



Part 2A of Form ADV: Rocktop Partners, LLC - *Brochure*

Item 1 - Cover Page

May 10, 2021

Rocktop Partners, LLC
1425 Greenway Drive
Suite 250
Irving, Texas 75038
Phone: (817) 522-7555

This Brochure provides information about the qualifications and business practices of Rocktop Partners, LLC (the “Adviser”). If you have any questions about the contents of this Brochure, please contact us at (817) 522-7555. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about the Adviser also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 - Material Changes

The last update to the Brochure of the Adviser was made on March 31, 2021 in connection with the previous annual amendment. Since this previous annual amendment, the Adviser had a change in ownership. Specifically, Rocktop Partners, LLC is now 100% owned by Rocktop Holdings II, LLC, a Delaware limited liability company, which is owned 60% by Rocktop Asset Management, LLC, a Delaware limited liability company, and 40% by Jazz Realty Rocktop, LLC, a Delaware limited liability company. See Item 4 for more information.

Item 3 - Table of Contents

Item 1 - Cover Page.....	1
Item 2 - Material Changes	2
Item 3 - Table of Contents.....	3
Item 4 - Advisory Business	4
Item 5 - Fees and Compensation	5
Item 6 - Performance-Based Fees and Side-By-Side Management.....	7
Item 7 - Types of Clients.....	8
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9 - Disciplinary Information	21
Item 10 - Other Financial Industry Activities and Affiliations.....	22
Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading....	23
Item 12 - Brokerage Practices	24
Item 13 - Review of Accounts.....	25
Item 14 - Client Referrals and Other Compensation	26
Item 15 – Custody	27
Item 16 - Investment Discretion	28
Item 17 - Voting Client Securities.....	29
Item 18 - Financial Information	30

Item 4 - Advisory Business

- A. The Adviser is a Texas limited liability company and has its principal place of business in Irving, Texas.

The Adviser was formed in Texas in 2015 and is managed by Jason Pinson. Rocktop Holdings II, LLC, a Delaware limited liability company (“Rocktop Holdings II”), owns 100% of the Adviser and Rocktop Holdings II is owned 60% by Rocktop Asset Management, LLC, a Delaware limited liability company (“RAM”), and 40% by Jazz Realty Rocktop, LLC, a Delaware limited liability company (“Jazz Realty”). RAM is owned 100% by Jason Pinson and Jazz Realty is majority owned by Andrew Stone.

- B. The Adviser serves as the management company and provides investment advisory and asset management services to funds (each a “Fund” and collectively the “Funds”) and a managed account “SMA”). The Funds and SMA may also be collectively referred to as the “Client” or “Clients”¹. The Adviser identifies for purchase on behalf of the Clients residential mortgage loan portfolios and real estate owned assets (“REO”), some of which may have title or other defects which may impact the value of the asset to the current owner. These real estate assets can include non-performing loans, performing loans, re-performing loans, REO, home equity lines of credit, second liens and GNMA early buyout loans (individually a “Portfolio Investment” and collectively “Portfolio Investments”). The Clients, or special purpose entities directly or indirectly controlled by the Clients, purchase the Portfolio Investments and the Adviser utilizes an asset based due diligence review and proprietary legal platform to create a pool of assets that can be liquidated, re-pooled or resold into the secondary mortgage loan markets.
- C. While the Clients will follow the general strategy stated above, the Adviser may tailor the specific advisory services with respect to each Client based on the particular investment objectives and type of assets applicable to such investment.
- D. The Adviser does not participate in wrap fee programs.
- E. As of December 31, 2020, the Adviser doesn’t manage any Client assets on a discretionary basis and \$947,004,699 on a non-discretionary basis.

¹ “Fund” or “Client” means a private investment fund or managed account to which the Adviser provides investment advisory and/or asset management services and/or invests on behalf of on a discretionary or nondiscretionary basis. The individuals and other persons that invest in the Adviser’s Clients are generally referred to herein as “investors.” Unless otherwise expressly stated herein, the term “Client” does not include “investors.”

Item 5 - Fees and Compensation

- A. Below is a discussion of how the Adviser is generally compensated in connection with providing advisory services to the Client. However, the Adviser is able to enter into different fee arrangements on a Client by Client basis. A potential investor should read and review any and all advisory and governing documents with respect to each Client in their entirety before making any investment decisions. Any reference herein to an “affiliate” of the Adviser shall be deemed to be a reference to an entity that is owned, directly or indirectly, by Rocktop Holdings II, LLC.

Certain legacy Funds pay a one-time management fee (the “Legacy Fund Management Fee”) calculated, then deducted from the capital called for each Portfolio Investment in which a Fund participates, and such Legacy Fund Management Fee is paid to the Adviser or its affiliates. In the case of one Fund, 60% of the Legacy Fund Management Fee is deducted from the capital called for each Portfolio Investment and 40% of the Legacy Fund Management Fee is paid six months later. The Legacy Fund Management Fee is generally equal to between 0.50% and 1.25% of each Portfolio Investment’s gross total acquisition cost (including related transaction costs) but may vary based on the relevant advisory and governing documents.

Certain Funds pay (either directly or indirectly) a one-time Due Diligence Fee equal to the product of (a) between 0.35% and 0.50% times (b) the aggregate unpaid principal balance of the loans in each Portfolio Investment reviewed by the Advisor. In addition, the Adviser is paid an ongoing Advisory Fee equal to (i) the product of (x) 0.50% times (y) the aggregate unpaid principal balance of the loans in the Portfolio Investment as of the first day of each month divided by (ii) twelve (12).

The SMA pays a one-time due diligence fee (the “Due Diligence Fee”) which is deducted from the capital contributed by the SMA for each Portfolio Investment in which the SMA participates and is paid to the Adviser. The Due Diligence Fee is equal to the product of (a) 0.50% times (b) the initial cost basis of each of the loans in a Portfolio Investment reviewed by the Adviser. In addition, the Adviser is paid an asset management fee calculated monthly equal to 0.25% of the aggregate unpaid principal balance of the loans in each Portfolio Investment as of the first day of each month divided by 12.

The general partner or another affiliate of the Adviser, in the case of the Funds, and the Adviser, in the case of the SMA, will typically receive certain allocations and distributions calculated and charged based on a share of capital gains on or capital appreciation of the assets of the Client, as negotiated and determined at the time the Client is established and as set forth in its Offering Documents. These allocations and distributions are commonly known as “Carried Interest” or “Promote” in the case of the Funds or a “Success Management Fee” in the case of the SMA. The general partner or such affiliate generally does not receive Carried Interest or Promote and the Adviser does not receive the Success Management Fee until the Clients have received aggregate distributions equal to the sum of their capital contributions or cost basis in the Portfolio Investments and, in some cases, until investors have received aggregate distributions equal to a specified minimum return above and beyond the sum of their capital contributions or cost basis.

The Client also incurs costs associated with the ongoing management of the Portfolio Investments (“Operating Expenses”). Operating Expenses can consist of all costs, expenses, or charges with respect to the operation of the Client, including, without limitation, all payments

with respect to Client indebtedness (including that owed to partners), taxes and other carrying costs of the Client's assets, administrative costs to administer the Client and the limited partnership agreement and limited liability company agreement, including costs for financial and tax return preparation, reporting, and filing, and any property-level costs incurred in connection with Portfolio Investments.

The Adviser may, from time to time, engage affiliates to provide certain services to its Clients. The Adviser will only utilize the services of an affiliate if it makes a good faith determination that the fees and expenses to be charged by the affiliate are fair and reasonable in comparison to what other providers would charge for comparable services. The Adviser will disclose to each of its Clients information regarding the fees and expenses that will be charged to such Clients by affiliates of the Adviser.

The Adviser may agree with certain investors to a variation of the terms set forth in the Client's advisory and governing documents, including different Management Fees, Carried Interest, Promote, Success Management Fees and withdrawal rights.

- B. Management Fees, Due Diligence Fees, Advisory Fees, Carried Interest, Promote and Success Management Fees from the Clients are paid as indicated in Item 5.A. above.
- C. The Adviser does not intend to charge any fees due to it in advance.
- D. Other than as described above, neither the Adviser nor any of its supervised persons receives any compensation from the sale of securities or other investment products.

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

As stated in Item 5 above, the general partner of the Client or another affiliate of the Adviser receives performance-based fees or allocations from the Funds and the Advisor receives performance-based fees or allocations from the SMA. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3, which requires that performance-based fees only be charged to “qualified clients” (as such term is defined in Rule 205-3).

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee-paying clients over other clients in the allocation of investment opportunities. To address these conflicts of interest with respect to any clients, the Adviser has implemented policies and procedures to ensure that all clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities.

Item 7 - Types of Clients

As mentioned in Item 4, the Adviser provides investment advisory services to Funds and the SMA for sophisticated, qualified investors, including: trusts, partnerships, corporations, limited liability companies, alternative asset managers, or other businesses.

The minimum investment in the Funds is typically \$100,000, although the Adviser may accept investments in a lesser amount in its sole discretion. There is no minimum investment for an SMA.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

A. Investment Objective and Strategies

General. The Clients purchase residential mortgage loan portfolios and REO assets from financial institutions, government sponsored enterprises, and mortgage companies that are sourced, underwritten, and managed by the Adviser. These real estate assets are typically identified as non-performing loans (“NPLs”), REO assets, performing loans, re-performing loans, home equity lines of credit, second liens and GNMA early buyout loans. The Adviser utilizes an asset based due diligence review and proprietary legal platform with the objective of increasing the value of those assets upon their sale, re-pooling or liquidation.

Often times the NPLs within a Portfolio Investment will have title or other defects. Such defects are frequently material enough to trigger representations and warranties, impair servicer’s loss mitigation execution and/or negatively impact asset price. Institutional buyers of mortgage loans often reject defective mortgages with title issues or other deficiencies when buying pools of assets. The Adviser uses proprietary analytics and a database of over 100,000 title curative files to estimate the time and cost required to cure a title defect. The Adviser utilizes this analysis to assist in more effectively pricing the defective loan or asset and to enable the Adviser to offer a more competitive price for a portfolio than other institutional buyers. Once a portfolio is purchased, the Adviser, through its dedicated law firm, implements a program to cure those mortgage loans with title or other defects. The Adviser’s dedicated multi-state law firm works closely with specialty servicers to efficiently analyze, identify and cost effectively resolve these defects allowing for timely execution of loss mitigation strategies.

More recently, the Adviser has identified for purchase by the Clients pools of non-performing residential mortgage loans currently held by a GNMA approved issuer/loan servicer who has bought out the loans from a GNMA securitized pool pursuant to GNMA’s early-buyout program (“EBO Loans”). The Adviser creates efficiencies in the re-delivery of the performing assets into a GNMA securitization by effectively managing servicing timelines through portfolio monitoring functions and mitigates extension risks by leveraging its legal and title curative capabilities. The re-delivery process for re-performing loans into a GNMA securitization is often impeding by issues related to collateral documents (both origination and modification documents). The Adviser is well positioned to manage these types of issues through its technical platform and experience in procuring and recording curative documents needed for the re-delivery process.

B. Risk Management

The interests in the Client are speculative and involve substantial risk of loss; they are suitable for investment only by sophisticated investors for which an investment in the Client does not represent a complete investment program and which fully understand and are capable of assuming the risks of an investment in the Client. The following list of summary risk factors does not purport to be complete nor to provide more than a brief reference to the risks which are outlined below. An investment in the Client should only be made, if at all, after consultation with a prospective investor’s professional advisors.

General Risks

Potential Loss of Investment. An investment in the Client is speculative and involves substantial

risks. Investors may lose all or substantially all of their entire investment in the Client. No investor should have any need for any monies invested in the Client to meet current needs or ongoing financial requirements.

No or Limited Operating History. The Adviser itself has only a limited, operating history.

Long-Term Commitment. Prospective investors should regard an investment in the Client as a long-term commitment. The Adviser believes that the Client only has a realistic opportunity to realize its investment objectives over a longer time period than may be typical of other investments.

Investors will be committed to the Client despite potentially materially adverse changes to the Client, the Adviser, the U.S. affordable housing markets, general economic conditions, tax laws, financial regulation and/or other factors directly affecting the prospects for the Client.

Reliance on the Adviser. The success of the Client will depend on the ability of the Adviser to successfully implement its strategy. There can be no assurance that the Adviser will be able to do so. Moreover, if the Adviser is not successful as a business — even if its strategy is successful — it may not be able to continue to manage the Client, which could force the Client to dissolve, perhaps under disadvantageous market conditions and potentially incur substantial losses.

Reliance on Key Persons. The Adviser is dependent on the services of the key persons. Were their services to become no longer available to the Adviser, the Client would likely dissolve, perhaps under disadvantageous market conditions and potentially incurring substantial losses.

Reliance on Third-Party Service Providers. The Adviser relies on a wide range of third-party service providers over which the Adviser itself has no control, including mortgage servicers, real estate brokers, appraisers, lawyers, property managers and bankers. The misjudgment, malpractice or temporary unavailability of any of these service providers could materially adversely affect the Client's prospects of profitability.

Leverage. The Client may borrow against the fair market value of performing loans held by the Client. Losses incurred on leveraged positions in the Client increase in direct proportion to the degree of leverage employed. The Client also incurs interest expense and fees on the borrowings used to leverage its positions.

The use of leverage also may result in the forced liquidation of positions (which may otherwise have been profitable) in order to meet debt service payments. The Client's borrowings may be secured by its assets, in which case a default could cause material losses as lenders exercise their rights in the collateral.

Model Valuations. The Adviser determines whether a loan or loan pool is undervalued based on complex models which incorporate a range of different inputs, each of which is specific to the particular loan or loan pool in question. Inadequate or incorrect factual information, misstated assumptions, as well as unforeseeable changes in economic factors can cause these models to yield materially inaccurate valuations — even if the model is fundamentally sound. Moreover, there can be no assurance that the Adviser's models are fundamentally sound, or more accurate than its competitors.

The models used by the Adviser will typically require certain market forecasts, for example, expected home prices, real estate brokerage costs, interest-rate changes or prepayment schedules. There can

be no assurance that the Adviser will correctly forecast such factors, and, to the extent that it does not do so, the data incorporated into the Adviser's models will therefore be incorrect.

Given the number of variables involved in the valuation models (and the subjectivity of certain of such variables), there is a substantial risk of model valuations differing from realizable values.

In the case of the Client, inaccurate model valuations not only may cause the Client to acquire unprofitable loans and REO assets, but also will result in potentially substantial economic dilution to investors as the Client's net asset value is calculated on the basis of the values determined by inaccurate models.

Competition to Acquire Loans and Property. In purchasing loans and REO assets, the Client will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, loans portfolios and REO assets could materially reduce the profit potential of the Client.

Many of the market participants against which the Client will be competing already have established and substantial origination and/or servicing operations of their own which may give them an advantage both in sourcing loans as well as servicing the loans in their portfolio. Establishing origination and servicing businesses may be particularly difficult in the current economic environment.

Ability to Cure Defects or Defaults. As a general matter, the Client will primarily acquire loans in pools of residential mortgage loans from a bank, servicer, financial institution, government sponsored enterprise or other parties involved in the origination chain. A number of the loans in a pool may be subject to title defects or payments on the loan by the borrower may be past due. While the strategy of the Adviser is to successfully cure the defects or to bring the loan to reperforming status, the Adviser still expects the Client to have to accept material, if not total, losses on a number of the loans. In the event that Adviser cannot successfully cure the loans with defects as it expects or bring delinquent loans current, the overall purchase of the pool may be unprofitable.

Interest Rates. The loans purchased by the Client will typically bear an interest rate sufficiently above prevailing market rates for "investment-grade" debt instruments of a similar duration that these loans are not subject to the risk of increasing interest rates with anything like the sensitivity of many other investment-grade debt investments.

While the Client's exposure to interest-rate fluctuation is qualitatively different from that of investment-grade debt, such exposure is, nevertheless, material. Interest-rate fluctuations can directly impact the ability of borrowers to obtain loans, or having obtained such loans, to pay them as due. Both increases and decreases in interest rates can adversely affect this borrowing base by influencing the demand for employers' services, increasing the cost of employer's operations (potentially leading to lay-offs, reduced pay and factory closings), reducing consumer demand (for example, in the housing sector), etc. While there is no direct mathematical connection between interest-rate fluctuations and the value of the Client's loans (as there is in the case of investment-grade debt), such fluctuations can materially adversely affect the Client.

Inflation. The Client, as a holder of performing loans, essentially sells the underlying property to the borrower for the debt service payments on such loans. The Client's loans are typically fixed-rate and generally with a duration of 20–30 years. Were significant inflation to occur, the value of the underlying property would rise with inflation but the debt service on the loan would not, to the point

that the Client was effectively selling the property to the borrower for well beneath the market value of the property. In addition, the increasing value of the property would incentivize the borrower to do everything in the borrower's power to pay the loan as due. Consequently, while presumably interest rates could be expected to rise materially with inflation, the Client would be in the position of holding (or selling at a discount) loans with a fixed interest rate materially below the prevailing interest rates on similar mortgages.

Increased Unemployment. Any factor which could lead to increased unemployment or reduced available income among the lower- to middle-income borrowers on loans owned the Client (for example, reduced government disability or veterans' benefits) could materially adversely affect the Client — both in terms of its ability to sell property it acquires and the likelihood of the outstanding loans being paid in accordance with their term.

Market Volatility. The loan and property markets have been subject to periods of excessive volatility in the past, and such periods can be expected to recur. Price volatility is influenced by many unpredictable factors, such as market sentiment, inflation rates, interest-rate movements, government regulation and general economic and political conditions.

Price volatility in the Client's markets increases the risk of the Client acquiring loans and property at prices which shortly thereafter become well above market, as well as selling loans and property at prices which shortly thereafter become well below market.

Market Illiquidity. While under "normal" market conditions the loan and property markets in which the Client invests generally have broad liquidity, from time to time the liquidity in these markets can be drastically reduced or virtually eliminated — as was vividly demonstrated by the financial crisis of 2008 (the "Financial Crisis"). Lack of liquidity can make it economically unfeasible for the Client to recognize profits or limit losses. The fewer the number of transactions that take place, the greater the risk that market values may not reflect "fair value," increasing the already material valuation risk inherent in the Adviser's strategy.

No Hedging. Investing in the Client involves risks which cannot be economically hedged. The purchase, modification of and/or foreclosure on a loan, as well as the resale of property, involve operational, interest rate, real estate and bankruptcy risks. The success of the Client will depend on the Adviser's ability to identify loans which can be acquired at a discount and remarketed at a profit. Loans and property which the Adviser incorrectly identifies as desirable investment opportunities are likely to produce losses.

Epidemic. An epidemic outbreak and reactions to such an outbreak could cause uncertainty in markets and businesses, including the Adviser's business, and may adversely affect the performance of the global economy, including causing market volatility, market and business uncertainty and closures, supply chain and travel interruptions, the need for employees and vendors to work at external locations, and extensive medical absences. The Adviser has policies and procedures to address known situations, but because a large epidemic may create significant market and business uncertainties and disruptions, not all events that could affect the Adviser's business and/or the markets can be determined and addressed in advance.

Cybersecurity Risks. The Adviser's information and technology systems could be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltrations by unauthorized persons and security breaches, usage errors by its professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes.

Although the Adviser will implement various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, the Adviser will have to make a significant investment to fix or replace them. The failure of these systems and/or disaster recovery plans for any reason could cause significant interruptions in the Adviser's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors and/or Clients. Such a failure could harm the Adviser's reputation or subject it or its affiliates to legal claims and otherwise affect their business and financial performance. Additionally, any failure of the Adviser's information, technology or security systems could have an adverse impact on its ability to manage the SMA and Funds referred to herein.

Structural Risks

Substantial Charges to the Fund. The Client is obligated to pay substantial fees and expenses, including Operating Expenses, irrespective of profitability. The Client is also subject to the fees described in Item 5. There can be no assurance that the Client will be able to recognize sufficient gains to offset these charges.

Inherent Limitations on Disclosure. The descriptions of the Adviser's strategies, the markets in which the Client trades, the risk factors and conflicts of interest involved in doing so and other aspects of the Client's operations are subject to material inherent limitations and do not purport to be complete. In investing in the Client, investors are entrusting their capital to the subjective, discretionary market judgment of the Adviser, investing in the highly specialized loan and property markets. No one should invest in the Client which is not — entirely independently of the disclosures made herein — capable of understanding and evaluating the risks of such investment.

Regulatory and Tax Risks

Fraudulent Conveyance Considerations. Various laws enacted for the protection of creditors may apply to certain investments that are debt obligations, although the existence and applicability of such laws will vary from jurisdiction to jurisdiction. For example, if a court were to find that the borrower did not receive fair consideration or reasonably equivalent value for incurring indebtedness evidenced by an investment and the grant of any security interest or other lien securing such investment, and, after giving effect to such indebtedness, the borrower (i) was insolvent, (ii) was engaged in a business for which the assets remaining in such borrower constituted unreasonably small capital or (iii) intended to incur or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could invalidate such indebtedness and such security interest or other lien as fraudulent conveyances, subordinate such indebtedness to existing or future creditors of the borrower or recover amounts previously paid by the borrower (including to the Fund) in satisfaction of such indebtedness or proceeds of such security interest or other lien previously applied in satisfaction of such indebtedness. In addition, if the borrower under a loan becomes insolvent, any payment made on such loan may be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency.

In general, if payments on a loan are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient or from subsequent transferees of such payments. To the extent that any such payments are recaptured from the Client, the resulting loss will be borne by the investors.

Lender Liability Considerations; Equitable Subordination. In recent years, a number of judicial

decisions in the U.S. have upheld the right of borrowers to sue lenders or bondholders on the basis of various evolving legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender (in this case, the Client which will “step into the shoes” of the original lenders of the loans acquired by the Client) has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower or issuer or its other creditors or shareholders. Because of the nature of certain of the loans that may be made by the Client, the Client may be subject to allegations of lender liability.

Risk of Litigation. In the ordinary course of its business, the Client may be subject to litigation from time to time. Foreclosing on loans and owning/reselling personal residences is often a litigious and adversarial process. The Adviser intends to use third-party servicers to implement such procedures. Such servicers will do so on the instructions of the Adviser, and the Client may be held ultimately liable for the actions of the servicers which it retains (or be required directly to indemnify such servicers). The Client could be named as a defendant in a lawsuit or regulatory action. The outcome of such proceedings, which may materially adversely affect the value of the Client, may be impossible to anticipate, and such proceedings may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the Adviser’s time and resources, and such time and the devotion of such resources to litigation may be disproportionate to the amounts at stake in the litigation.

Limited Regulatory Oversight. The Client will not register as an investment company under the Investment Company Act of 1940, as amended, or any comparable regulatory requirements. Accordingly, the provisions of such regulations, which among other things generally require investment companies to have a majority of disinterested directors, require securities held in custody to be maintained at all times in segregated accounts and regulate the relationship between the investment company and its asset manager, are not applicable to an investment in the Client. Therefore, the investors do not have the benefit of the protections afforded, nor is the Client subject to the restrictions imposed, by such registration and regulation.

Regulatory Proceedings. Certain U.S. regulatory authorities — most notably the SEC — have in the past several years been applying a close degree of scrutiny to the private investment fund industry, and there has been a marked increase in regulatory enforcement actions and comparable proceedings. In a number of cases, these proceedings have been premised on allegations of negligence rather than intentional misconduct.

Were the Adviser to become subject to any regulatory proceedings, not only might such proceedings result in a material “drain” on the Adviser’s resources, but the fact that such proceedings are ongoing could make it difficult for the Adviser to raise capital for the Client and/or be accepted as a successful bidder for certain loans or property.

Additional Government or Market Regulation. Since the Financial Crisis, the U.S. federal government has taken unprecedented actions to bolster, restructure and regulate the mortgage markets. These initiatives have helped to restore confidence in the loan markets, but they have also created precedents for further massive and unpredictable government intervention and regulation. The unpredictability of future government programs creates major risks for the Client. There can be no assurance that the Client will be able to react or adapt to new regulatory regimes, or that the Client’s strategies will remain profitable in the wake of regulatory changes.

The Federal Reserve's ongoing intervention into the credit markets continues materially to affect the housing market. In addition, federal, state and/or local governments may intervene to prevent widespread foreclosures on residential property. In the wake of the Financial Crisis, legislation has been enacted at the federal level, as well as in various states, to address perceived problems in the mortgage market. In addition, the federal banking agencies, as well as state banking and mortgage banking regulators, have issued supervisory guidance on certain mortgage practices. Government intervention is subject to all the uncertainties not only of prevailing economic conditions but also of the political process.

Federal legislation designed to provide an economic stimulus to the U.S. economy may reduce or eliminate certain mispricing on which the Client might otherwise have capitalized.

While many of the statutory and regulatory restrictions imposed on the loan markets have become effective, the full consequences of these restrictions may not yet have been processed by the market, and there is a meaningful risk that were another economic downturn to occur significant incremental restrictions might be imposed — perhaps materially reducing the profit potential of the Client.

Taxes Greater than Cash Distributions. The Client intends to be classified as a partnership for U.S. federal income tax purposes and not as an association taxable as a corporation or as a “publicly traded partnership.” For any year in which the Client has income in excess of deductions, investors will be required to report their share of such income on their U.S. federal, state and local tax returns. For U.S. federal income tax purposes, any taxable income and gain of the Client generally will be allocated among the investors in accordance with their respective interests, regardless of whether corresponding distributions are made to the investors. As a result, an investor's share of the Client's taxable income for any year may exceed the amount of cash distributed to that investor for that year.

Taxation of Gain on Property. Defaulted loans in which the Client invests are expected in many cases to be transferred to special-purpose limited liability companies prior to foreclosure in order to minimize taxation. Any such defaulted loans are expected to be transferred to such special-purpose limited liability companies at fair market value. However, any sale of foreclosure property for a gain, to the extent not offset by losses on other foreclosure property owned by the same entity, is likely to result in capital gains taxes being payable by such entity.

Possible Changes in Tax Laws. The rules dealing with U.S. federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service (the “IRS”), the U.S. Department of the Treasury, and state and local taxing authorities resulting in revisions of resolutions and revised interpretations of established concepts, as well as statutory changes. Therefore, no assurance can be given that the currently anticipated income tax treatment of an investment in the Client will not be modified by legislative, judicial or administrative changes, possibly with retroactive effect, to the detriment of the investors. Investors are urged to consult with their own tax advisors with respect to an investment in the Client and the impact of any possible changes to U.S. federal, state and local income tax laws on such investment.

No Representation of Investors. While the Adviser has consulted with counsel, accountants and other experts regarding the structure and terms of the Client, such counsel does not represent the investors in their respective capacities as such. The investors have not been represented in negotiating any of the business terms of the Client. The Client and the Adviser urge each prospective investor to consult his or her own legal, tax and financial advisors regarding the desirability of their acquiring an interest as well as concerning the specific business terms and suitability of an investment in the Client.

C. Strategy Risks

Concentration on a Single Strategy. The Client's investment strategy is to acquire loans and property at discounts, and either modify/rehabilitate the loans with the objective of eventually reselling the loans or liquidating the loans or property through the exercise of judicial or non-judicial remedies such as foreclosure proceedings. There are certain marketing events/conditions (e.g., the Financial Crisis) in which the concentration of the Client in this market sector and process may expose it to substantial, and largely unavoidable, losses.

Possible Geographic Concentration of Loans. The Adviser intends for the Client to hold loans and property in a number of different states, however, at any given time the Client's portfolio may be focused in only a few states or regions. The value of loans and property is often highly idiosyncratic by area, for example, certain market movements would be expected to have a material adverse effect on affordable housing in the Southwest but not in the Northeast. The more concentrated the Client's portfolio, the more susceptible it is to the idiosyncratic risks relating to the areas in which it is invested, such as adverse economic conditions, adverse events affecting industries located in such areas and localized natural hazards, than would be the case for loans and property from more diverse locations.

Foreclosures. Depending on the nature of the loans and REO assets acquired by the Client, the Client may be required, perhaps to a degree substantially greater than it anticipates, to foreclose on loans. The foreclosure process, although designed to be expedited in many jurisdictions, can involve all the uncertainty and potential delays of any legal process as well as the related expense.

It is well documented that some borrowers facing foreclosure, particularly if they have few assets or little or no equity in their homes, will damage or destroy the mortgage loan collateral out of spite or a misplaced sense of injustice. Damage to mortgage loan collateral may significantly delay resale after foreclosure, necessitate expensive repairs and/or impair the resale value of the home, resulting in a lower expected rate of return for the Client. Although the Adviser, through its servicer, will attempt to work with borrowers to prevent such damage or destruction, there can be no assurance that the Adviser will be successful in all or most cases.

Ideally, REO will be held by the Client only as an interim investment, owned briefly between acquisition or foreclosure and resale.

The servicer will be directly involved in the foreclosure process, which can lead to adversary proceedings, regulatory scrutiny and adverse publicity, as well as potential liability.

Risks of Property Ownership. If the Adviser is forced by market conditions to assume ownership of a significant number of properties for a longer holding period or for a higher holding cost than expected, the results could be materially adverse to the Client and its prospects. The Adviser makes no claim to having any meaningful experience or expertise as a landlord. Once property has been acquired, the Adviser will be subject to all the risks and expense of a property owner. During that period, the Client will be at risk of property destruction or damage, poor construction, neighborhood deterioration, increases in property taxes, pollution control liabilities, and other risks of property ownership.

Inadequate Documentation. The loan file with respect to a mortgage loan acquired by the Client may not contain the related mortgage note or, if modified, the modifications to the mortgage notes or any other underlying documentation. Failure to obtain these missing documents with respect to a loan may cause delays in the ability of the Client to foreclose upon and liquidate the related property.

Delays in the ability of the Adviser to foreclose upon and liquidate the related mortgaged property may increase the risk of loss on the loan, especially if housing prices are declining during such delays.

A significant component of the Adviser's due diligence process involves analyses of loan documents. Unexpected provisions resulting from inadequate documentation can cause substantial losses.

Modifications to Loans and Underlying Documents. Certain of the loans may have had the related mortgage note formally modified (with or without documentation) in the past, which may have been a result of the borrower being unable to meet his or her existing obligations. The final maturity of the mortgage may have been extended or missed payments may have been capitalized or deferred until the maturity of the loan. Undocumented modifications may be more likely to be found unenforceable than modifications reflected in the related mortgage note and, therefore, present a greater risk of loss and may result in unpaid amounts of interest and/or principal at maturity.

Non-Performing Loans; Delinquencies. The Adviser intends to purchase pools of loans consisting of non-performing loans which may represent a substantial portion of the Client's portfolio. Although borrowers may resume payment on non-performing loans, it is likely that a substantial portion of any non-performing loans acquired by the Client will not become current in payment, and that certain of the performing loans may become non-performing loans, and therefore a substantial percentage of the loans will have to be liquidated through foreclosure proceedings, sale or other means. It is likely that, in many cases, the amount recovered with respect to such non-performing loans or related property will be less than the amount due and unpaid on such loans.

The amount of liquidation proceeds collected with respect to a defaulted loan will depend in part on the ability of the servicer to liquidate the related collateral. There can be no assurance as to the extent to which a servicer will be successful in such efforts or as to the timing of such collections. The ability of the servicer to sell a mortgaged property or other collateral at any particular time will depend upon such servicer's ability to find a willing purchaser at a price acceptable to the Adviser. Bankruptcy proceedings involving the borrowers may limit the ability of the servicer to sell the mortgaged property or other collateral. In addition, withdrawal rights under the laws of certain states may limit the ability of a servicer to sell, or prevent such servicer from selling, a mortgaged property at what would otherwise be an appropriate time.

In connection with the purchase and sale of non-performing loans, the related seller typically will have made, or will make, certain very limited representations, warranties and covenants relating to the mortgage collateral. These representations and warranties are not only extremely limited in scope, but they also are likely to be subject to a "sunset" provision, which means that other than the representation and warranty relating to ownership of the collateral, these representations and warranties will expire and have no further force or effect from and after the date specified in the related purchase and sale agreement. Following the expiration of this "sunset" period, the Client, as purchaser, will not have the benefit of any representations and warranties of the related seller with respect to the collateral.

Servicing of Delinquent Mortgage Loans. Certain of the pools of loans purchased by the Client may contain mortgage loans that are more than 90 days delinquent and/or are in foreclosure. The yield to the Client on these loans will be heavily influenced by the ability of the servicer to liquidate loans and properties in a timely and efficient manner. A substantial percentage of such loans can be expected to be secured by mortgaged property the value of which is less and, in many cases, substantially less, than the principal balance of the related loan. Furthermore, liquidation expenses, such as legal fees, real estate taxes and maintenance and preservation expenses, as well as higher

servicing fees that apply to non-performing loans, may reduce the related liquidation proceeds. As a result, in many cases the liquidation proceeds received will be insufficient to avoid a realized loss.

Servicer Liability. Legal risks can arise as a result of the procedures followed in servicing which may be subject to various federal and state laws (including, without limitation, predatory lending laws), public policies and principles of equity regulating interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and debt collection practices and may limit the servicer's ability to collect all or part of the principal of or interest on a residential loan, entitle the borrower to a refund of amounts previously paid by it or subject the servicer to damages and sanctions. Specifically, provisions of federal predatory lending laws, such as the federal Truth-in-Lending Act (as supplemented by the amended Home Ownership and Equity Protection Act of 2013 ("HOEPA")) and Regulation Z, and various state predatory lending laws provide that a purchaser or assignee of specified types of loans may be held liable for violations by the originator of such loans. Under such assignee liability provisions, a borrower is generally given the right to assert against a purchaser of its loan any affirmative claims and defenses to payment such borrower could assert against the originator of the loan or, where applicable, the home improvement contractor that arranged the loan. Liability under such assignee liability provisions could, therefore, result in a disruption of cash flows allocated to the Client. In most but not all cases, the amount recoverable against a purchaser or assignee under such assignee liability provisions is limited to amounts previously paid and still owed by the borrower. Moreover, sellers of loans typically represent that the loans have been originated in accordance with all applicable laws and in the event such representation is breached, the seller typically must repurchase the offending loan. Notwithstanding these protections, a buyer of whole loan loans may be exposed to an unquantifiable amount of potential assignee liability because, first, the amount of potential assignee liability under certain predatory lending laws is unclear, and, second, in the event that a predatory lending law does not prohibit class action lawsuits, it is possible that an assignee of loans could be liable in damages for more than the original principal amount of the offending loans held by it and must then seek contribution from other parties, who may no longer exist or have adequate funds available.

Applicable state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices apply to the origination, servicing and collection of loans. Various federal, state and local laws have been enacted that are designed to discourage predatory lending practices. HOEPA prohibits inclusion of certain provisions in loans that have loan rates or origination costs in excess of prescribed levels and requires that borrowers be given certain disclosures prior to the origination. Some states have enacted, or may enact, similar laws or regulations, which in some cases impose restrictions and requirements greater than those in HOEPA. Various federal, state and/or local legislative proposals may be enacted that may adversely affect the servicer's operations or increase its risk of loss in respect of loans and related securities held by the servicer. Therefore, future legislative, regulatory or administrative changes or court decisions may have an adverse effect on the Client and its investments.

Risks Relating to Servicing Rights Transfers. The transfer of servicing rights from other servicers may involve the risk of disruption in collections due to data input errors, misapplied or misdirected payments, system incompatibilities, the requirement to notify the mortgagors about the servicing transfer, delays caused by the transfer of the related servicing files and records to the new servicer, and other reasons. As a result of a servicing transfer and any delays associated with the transfer, the rate of delinquencies and defaults on the affected loans could increase at least for a period of time. There can be no assurance that there will not be disruptions associated with the transfer of servicing or that, if there are disruptions, they will not adversely affect an investment in the Client.

Environmental Risks. Real property 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. The Client, as lender, also risks such liability upon foreclosure on a loan. Any such lien arising with respect to a mortgaged property would adversely affect the value of the mortgaged property and could make foreclosure impracticable. In addition, certain environmental laws impose liability to third parties on owners or operators of real property for personal injury associated with exposure to asbestos, lead paint, radon or other hazardous substances.

Expedited Transactions. The competition in the loan market is intense, and it will often be necessary for the Adviser to bid on a loan (or more likely a pool of loans) without having had time to conduct thorough due diligence on such loans. In such cases, there is a material risk of unexpected defects in title, legal documentation, environmental/political exposure and any number of other factors which can result in material losses for the Client.

Uncertain Status of Securitization. Prior to the Financial Crisis, a very common exit strategy for the holders of loans was to have Wall Street pool these loans and sell mortgage-backed securities representing different components of the economics and risk of such pool — on a public or private basis — to investors. The market for such “securitizations” closed entirely during the Financial Crisis due, among other things, to widespread uncertainty regarding the value of the underlying collateral — despite the investment-grade ratings given to many of the securities issued by each pool of loans.

The Adviser regards securitization as one of several exit strategies which it will potentially use in disposing of a substantial portion of the loans which the Client acquires. While the securitization market has recovered somewhat since the Financial Crisis, it is not nearly as robust as it was before then, and there can be no assurance that securitization (which involves material incremental transaction costs) will be a viable exit strategy for the Client. Any renewed period of financial uncertainty and concerns over the underwriting standards applied to the loans would, presumably, again effectively “shutter” the securitization market.

Resource-Intensive Strategy. The Adviser’s focus on detailed analysis of idiosyncratic factors affecting the loans is a resource-intensive exercise. Although the Adviser makes use of computer programs to “screen” loans and property for further in-depth analysis, such in-depth analysis must be performed by the Adviser’s limited number of personnel.

The Adviser competes in implementing its resource-intensive strategy with other managers with analytic resources and staff many times greater than those the Adviser has or can reasonably be expected to have at any time in the foreseeable future.

Evolving Strategies. The Adviser strategies for loan investing are evolving on an ongoing basis in response to the Adviser’s broadening market experience, changing economic conditions, regulatory adjustments and numerous other factors. The due diligence methodology and process applied by the Adviser may change materially over time as may other aspects of its strategy — including preferred exit strategies, servicing options, etc.

There can be no assurance that the Adviser's strategic approach in the future will not differ materially from what it is at present or that the changes made to the Adviser's strategies will be successful.

THE INTERESTS ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK. THEY ARE SUITABLE ONLY FOR PERSONS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT. THE FOREGOING LIST OF RISK FACTORS NEITHER PURPORTS TO IDENTIFY ALL OF THE RISKS APPLICABLE TO AN INVESTMENT IN THE FUND, NOR PROVIDES A COMPLETE DESCRIPTION OF THE RISKS WHICH ARE, IN FACT, IDENTIFIED.

Item 9 - Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the adviser or the integrity of adviser's management. There are no legal or disciplinary events that are material to an evaluation of the Adviser's advisory services or the integrity of management.

Item 10 - Other Financial Industry Activities and Affiliations

- A. Neither the Adviser nor its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither the Adviser nor its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- C. Neither the Adviser nor its management persons have material arrangements related to their related persons in regard to their advisory business. The Adviser does maintain relationships with non-related persons, and takes steps to mitigate the risks prior to utilizing any particular service.
- D. The Adviser does not select or recommend other investment advisers for its clients.

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

- A. The Adviser has adopted and implemented a Code of Ethics and Securities Trading Policy (the “Code”), which sets forth standards of conduct that are expected of Adviser’s supervised persons. A copy of the Code will be provided to any client or prospective client upon request. The Code requires the Adviser personnel to (among other things):

- Report their personal securities transactions;
- Pre-clear any proposed purchase of any initial public offering or limited offering; and
- Comply with policies and procedures reasonably designed to prevent the misuse of, or trading upon, material non-public information.

Personal securities transactions by the Adviser’s personnel generally are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments. The Adviser and its affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, the Adviser and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Adviser. Accordingly, should the Adviser or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Adviser would be prohibited from communicating such information to clients, and the Adviser will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Fund. The Adviser maintains a restricted list that includes issuers and securities with respect to which supervised persons generally are not permitted to trade without the prior approval of the Chief Compliance Officer. The Adviser has also adopted policies and procedures relating to gifts and entertainment, political contributions and other potential material conflicts of interest.

- B. Neither the Adviser nor its related persons recommend to clients, or buy or sell for client accounts, securities in which they have a material financial interest.
- C. Neither the Adviser nor its related persons directly invest in the same securities that are also recommended for clients.
- D. Not Applicable.

Item 12 - Brokerage Practices

The Adviser does not recommend broker-dealer or other counterparties in connection with the investment activities of the Fund.

Item 13 - Review of Accounts

- A. The principals of the Adviser are responsible for reviewing Fund Investment Portfolios on a regular basis relating to, among other factors, position sizes; exposure levels; and investment strategy compliance.
- B. See Item 13.A. above.
- C. The Adviser provides Fund investors with audited annual financial statements, periodic reports and other communications and all tax information relating to their investments in the Fund necessary for U.S. federal income tax purposes. The Adviser provides the SMA with financial statements, periodic reports and other communications and all tax information relating to its investments necessary for U.S. federal income tax purposes.

Item 14 - Client Referrals and Other Compensation

- A. The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to the Client.
- B. While not a client solicitation arrangement, with respect to potential future Portfolio Investments, the Adviser has entered into agreements with one or more third-party placement agents. These agreements provide for compensation to be paid to the placement agents for referring investors to the Adviser for potential investment in future Portfolio Investments. Under these agreements, the placement agents receive compensation attributable to each prospective investor referred depending upon specific circumstances and restrictions. Any such agreement with a placement agent is disclosed to prospective investors in such potential future Portfolio Investments.

Item 15 – Custody

The Adviser is deemed, under Rule 206(4)-2 of the Advisers Act, to have custody of the assets of the Fund because the Adviser has the authority to deduct fees from client accounts. All assets and securities of the Fund are held by qualified custodians. As noted in Item 13 above, Fund investors receive annual financial statements audited by an independent public accounting firm. Fund investors are urged to carefully review these statements.

Item 16 - Investment Discretion

In accordance with the terms and conditions of the applicable advisory and governing documents, the Adviser does not have discretionary authority to make investments on behalf of the Clients. Accordingly, after the Clients elect, in its sole discretion, to purchase a Portfolio Investment, the Adviser has the authority to determine, subject to the terms and conditions of the applicable advisory and governing documents, which assets within a Portfolio Investment to sell and the duration of the holding period prior to exiting such Portfolio Investment. Despite this broad authority, the Adviser is committed to adhering to the applicable investment strategy and program set forth in the applicable advisory and governing documents.

Item 17 - Voting Client Securities

Due to the nature of Fund investments, the Adviser does not vote on client securities.

Item 18 - Financial Information

- A. The Adviser does not require or solicit prepayment of more than \$1,200, six months or more in advance.
- B. The Adviser does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Client.
- C. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.