currently manages Funds that employ strategies that overlap with or are similar to that of other Funds. The investment programs of the Funds and future Other Accounts may or may not be similar. Bayview may give advice and recommend securities to a Fund or an Other Account which may differ from advice given to, or investments recommended or bought for, the Funds or Other Accounts, even though their investment objectives may be the same or similar to each other. The portfolio strategies employed by Bayview in managing the Funds and Other Accounts could conflict with the transactions and strategies employed by Bayview in managing other Funds and may affect the prices and availability of the securities and instruments in which certain Funds invest. Conversely, participation in specific investment opportunities may be appropriate, at times, for multiple Funds and/or Other Accounts.

While Bayview will undertake to manage the Funds and Other Accounts diligently in pursuit of their respective investment objectives, Bayview will devote as much of its time to the activities of the Funds and Other Accounts as it deems necessary and appropriate. When a conflict of interest arises Bayview will endeavor to ensure that the conflict is resolved fairly.

Pursuant to certain agreements between the Funds (and/or a Controlled Affiliate thereof) and the Registrant and its subsidiaries (including CLS, Bayview Loans, Bayview Commercial Mortgage Finance, and Silver Hill Funding) (the "BAM Agreements"), Bayview provides services to certain Funds with respect to: (i) sourcing investment opportunities, underwriting, and managing the purchase process for investments; (ii) servicing or overseeing the servicing of certain of the loans in such Funds' portfolios; (iii) providing loss mitigation services, foreclosure services and bankruptcy services to subservicers with respect to mortgage loans owned by Funds and those underlying MSRs; and/or (iv) providing loan origination services, third-party origination services and information technologies services including, without limitation, services relating to various sales functions in connection with sourcing eligible third

party originated loans, loan underwriting and loan processing, capital market activities, credit policy and lender management, new loan set-up and other support functions. Such Funds will pay Bayview Acquisition Fees, Servicing Fees, Component Fees and Origination Fees in respect of such services. In addition, as discussed more fully in Item 5C above the Funds may pay the Registrant's subsidiaries (including CLS) Refinancing Fees and/or Facilitation Fees. The foregoing fees are in addition to and will not offset management fees or performance compensation paid or allocated to the Registrant. The foregoing fees are described more fully in the confidential private placement memorandum of each Fund to which such fees apply.

The BAM Agreements have been negotiated between related parties and their terms, including fees payable, may not be as favorable to the Funds as if they had been negotiated at arm's length with an unaffiliated third party, and may be costly and difficult to terminate. However, Bayview believes the fees to be competitive with those standard in the market.

As a result of BAM's acquisition of all the controlling equity interests of PAM, Pingora Loan Servicing, LLC ("PLS") and their related subsidiaries (all collectively referred to herein as the "Pingora Companies"), the Pingora Companies surrendered, or modified certain licensing and approvals necessary to execute certain business opportunities. In order to provide the Pingora Companies continued access to these opportunities, certain Funds entered into agreements with the Pingora Companies to effect, or to assist in completing, transactions that require licenses or regulatory approvals on their behalf. The arrangements were structured so that there is no material economic cost to the Funds or Pingora Companies.

In addition to providing services to the Funds, CLS also does business with, and earns fees and commissions from third-parties, including third parties who purchase or sell loans to the Funds. Notwithstanding CLS's affiliation with Bayview, CLS does not owe any fiduciary duties to the Funds. Accordingly, CLS generally will take actions in accordance with the BAM Agreements and does not have other obligations with respect to the Funds. The Funds will not be entitled to, and may not receive, any special consideration or forbearance by CLS in the exercise of its clients' rights as a result of the Funds' relationship with CLS.

The Oceanview Group

As discussed in Item 4, Oceanview Asset Management ("OAM"), an indirect wholly-owned subsidiary of the Registrant, acts as investment adviser to the Oceanview Group, including an insurance company and reinsurance company that may reinsure certain insurance liabilities issued by other members of the Oceanview Group or third party insurance companies pursuant to reinsurance transactions. The Oceanview Group is wholly-owned by the BOF-V Oceanview Funds.

OAM may also act as investment adviser to certain reinsurance-related managed accounts of insurance companies that are reinsurance clients of the Oceanview Group (such reinsurance clients, "Cedent Clients"). In general, such reinsurance arrangements are structured such that, as between such insurance companies (including a Cedent Client) and the Oceanview Group (both of which may be OAM Clients), the Oceanview Group bears the risk of loss on, is entitled to the gains generated from, and is ultimately responsible for expenses incurred in connection with, the related reinsurance asset portfolio (including, as applicable, the account of a Cedent Client). In managing assets on behalf of a Cedent Client, OAM takes into consideration the nature of the reinsurance relationship as a whole.

In making investment and other portfolio decisions with respect thereto, OAM views the economics and risks associated with the asset portfolio as primarily the economics and risks of the Oceanview Group, and may make risk, allocation and other investment decisions accordingly. For example, OAM will, in certain instances, take into account parent/subsidiary and reinsurance relationships and allocate investment opportunities to one or more OAM Clients within the Oceanview Group and/or Cedent Clients and not pro-rata to all OAM Clients where the economic benefits or costs of such allocation flow, directly or indirectly, to the BOF-V Oceanview Funds, as parent to the Oceanview Group. In addition, OAM will allocate investment opportunities on other than a pro-rata basis to OAM Clients when necessary to maximize any available programmatic benefits or discounts, including but not limited to the ability to enter into credit arrangements with certain financial or governmental institutions. Additionally, OAM's investment ability in the Oceanview Group accounts and/or accounts of Cedent Clients may also be affected by certain Oceanview Group policies and restrictions (such as risk and credit exposure policies). For these reasons, certain transactions may be allocated entirely to one entity within the Oceanview Group or a Cedent Client account.

D. Material Conflicts of Interest Relating to Other Registrants

In addition to the relationships discussed in Item 10C above, certain Funds also participate in pooled investment vehicles and may allocate portions of their assets to unaffiliated third-party managers to manage on a discretionary basis. The Funds may be subject to various costs relating to such investments, including additional performance-based or fixed asset-based fees or allocations in addition to the fees and compensation payable or allocable to Bayview. Other than as described above, such arrangements do not give rise to any material conflicts of interest at this time.

In August 2017, PAM, a SEC-registered investment adviser, became an indirect wholly-owned subsidiary of the Registrant. While the Registrant does not have an active role in managing the private funds managed by PAM, Bayview will be subject to a number of actual and potential conflicts of interest involving PAM and its affiliates. As part of its regular business, PAM manages and/or advises other funds with investment objectives that overlap with the objectives of certain Funds and that may in the past have competed for investment opportunities with such Funds, and may provide advice or take actions that are different or opposing to the actions taken by such Funds. PAM is under no obligation to resolve any conflicts arising out of its management of such investment funds or otherwise in favor of the Funds. In the regular course of its advisory business, PAM advises potential purchasers and sellers with respect to transactions that could give rise to investments that are suitable for the Funds. PAM's clients typically require PAM to act exclusively on their behalf. Except as otherwise agreed, PAM will not have any obligation to: (i) allocate any investment opportunities to the Funds; (ii) engage in any business exclusively through the Funds; or (iii) decline any such engagements in order to make an investment opportunity available to the Funds.

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

A. Code of Ethics

The Registrant strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, the Registrant has adopted a Code of Ethics (the “Code”). The Code incorporates the following general principles that all employees are expected to uphold:

- employees must at all times place the interests of clients first;
- all personal securities transactions must be conducted in a manner consistent with the Code;
- any actual or potential conflicts of interest or any abuse of an employee’s position of trust and responsibility must be avoided;
- employees must not take any inappropriate advantage of their positions;
- information concerning the identity of securities and financial circumstances of the Funds, including the Funds’ investors, must be kept confidential;
- independence in the investment decision-making process must be maintained at all times; and
- employees must comply with applicable Federal and state securities laws and Bayview’s company policies.

The Code also places restrictions on personal securities trades by employees that are “access persons,” including that such employees pre-clear personal trades in covered securities, that they disclose their personal securities holdings and transactions to Bayview on a periodic basis, and that they are generally prohibited from trading in covered securities of restricted issuers.

The Code is distributed to each employee at the time of hire and annually thereafter, and it is available on Bayview’s intranet. On an annual basis, the Registrant requires all employees to certify that they are in compliance with the Code. The Registrant also supplements the Code with ongoing monitoring of employee activity.

Clients and prospective clients may receive a copy of the Code upon request by contacting the Registrant at the address or telephone number listed on the first page of this document.

B. Securities in which the Registrant or a Related Person Has a Material Financial Interest

As further described below, certain Funds have entered and are expected to enter into transactions and other arrangements with Bayview or other Funds that could be viewed as “principal” or cross transactions.

Investments may be purchased jointly by or for the benefit of one or more of the Funds and Other Accounts (whether currently in existence or formed in the future) managed by Bayview. For purposes of operational efficiency, such investments may be initially purchased by an entity jointly owned by some or all of such investment entities before being allocated at cost among the participating Funds and/or accounts pursuant to BAM's allocation policy.

Pursuant to one of the BAM Agreements, BAM subsidiaries may originate a new loan to a borrower, originate a new loan to refinance an existing loan owned by one or more Funds, or may accomplish modifications that result in a new loan. A Fund may purchase such loan from the BAM subsidiary at a price equal to the fair market value of the loan at the time of such sale or otherwise purchase assets from Bayview at fair market value from time to time. No Fund will purchase assets from BAM (including its subsidiaries) unless such purchase is disclosed in such Fund's constituent documents or is approved by such Fund's advisory board or investors.

Certain opportunities in the mortgage credit sector require licensing and approvals that the Funds may not have. In order to take advantage of these opportunities, certain Funds have entered, and may in the future enter, into agreements with Bayview affiliates to effect these transactions (e.g., agreements pursuant to which a Bayview affiliate buys or sells assets on the Funds' behalf at no material increase in cost to the Funds); provided that the arrangements with the Bayview affiliate are, and will be, structured so that the economic result would be substantially identical to the economics that would have existed had the Funds entered into the transactions directly. Since the transactions are for the benefit of the Funds, the transaction agreements provide that the Funds will indemnify the Bayview affiliate with respect to any costs and losses associated with respect to the obligations and any other costs and losses associated with the transactions.

Certain Funds have entered, and may in the future enter, into risk-sharing arrangements with one or more governmental agencies or financial institutions, in which they have committed or will commit to absorb a percentage of realized losses on a reference pool of residential mortgage loans owned and/or securitized by the agency or financial institution, either directly or through an issuing entity affiliated with Bayview or another Fund managed by Bayview affiliates, since one or more of the agencies requires direct risk-sharing counterparties to be affiliated with an agency licensed seller/servicer and certain Funds are not an agency licensed seller/servicer ("Risk Sharing Arrangements"). Loans in the reference pool of the Risk Sharing Arrangement may have been originated and/or may be serviced by a Bayview affiliate, another Fund managed by a Bayview affiliate, or by unaffiliated third parties. If a special purpose entity is used as an issuing entity in connection with a Risk Sharing Arrangement with an agency, it will be owned by Lakeview or CLS, which are both agency approved seller/servicers, or another seller/servicer approved by such agency and affiliated with Bayview. Certain Funds will purchase securities from the issuing entity (or from the parent of the applicable issuing entity) and the issuing entity will use the purchase proceeds of the securities to effect the transactions with the agency or financial institution described herein. The issuing entity will then distribute cash-flows to the Funds as the owner of the issued securities to effect the transactions described herein.

Pursuant to a particular Risk Sharing Arrangement, Lakeview or CLS may be transferred the servicing rights of certain loans subject to the Risk Sharing Arrangement, to the extent such agency has the right to transfer servicing from third party servicers. Accordingly, at any given time, loans in the reference pool of the Risk Sharing Arrangement may be serviced by

Lakeview or CLS or by one or more third party servicers. If Lakeview or CLS is hired by an agency or third party financial institution to service loans in the reference pool, the fees paid to Lakeview or CLS by such agency or financial institution may be lower or higher than the fees paid to Lakeview or CLS to service loans owned by the Funds.

Certain Funds will gain exposure to MSRs by investing in the Bayview MSR Funds. An investment in the Bayview MSR Funds will give such Funds exposure to the entirety of the Bayview MSR Funds' portfolio. While no management fees or incentive allocations will be charged to the Funds by the Bayview MSR Funds, the Bayview MSR Funds, like other Funds, have entered into transactions and other arrangements with Bayview pursuant to which Bayview will receive fees from the MSR Funds for (i) sourcing investment opportunities, underwriting and managing the purchase process for certain of the MSR Funds' investments and (ii) originating certain of the loans in the MSR Funds' portfolio, which will be indirectly borne by these Funds to the extent of their investment in the Bayview MSR Funds. Additionally, because these Funds are controlled by a Bayview affiliate, they will not be able to participate in certain votes or approvals with respect to the Bayview MSR Funds.

Certain Funds that invest in securities have purchased, and are expected to continue to purchase, mortgage-backed securities ("BOF Sponsored MBS") issued in connection with securitizations of certain whole loans sponsored by the BOF Funds (a "BOF Securitization"). Such Funds are permitted to invest in up to thirty percent (30%) in the aggregate of the issued BOF Sponsored MBS from each such BOF Securitization. Because Bayview has certain input in determining the terms and price of the BOF Sponsored MBS, such input could give rise to potential conflicts of interest. In connection with such transactions, Bayview will act in a fair and equitable manner to the BOF Funds and such other Funds. Additionally, the Funds will purchase any BOF Sponsored MBS at the price set by, and through, the underwriter, and will be subject to the same terms and conditions as other market participants.

To the extent permitted by applicable law, BAM may cause certain Funds or Other Accounts to purchase investments from, to sell investments to, to exchange investments with, or to transfer investments to another Fund, an Other Account or a BAM affiliate for a variety of reasons, including, without limitation, Bayview's perception of the liquidity of each Fund at the time of the transfer and on a going-forward basis; relative exposure to market trends; the remaining term or time remaining in the investment period of each such Fund; the expected target size of the account or program; and the investment programs and portfolio positions of the Funds. Any such purchases, sales, exchanges or transfers will be effected based upon the independent current market price or fair market value of the investment. The Funds may rely on one bona fide bid from a non-affiliated party and/or independent pricing source in order to establish the independent current market price or fair market value for such transactions.

Additionally, the Funds have sold and may sell in the future certain assets from time to time to (i) Fund investors and/or Fund investor-affiliated or owned entities or (ii) investors in Other Accounts. These transactions will be effected at fair value, and on terms that are agreed to on an arm's length basis.

C. Investing in Securities that the Registrant or a Related Person Recommends to Clients

As more fully disclosed in the MSR Funds' constituent documents, Bayview invests in certain MSRs that Bayview has determined would not be appropriate for investment by the MSR Funds

pursuant to pre-determined criteria (each, a “Bayview MSR Investment”). While each Bayview MSR Investment will, as a whole, not be appropriate for investment by the MSR Funds, due to the negotiations involved in acquiring MSRs, Bayview will have the ability to influence the mortgage loans underlying each Bayview MSR Investment. There may be individual servicing rights within a Bayview MSR Investment that would be appropriate for acquisition by the MSR Funds. Additionally, Bayview purchases Bayview MSR Investments from counterparties that sell MSRs to the MSR Funds, and Bayview may receive intangible benefits when transacting with such counterparties on its own behalf. Bayview intends to analyze each MSR opportunity separately, and will not price portfolios in any way that will benefit the Bayview MSR Investments to the detriment of any opportunity that is appropriate for the MSR Funds. Additionally, since the MSR Funds generally will not participate in MSR investments related to loans that are not eligible to be sold to the agencies, such investments may be acquired by Bayview or another Fund, even if the non-agency loans were sourced from Lakeview or a third-party originator that sells agency loans to Lakeview.

Certain employees of BAM invest in the Funds. Typically, no incentive fees and reduced management fees are charged to such investors. The employees invested in the Funds include individuals responsible for allocating investment opportunities among the Funds and may have an interest in fund allocations.

BAM invests, and in the future may invest, certain Fund’s assets in other Funds (e.g., the MSR Fund) and these investments may be significant. By investing in other Funds, the investing Funds may receive preferable notice requirements and liquidity terms. BAM may have an incentive to allocate a client’s assets to other Funds since BAM or one of its affiliates has a direct or indirect financial interest in the success of such Funds. To avoid duplication of fees, the investing Funds will not be charged management or incentive fees by other Funds or BAM will waive fees on the portion of the investing Fund’s assets invested in other Funds. In these situations, the investing Funds have in the past and may in the future subsequently seek to exit from such investment through a transfer of their respective interests to one or more other Funds at a transfer price equal to the investing Fund’s *pro rata* share of the then-current net asset value of the other Fund.

D. Conflicts of Interest Created by Contemporaneous Trading

Participation in specific investment opportunities will often be appropriate, at times, for one or more Funds. When it is determined that it would be appropriate for one or more Funds to participate (i) in an investment opportunity in whole loans, Bayview generally will seek to allocate the opportunity to all the investment accounts whose investment strategy is appropriate for such whole loan investment in proportion to the relative amount of capital available for such investment opportunity in such investment accounts (e.g., undrawn commitments plus investment proceeds available for reinvestment), or (ii) in an investment opportunity in securities, Bayview generally will seek to allocate such investment opportunity for all of the participating investment accounts in proportion to their program size for such opportunity (i.e., if a Fund’s investment strategy is focused 100% of securities, the program size for that Fund generally will include 100% of such Fund’s targeted gross asset value).

The program size of a Fund for a particular strategy generally will equal the targeted gross asset value allocated to such strategy, which will be its net asset value plus uncalled capital commitments allocated to such strategy and will also take into account the target leverage to be utilized for such strategy. The amount of capital available, or the program size of a Fund, as

applicable, for a particular type of investment strategy or opportunity may not be 100% of such Fund (i.e., if a Fund's investment strategy is focused on loans and securities, the aggregate program size for securities strategies for that Fund may be a fraction of such Fund's total targeted gross asset value). For instance, 100% of the BMS Funds' program size is likely to be available for opportunities to invest in securities, while the percentage of the BOF Funds available for opportunities to invest in securities is expected to vary over time. Additionally, a Fund's aggregate program size for securities may be further sub-divided into program sizes for specific types of securities or securities strategies that are then used to allocate such types of securities among participating Funds. Bayview's investment committee will periodically determine the percentage or nominal amount of each Fund or account's capital (i.e., program size) that is available for a particular type of investment strategy or opportunity based on a number of factors, including such Fund's investment program, the total expected target size of a particular Fund or program (including expected leverage to be utilized for a particular strategy), relative exposure to various investments and the perceived relative value of the investment opportunity relative to other investment opportunities available to such Fund, and after each such determination that percentage will be the percentage used to allocate investment opportunities of that type among participating Funds and accounts.

However, Bayview, in its sole discretion, may make non-*pro rata* allocations among the Funds based on, among other things, Bayview's perception of the liquidity of the Funds at the time of the investment and on a going-forward basis; relative exposure to market trends; the remaining term or time remaining in the investment period of each such account (i.e., Bayview expects to over-allocate opportunities to a Fund or account that is nearing the end of its investment period); the perceived relative value of the investment opportunity relative to other investment opportunities available to such Fund or account; the terms, structure and availability of financing in respect of an investment; the expected target size of the account or program; the geographic focus of the investment programs of the Funds and the location of the investment opportunity; the credit quality and/or expected yield of the investment; and the investment programs and portfolio positions of the Funds for which participation is appropriate. For example, certain Funds are expected to invest a majority of their assets in loans and pools of loans, and Bayview may determine that an investment opportunity in another financial instrument is not appropriate for a Fund or that the opportunity should be allocated on a non-*pro rata* basis among the Funds based on a Fund's investment program, relative exposure to various investments and the perceived relative value of the investment opportunity (e.g., Bayview may determine to allocate an opportunity to invest in asset-backed securities or whole loans to an Other Account or only certain eligible Funds if the perceived relative value of such security or whole loan is not deemed appropriate in light of a Fund's investment program and its then-current portfolio). Bayview may also determine to establish program sizes and make allocations that are below the prescribed concentration limits for a given Fund based on a number of considerations, including, without limitation, expected returns, portfolio diversification, and the risk profile of a particular investment. Concentration limits are not considered to be a prescribed allocation percentage.

To the extent any Fund does not have sufficient capital available to fund its allocation of any particular investment (whether as a result of such Fund's existing investments, commitments for future investments, reserves for anticipated future cash needs or otherwise), such Fund will participate in such investment only to the extent of its capital available to do so, and any excess amount that otherwise would have been allocated to such Fund for such investment will instead be allocated to other Funds, as applicable, and taking into account the considerations mentioned herein.

Additionally, certain investment opportunities, although appropriate for one or more Funds, may not be divisible among multiple accounts due to, among other reasons, the small size of the opportunity or the structure of the investment. To the extent an opportunity cannot, or in Bayview's discretion should not, be allocated among multiple accounts, such opportunities may be allocated among the different accounts on a basis that Bayview considers fair and equitable over time, including allocating the first such opportunity to one account, the second such opportunity to another account and so on. Because Bayview may make non-*pro rata* allocations, the Funds managed by Bayview may produce results that are materially different. To the extent an instrument is being purchased to hedge the portfolio of one or more Funds, such instrument may not be allocated among the Funds on a *pro rata* basis, but instead may be allocated to the particular accounts for which the hedge is appropriate in such amounts that are deemed appropriate to hedge the particular portfolio in the sole discretion of Bayview.

Although the sale of specific investments held by multiple Funds generally are expected to be sold by the Funds on a *pari passu* basis, Bayview, in its sole discretion, may sell investments from various Funds on a non-*pari passu* basis based on a variety of factors including those described above with respect to allocations of investment opportunities. Accordingly, it is possible that one Fund may be selling an investment, while another Fund is retaining or investing more capital in the same investment. Accordingly, certain Funds could be disadvantaged by the investment activities of other Funds.

The Funds may invest in different layers of the capital structure of an issuer or borrower. For example, the Funds (i) may own debt of an issuer or borrower while another Fund owns equity in the same issuer or borrower, (ii) may own debt of an issuer or borrower while another Fund owns a different tranche or other class or issue of debt of the same issuer or borrower, and/or (iii) may own equity of an issuer or borrower while another Fund owns a different equity security of the same issuer or borrower. Additionally, the Funds may own equity of an issuer or assets (for example, loans) of the same issuer. To the extent a reorganization or other major corporate event occurs with respect to such issuer or borrower, conflicts may exist between the Funds. Bayview will seek to resolve such conflicts of interest in a fair and equitable manner.

The Funds may also invest in assets in which other Funds already have an investment. The Funds may provide follow-on funding for an investment, which may benefit multiple Funds. Additionally, one Fund may invest in an investment in which other Funds have a pre-existing investment. There can be no assurance that any Fund will wish to make such investment or have available capital to do so, and the inability to make such follow-on investment may result in dilution of a Fund's investment in the portfolio investment.

Certain investment opportunities are expected to be suitable acquisitions by the Funds and by the portfolio companies of certain Funds. If Bayview believes, in its discretion, that an investment opportunity is better suited for acquisition by a portfolio company than by the Funds, Bayview may offer such investment opportunity to the portfolio company. As a result, certain Funds may not participate in such opportunity if such portfolio company is not a portfolio investment of such Funds, or may be indirectly participating in such opportunity in a different percentage than if such investment opportunity was acquired by the Funds directly.

Bayview will allocate to the MSR Funds all opportunities to invest in MSRs related to agency loans and any MSR transaction (a) where the purchase price (as a percentage of loan balance) for the related MSRs is less than 50% of the annualized servicing fee for the related MSRs, (b) that requires regulatory approvals that Lakeview does not have; or (c) where MSRs are part of

a corporate or strategic transaction involving the transfer of material operations and assets of an entity, including MSRs as a part of the overall transaction.

ITEM 12

BROKERAGE PRACTICES

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions

As noted previously, Bayview has full discretionary authority to manage the Funds, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. Bayview's authority is limited by its own internal policies and procedures and each Fund's investment guidelines.

Portfolio transactions for the Funds are allocated to brokers and dealers on the basis of best execution and in consideration of a broker's or dealer's ability to effect the transactions, its facilities, reliability and financial responsibility and, in the case of broker-executed transactions, the provision or payment by the broker of the costs of research and research-related services which are of benefit to the Funds and Bayview. The selection of a broker (including a prime broker) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services also may be influenced by, among other things, the following: the financial condition of the broker, diversification of counterparty risk, assessment of jurisdiction and bankruptcy laws governing the entity that holds the Funds' assets, financing terms, including length of commitment and amount and availability of financing, operational capabilities, and other factors deemed appropriate. Bayview need not solicit competitive bids and does not have an obligation to seek the lowest available commission or other transaction costs. The commissions and other transaction costs (which may include dealer markups or markdowns arising in connection with riskless principal transactions) charged to the Funds by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such products and services.

Research and Other Soft Dollar Benefits

Bayview does not currently expect that the Funds will use commission or "soft" dollars to any significant extent to pay for research products or services, given that the primary focus of the Funds' investment programs does not incorporate to a significant extent the types of securities trades that generate "soft" dollars that are eligible for treatment under Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. However, particularly in light of the opportunistic investment program of certain of the Funds, Bayview reserves the right to use "soft" dollars in the future. Any such use of "soft" dollars will fall within the safe harbor for soft dollars created by Section 28(e).

Brokerage for Client Referrals

Not applicable.

Directed Brokerage

Not applicable.

Trade Errors

Given the nature of the Registrant's investment strategies, trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, the correct security is purchased or sold but for the wrong account, or the wrong quantity is purchased or sold. Trade errors may result in losses or gains. Trade errors are evaluated on a case-by-case basis. If BAM determines that BAM's gross negligence, willful misconduct or fraud was the direct cause of a trade error, BAM generally will compensate a client for any losses resulting from such trade error. If a third-party's negligence or other wrongdoing causes a trading error that is material to a client, BAM will attempt to recover the amount of loss from the third party for the client. BAM does not assume responsibility for compensating the client, or making the third party compensate the client, in such cases.

B. Order Aggregation

If Bayview determines that the purchase or sale of the same security is in the best interest of more than one Fund, Bayview may, but is not obligated to, aggregate orders in order to reduce transaction costs to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Fund will receive the average price with transaction costs allocated *pro rata* based on the size of each Fund's participation in the order as determined by Bayview. In the event of a partial fill, allocations generally will be made on a *pro rata* basis on the initial order but may be modified on a basis Bayview deems appropriate, including for example, in order to avoid odd lots or *de minimis* allocations. Additionally, certain investments may be initially purchased by Bayview or an entity jointly owned by some or all of the Funds before being allocated (at no cost) among the investing Funds pursuant to BAM's allocation policy.

ITEM 13

REVIEW OF ACCOUNTS

Bayview performs periodic reviews of each Fund's portfolio. Such reviews are conducted by the members of Bayview's investment committee, management, portfolio managers and research associates. A specific review of a Fund's account may be triggered by any unusual activity or special circumstances.

Investors in the Funds receive a monthly statement of account from Bayview documenting the net asset value and monthly performance of their investment in the Fund, along with unaudited financial information for the Fund, although Bayview may provide certain investors with information on a more frequent and detailed basis upon request and if agreed to by Bayview. In addition, Bayview issues investors tax reports and audited financial statements concerning their respective Funds within 120 days of the end of the Fund's fiscal year.

ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to Clients

Bayview does not receive economic benefits from non-clients for providing investment advice and other advisory services to its clients.

B. Compensation to Non-Supervised Persons for Client Referrals

Neither Bayview nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. However, Bayview entered into a placement agreement with Lazard Freres & Co. LLC ("Lazard") in respect of the BOF-III Funds and Fund IVc pursuant to which Lazard agreed to introduce potential investors to the BOF-III Funds and Fund IVc. In addition, Bayview retained Park Hill Group LLC ("Park Hill"), to serve as placement agent with respect to the BOF-II Funds, the BOF-IVa Funds, the BOF-IVb Funds, the BOF-V Funds and the Liquid Credit Strategies Funds. In the future, Bayview or a Fund may enter into arrangements with placement agents providing for payments to such agents of a one-time or ongoing fee based on a percentage of the management fee and/or incentive compensation attributable to the interests of an investor introduced by such placement agent. Management fees payable to Bayview will be reduced on a dollar-for-dollar basis by the fees paid to any placement agent by a Fund.

ITEM 15

CUSTODY

Rule 206(4)-2 promulgated under the U.S. Investment Advisers Act of 1940, as amended (the “Custody Rule”) imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful).

The Custody Rule imposes on advisers with custody of clients’ funds or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients’ funds or securities. However, an adviser need not comply with such requirements with respect to limited partnerships or pooled investment vehicles, if each limited partnership or pooled investment vehicle: (i) is audited at least annually by an independent public accountant, and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to its investors within 120 days of its fiscal year-end. Bayview relies upon this audit exception with respect to the Funds, other than with respect to the Blackstone Funds for which it does not have custody.

ITEM 16
INVESTMENT DISCRETION

Bayview has been appointed as the management company and/or general partner of the Funds with discretionary trading and investment authorization. Bayview has full discretionary authority with respect to investment decisions, and its advice with respect to each of the Funds is made in accordance with the investment objectives and guidelines as set forth in such Fund's respective constituent documents. Bayview assumes discretionary authority to manage the Funds through the execution of investment management agreements and through the organizational documents of the Funds (*e.g.*, limited partnership agreements).

With regard to the Blackstone Funds, Bayview acts as a sub-adviser that exercises investment discretion over of its allocated portion of the assets in each Blackstone Fund within a limited investment mandate and subject to the oversight of the fund's adviser and its board of directors.

ITEM 17
VOTING CLIENT SECURITIES

A. Policies and Procedures Relating to Voting Client Securities

As a fiduciary, an investment adviser with proxy voting authority has a duty to monitor corporate events and to vote proxies, as well as a duty to cast votes, in the best interest of clients and not subrogate client interests to its own interests. Rule 206(4)-6 under the Advisers Act (the “Proxy Voting Rule”) places specific requirements on registered investment advisers with proxy voting authority.

The Registrant’s current investment strategy for certain Funds includes equity securities and the Registrant has discretionary authority over such equity securities. As a result, the Registrant has proxy voting authority over such securities and is subject to the Proxy Voting Rule. To meet its obligations under this rule, the Registrant has adopted written Proxy Voting Policies and Procedures, which are available to prospective and existing investors upon request by contacting the Registrant at the address, phone number or email address on the cover of this Brochure. These policies and procedures are reasonably designed to ensure that Registrant’s voting with respect to proxy proposals, amendments, consents or resolutions (collectively, “proxies”) is exercised in a manner that serves the best interests of its clients, as determined by Registrant in its sole discretion, and address how Registrant will resolve any conflict of interest that may arise when voting proxies. Registrant, in its sole discretion, may elect not to vote a proxy in circumstances under which casting a vote would not reasonably be expected to have a material effect on the value of the client’s investment, or if such a vote would be unduly burdensome or not serve the best interests of its clients.

Bayview’s investment mandate as sub-adviser to the Blackstone Funds does not involve purchasing the type of investments that would require voting proxies.

ITEM 18
FINANCIAL INFORMATION

Bayview is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.