

Prophet Capital Asset Management LP

*5000 Plaza on the Lake
Boulevard
Suite 180
Austin, TX 78746
512.327.9500*

Disclosure Brochure

March 30, 2023

This brochure provides information about the qualifications and business practices of Prophet Capital Asset Management LP. If you have any questions about the contents of this brochure, please contact us at 512.327.9500. 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.

Prophet Capital Asset Management LP is an investment adviser registered with the SEC. Such investment adviser registration does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information by which you determine to hire or retain an investment adviser.

Additional information about Prophet Capital Asset Management LP is also available on the SEC’s website at www.adviserinfo.sec.gov

Material Changes

Prophet Capital Asset Management LP (“PCAM, we, us, our, ours”) has not made any material changes to its brochure since its last update on March 30, 2022.

Our complete updated brochure can be obtained by contacting Kurt Rechner, Chief Compliance Officer, by phone at 512.327.9500 or by e-mail at kurt@prophetcapital.net. We will provide a current brochure at any time without charge.

Additional information about PCAM is also available via the SEC’s website, at www.adviserinfo.sec.gov. Information regarding our investment adviser representatives can also be found in the brochure supplement on the page shown in the table of contents to the right of this column.

Table of Contents

<i>Advisory Business.....</i>	<i>1</i>
<i>Fees and Compensation.....</i>	<i>2</i>
<i>Performance Based Fees.....</i>	<i>3</i>
<i>Types of Clients</i>	<i>4</i>
<i>Methods of Analysis, Investment Strategies and Risk of Loss</i>	<i>4</i>
<i>Disciplinary Information</i>	<i>12</i>
<i>Other Financial Industry Activities and Affiliations</i>	<i>12</i>
<i>Code of Ethic, Participation or Interest in Client Transactions and Personal Trading.....</i>	<i>12</i>
<i>Brokerage Practices</i>	<i>13</i>
<i>Review of Accounts</i>	<i>15</i>
<i>Client Referrals and Other Compensation</i>	<i>15</i>
<i>Custody</i>	<i>15</i>
<i>Investment Discretion</i>	<i>16</i>
<i>Voting Client Securities</i>	<i>16</i>
<i>Financial Information.....</i>	<i>17</i>

SEC File Number: 801-70461

CRD Number 150683

Advisory Business

In 1995, Robert Epstein established Prophet Capital Management, Ltd. (“PCM”) to manage investment portfolios. In 1999, he established a hedge fund, Partners in Prophet, Ltd. (“PIP”), with PCM as its portfolio manager.

In 2008, Mr. Epstein (as principal owner) established Prophet Capital Asset Management LP (“PCAM”) and Prophet Capital GP, LLC (“PCGP”) as its general partner. PCAM assumed the role of portfolio manager of PIP in 2008. David Rosenblum was admitted as a limited partner of PCAM in 2009. Kurt Rechner was admitted as a limited partner of PCAM in 2016.

PCAM, which is located in Austin, Texas, is a Delaware limited partnership that has been registered as an investment adviser with the SEC since 2009. PCAM primarily manages proprietary hedge funds and closed-ended credit funds. We also offer asset management services to unaffiliated institutional investors.

Our investment strategies primarily focus on residential and commercial mortgage-backed securities, CLO debt and equity securities, and other types of asset-backed securities, as well as, agency and non-agency residential mortgage loans, commercial real estate mortgage loans, and other similar types of structured assets. However, the PCAM managed funds provide PCAM discretion to invest in a broad range of assets, including commercial debt and publicly-traded and private equity securities. We also provide advice

regarding commodities, real estate, oil and gas interests, public securities, and private equity where we deem such investments are suitable for our clients.

Assets Under Management

As of December 31, 2022, we managed approximately \$2.9 billion in client assets. Approximately \$2.9 billion is managed on a discretionary basis (meaning that we make all of the investment decisions for those clients).

Private Fund Clients

PCAM manages six (6) proprietary commingled funds (disregarding related “feeder” funds). PIP, Prophet Opportunity Partners LP (“POP”), and Prophet Advantage Partners LP (“PAP”) are hedge funds. Additionally, PCAM manages Prophet Real Estate Opportunities LP (“PREO”), a commercial real estate credit fund, Prophet EBO Master Portfolio LP (“PEBO”), which holds pools of government insured U.S. residential mortgages, and Prophet MSR Opportunities LP (“PMSRO”), which holds pools of mortgage servicing rights related to government insured U.S. residential mortgages. PREO, PEBO, and PMSRO are each structured as a private equity-style fund.

At this time, PIP, PREO, PAP and PEBO are no longer being offered and are not accepting additional capital. We can determine to sponsor new proprietary funds, and cease offering or even liquidate existing funds, from time to time in our discretion, subject to the funds’ governing documents.

Fees and Compensation

We offer our services on a fee-only basis. Our standard annual management fee is 2% of the net value of the investment assets we manage for each hedge fund client plus an annual 20% “performance fee” that is based upon realized and unrealized appreciation achieved by a hedge fund client. Our closed-ended funds, PREO, PEBO and PMSRO, bear an annual management fee ranging from 1% to 1.5% of their net asset values, as well as a “carried interest” equal to 20% of distributions in excess of a return on invested capital, subject to a preferred return of 8% to investors. The fees for our separately managed accounts are individually negotiated and, due to the large amounts invested through such accounts, will be calculated in accordance with a different fee structure, which could result in a lower fee structure. Please see the section entitled “Performance-Based Fees” below for more information on that component of our fees.

The fees that the funds and the underlying investors pay to us are negotiable at our sole discretion and vary depending upon the amount of assets we are asked to manage, existing client relationships, and the extent of the services we are asked to provide. For example, investors who invested in PIP prior to December 31, 2008 pay a reduced fee. Certain clients whose portfolios we currently manage have and will continue to have fee structures that are different than those reflected in this brochure. We have discretion to agree to reduce the fees that our clients pay to us, including with respect to one or more investors in such client

proprietary fund. We generally charge the annual management fee in monthly installments (of one-twelfth of our annual fee), which are paid in arrears. The amount of the fee for each investor in our client hedge funds is based on the net value of each underlying investor’s share of the assets at the close of business on the last business day of the month as adjusted for redemptions and new investments.

Fees for the initial month are adjusted pro rata, based upon the number of calendar days in the month that our investment advisory agreement is in effect. Management fees are paid to us directly from the clients for which we provide investment advisory services, and performance fees are allocated to Prophet Capital Incentive, L.P. (“PCI”), an affiliate of PCAM, either directly or indirectly (in the case of PAP, PEBO, and PMSRO).

We determine the values of the assets of our clients through the review of market data and estimated valuations provided by other financial institutions that have experience in trading mortgage-backed securities and other investment assets we manage for our clients. Due to the illiquid nature of some of the investment assets that we manage for our clients, those valuations are not a guarantee of any kind as to the actual value of those assets.

Each client whose portfolio we manage has a third-party fund administrator that is responsible for regularly reporting on the client’s holdings and performance. We arrange for valuation information to be sent to each such administrator who independently calculates our advisory

fee based upon the information that they receive.

The fund administrator provides us with statements that reflect the value of each proprietary fund's investment portfolio. The administrator uses this information to prepare statements for the investors in each of our client funds that reflect the value of the investor's individual ownership interest in the client fund.

Our advisory fees do not include the fees of unaffiliated asset managers or servicers, and advisors, broker-dealers, or custodians incurred in connection with a client's investment activities. Those fees are charged directly to the client funds or institutional client's account and include (but are not limited to):

- custodial fees,
- loan and other asset monitoring, reporting, and loan and mortgage servicing fees,
- brokerage commissions,
- transaction fees,
- pricing service fees,
- legal, accounting and diligence fees and expenses,
- advisory fees of unaffiliated asset managers and investment consultants,
- other fees and taxes on brokerage accounts and securities transactions, and
- administrator, tax preparation, and audit fees.

We do not share or participate in any way in the fees charged by these other third-party service providers. Please be sure to read the section entitled

"Brokerage Practices," which follows later in this brochure.

We can terminate our advisory agreement with a client at any time. Any unpaid fees become immediately due and payable upon termination.

Performance-Based Fees

Performance fees and carried interest are designed to give a portion of the profit of an investment account or private fund to the investment adviser to reward for positive investment performance. A performance fee is generally a percentage of the profits (realized and unrealized) made on the investments in an investment account or hedge fund over a period of time, typically a calendar year. Carried interest (which applies in the case of PREO, PEBO and PMSRO) represents a share of realized profit of a private fund that is distributed to the investment adviser to reward for positive investment performance.

We generally assess performance fees for our hedge funds annually as of December 31 of each year. Our standard performance fee equals 20% of any "new appreciation" in each client's portfolio over that year. "New appreciation" is the increase in the value of a client's portfolio account as of December 31 of the current year as compared to the value in the account as of December 31 of the preceding year after recouping any prior losses in an account or hedge fund (commonly known as a "high water mark"), and adjusting for redemptions and new investments made during the year.

PREO, PEBO, and PMSRO each bear a standard carried interest equal to 20% of distributions in excess of a return on invested capital, subject to a preferred return of 8% to investors.

Such performance fees and carried interest are generally paid directly to PCI; however, in the case of PAP, PEBO, and PMSRO, the performance fees and carried interest are paid indirectly to PCI through an affiliated entity.

Performance fees and carried interest are negotiable. The offering documents for the proprietary fund clients whose assets we manage contain additional details regarding our performance fees and carried interest.

Types of Clients

Currently, we provide investment advisory services to three types of clients (i) three hedge funds (PIP, POP and PAP) that primarily trade fixed income securities and related derivatives (our “hedge funds”), (ii) three “closed ended” (i.e. private equity-style) pooled investment vehicles (one of which (PREO) originates and generally holds commercial real estate loans to maturity, one which (PEBO) acquires and holds pools of residential mortgage loans, and one which (PMSRO) acquires and holds pools of residential mortgage servicing rights), and (iii) institutional clients that pursue strategies similar to those of our proprietary funds. Although PCAM does not have requirements for opening or maintaining an account, our proprietary funds generally require that their investors make a minimum investment of \$5,000,000.

Methods of Analysis, Investment Strategies and Risk of Loss

We select specific investments for the investment portfolios we manage through the use of fundamental and technical analysis.

Fundamental analysis is a method of evaluating an investment by attempting to measure its intrinsic value through examining related economic, financial and other qualitative and quantitative factors. This includes, for example, evaluating a bond’s value considering economic factors such as interest rates and the overall state of the economy and by considering information about the bond’s issuer, such as potential changes in credit ratings.

Technical analysis is a method of evaluating securities by analyzing statistics associated with market activity, such as past prices and trading volume. Technical analysts do not attempt to measure a security’s intrinsic value, but instead use charts and other tools to identify patterns that can suggest future performance.

Our investment strategies for our three hedge funds (PIP, POP and PAP) include long-term and short-term purchases and sales, and the use of options, margin, trading (selling securities shortly after purchasing them) and short sales (selling securities we do not own). Our investment strategies for two of our closed end funds (PREO and PEBO), which are mainly comprised of portfolios of residential or commercial

loans, generally involves a buy/originate and hold to repayment approach.

PCAM's mortgage servicing rights ("MSRs") fund, PMSRO's strategy is to provide direct exposure to the contractual rights to streams of cash flows in connection with the servicing of mortgage loans, including the rights to the cash flows payable to the actual mortgage servicer of a pool of mortgage loans to the extent such cash flows do not exceed a reasonable amount of consideration for normal servicing activities MSRs, and the rights to any amount of cash flows in excess of MSRs ("Excess MSRs").

The institutional clients that we advise under separate management accounts will have individualized investment strategies are designed through consultation with the client.

Each of the strategies we employ entails substantial inherent risks. The offering documents or, in the case of institutional clients, the investment policy for each other client whose portfolio we manage, establishes any applicable restrictions on the types of investments we can purchase or the investment strategies we can employ, as well as risk factors relevant to the investment strategy of the applicable client. Prospective investors should refer to the confidential private placement memorandum of the applicable proprietary funds for specific risk factors relevant to a decision to invest in such fund. Although we manage each client's account in a manner consistent with the specific risk tolerances and investment objectives as described in the applicable fund's

offering documents or a client's investment policy, and attempt to manage these risks through careful research, ongoing monitoring of investments and appropriate hedging techniques, there can be no assurance that the securities and other instruments purchased that are the focus of our strategies will increase in value or that our accounts will not incur significant losses, or that the asset portfolio will maintain anticipated liquidity. Clients and the investors in the proprietary funds whose portfolios we manage should be prepared to bear the risk of loss.

General economic conditions, current interest rates, and a number of other factors can affect performance of the types of assets that are the focus of our investment strategies. To follow are a summary of certain material risks for the primary investment strategies or method of analysis we employ; however, it should be noted that the following discussion does not describe all of the risks that can be faced by existing and potential clients and investors.

Impact of Economic and Financial Crises. Our investment strategies focus primarily on securities related to residential and commercial mortgage loans, residential mortgage-backed securities, commercial mortgage-backed securities, collateralized loan obligations and other structured assets and mortgage-backed securities derivatives collateralized by mortgage loans. These types of credit assets can be materially affected by conditions in the global financial markets and economic conditions in the United States, in particular, such as interest rates, the

availability and cost of credit, borrower payment defaults, inflation rates, economic uncertainty, political uncertainty, changes in laws (including laws relating to taxation), trade barriers and commodity prices.

In 2008 the global capital markets and the financial services industry experienced levels of turmoil unprecedented since the Great Depression of the 1930s. In early 2020, the U.S. and global economies, and financial markets, experienced another crisis following the outbreak of a novel coronavirus that resulted in the global spread of b-coronavirus, SARS-CoV-2, and the resulting disease named COVID-19. In each case, governments around the globe took independent actions to stimulate their economies and stabilize financial markets, with varying degrees of success. These recent financial crises demonstrate that the global financial markets are susceptible to periods of extreme volatility, which can trigger swings in material rates, growing debt loads, uncertainty in the global regulatory environment, and uncertainty about the consequences of the U.S. and other governments applying or withdrawing monetary stimulus measures. Such volatility in the debt financing market offers investment opportunities but can also negatively impact our investment strategies. In addition to the risk of capital losses, the types of assets that we invest in for our clients, even when traded securities, can become highly illiquid at times of volatility in the financial markets.

Force Majeure Events. Our investment strategies are sensitive to instability in the U.S. or global financial

markets, or changes in market and economic conditions, from pandemics and other force majeure-type events. In particular, interest rates and general economic disruptions affect the value of credit investments that our clients can acquire under our management. Disruptions in the global debt markets can impact the price of, as well as the ability to dispose of, mortgages and related securities. The occurrence of such severe shocks could result in the inability of a significant percentage of commercial borrowers to repay their debts and obligations when due, and, furthermore, have a material adverse effect on the availability of credit to businesses and lead to further overall weakening of the U.S. and global economies.

For example, recently the spread of SARS-CoV, and its related disease (COVID-19), caused substantial curtailment of both international and domestic travel, as well as the imposition by governments around the world of restrictions on ordinary social and commercial activities, including national and regional quarantines, shelter-in-place orders and lockdowns. These preventative measures promptly triggered unprecedented levels of illiquidity across global financial markets, including global credit markets. Unprecedented government economic stimulus measures taken in response to the economic shock resulting from the COVID-19 pandemic, had a pronounced impact on global business and the general economic conditions, and continue to do so as they are withdrawn and wear off.

Illiquidity in Credit Markets, Generally. Our strategies include making or acquiring, and holding, whole loans and acquiring other illiquid investments that are thinly traded or for which there are no readily available markets. The absence of a liquid market for these types of investments could limit the ability of our clients to sell such investments at fair market value in response to changes in the economy or the financial markets. At the same time, while the increased involvement of the U.S. Federal Reserve as a purchaser of commercial loans and other fixed income assets has increased liquidity in the credit markets, the Fed's actions have had a distorting effect on credit prices and potentially delay the impact of adverse credit events until the support is withdrawn.

Excess MSR's are highly illiquid and have numerous restrictions on transfers. The duties and obligations of mortgage servicers are defined through contractual agreements. These contracts generally require that holders of Excess MSR's obtain the consent of the servicer, and may require a third-party consent, prior to any change of ownership. The approval may be withheld for any reason or no reason in the discretion of the third party.

Subjectivity in Certain Valuation Determinations. The valuation of many of the assets that our client accounts hold depends on reliable prices or guidance derived from third-party services or market participants. However, third-party pricing information can at times not be available regarding certain of the account's securities, derivatives, and other assets.

Our hedge funds that offer "redemption" rights to investors can be significantly impacted, in particular, by an inability to value even a portion of the fund's assets with a high degree of confidence, as we have the ability to recommend a "suspension" of redemption rights for all investors (thereby cutting off their individual liquidity) in order to protect all of the investors from losses as a result of distressed selling or marking assets on hand when there is a lower degree of confidence in pricing – and, in fact, we suspended redemptions from POP during 2020 for these reasons.

As a result, the valuation of certain types of assets within a client's portfolio can require subjective determinations, and can involve uncertainty, in particular, during periods of market turmoil. The process of valuing securities in the absence of widely accepted market quotations requires subjective consideration of a range of market inputs, and thus the resulting values can differ from values that would have been determined had a ready market existed for such securities and can differ from the prices at which such securities are ultimately sold. If the valuation of securities in a client's account securities proves to be incorrect, the net asset value of such account could be adversely affected, including by being charged excess fees if the valuation overstates the value of such account. And because we are responsible for determining the value of our clients' assets, there will be an apparent conflict of interest in making that determination, given the potential impact of such valuations on an account's performance, particularly with respect to an account that pays

performance fees. Absent bad faith or manifest error, valuation determinations in accordance with our valuation policy will be binding.

Risk of Conflicts from Accounts with Overlapping Strategies. We manage a number of different investment strategies for a number of different clients, which present the possibility of overlapping investments, and thus the potential for conflicts of interests among our clients. If any matter arises that we determine in our good faith judgment constitutes an actual conflict of interest between clients, we will take such actions we deem to be necessary or appropriate to prevent or reduce the conflict. For example, PEBO invests in “early buy-out” residential mortgage loan portfolios (the “EBO Strategy”), as do a number of our institutional clients through separately managed accounts. Although we do not allow different clients to “co-invest” in the same pools of residential mortgage loan, and do not conduct sales of such residential mortgage loans between our clients, we actively manage the conflicts inherent in allocating available pool purchases through an investment allocation policy that we disclose with each of our clients seeking to acquire such mortgage loan portfolios.

Reliance on Professionals. Our clients depend on the skill and expertise of our portfolio managers and other professionals. There can be no assurance that our portfolio managers and such other professionals will continue to be employed by us for any set period of time. The loss of a portfolio manager could have a material

adverse effect on the funds or accounts for which they are responsible.

Risk of Regulatory Action Targeting Our Industry. Market disruptions in recent years and the dramatic increase in the capital allocated to alternative investment strategies have resulted in increasing regulatory scrutiny of the alternative investment fund industry. We could be adversely affected by future changes to regulations to which we and our proprietary funds and client accounts are subject, which changes could materially and adversely affect the trading strategies that we pursue on behalf of our clients, including their existing credit portfolios that we manage. For example, the EBO Strategy and PMSRO’s investment in residential mortgage servicing rights (the “MSR Strategy”), each being focused on U.S. residential mortgage loans, are more susceptible to US federal and state regulatory actions, such as moratoriums on foreclosure during times of economic turmoil or modifications to government loan guarantee schemes.

Risks to Our Mortgage-Based Investment Strategies. Mortgage loans, mortgage-backed securities, mortgage servicing rights and mortgage-backed securities derivatives collateralized by mortgage loans are influenced by the rate of delinquencies and defaults experienced on real estate loans and the severity of the losses incurred as a result of such defaults. The factors influencing delinquencies on real estate loans, defaults and loss severity include:

- economic and real estate market conditions by industry sectors (e.g.,

- multifamily, retail, office, etc.);
- the terms and structure of the mortgage loans; and
- any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Investments in mortgage loans, mortgage servicing rights and mortgage-backed securities are particularly sensitive to changes in prevailing interest rates. The yield and payment characteristics of mortgage-backed securities differ from traditional debt securities. Interest and principal prepayments are made more frequently, usually monthly, over the life of the mortgage loans and principal generally can be prepaid at any time because the underlying mortgage loans generally can be prepaid at any time. Faster or slower prepayments than expected on underlying mortgage loans can dramatically alter the yield to maturity of a mortgage-backed security. Other types of structured finance securities can present risks similar to those of the other types of collateral debt obligations, such as interest rate risks and market risks.

Dependency on Mortgage Servicers

A mortgage servicing right MSR provides a mortgage servicer with the right to service a pool of mortgages in exchange for a portion of the interest payments made on the underlying mortgages. The Funds have the authority to invest in Excess MSRs, which is the excess servicing fee above the base servicing fee established at the time the mortgage loan is originated. PCAM's ability to manage the Funds' investments in Excess MSRs is

dependent on the mortgage servicer performing its servicing obligations in accordance with the applicable servicing agreement. As a result, the Funds could be materially and adversely affected if the servicer is terminated. The duties and obligations of mortgage servicers are defined through contractual agreements, which in the case of an agreement with a government-sponsored enterprise ("GSE") and the Government National Mortgage Association ("Ginnie Mae"), generally provide for the possibility for termination of the servicer in the absolute discretion of the GSE or Ginnie Mae. In the event of a termination by the GSE or Ginnie Mae relating to a particular servicer, the related Excess MSRs could potentially lose all value on a going forward basis. Moreover, the termination of a servicer could take effect across all mortgages being serviced by that servicer. Therefore, to the extent the Funds' capital has been invested in multiple investments relating to mortgages serviced by the same servicer, such as a portfolio of Excess MSRs, all of the Funds' investments could lose all their value in the event of the termination of the servicer. In addition, many servicers also rely on subservicing arrangements with third parties and the failure of subservicers to adequately perform their services may negatively impact the servicer and, as a result, the performance of the related Excess MSRs. Neither PCAM nor the Funds may have recourse to the servicer if the subservicer fails to perform.

Prepayment Rates Prepayment rates can change, adversely affecting the performance of the assets PCAM

manages. The frequency at which prepayments occur on mortgage loans underlying Excess MSRs and Agency RMBS is 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, borrowers tend to prepay their mortgages through mortgage refinancing when prevailing mortgage rates fall below the interest rates on their mortgage loans. When borrowers prepay their mortgage loans at rates that are faster or slower than expected, it results in prepayments that are faster or slower than expected on the related Excess MSRs and Agency RMBS. These faster or slower than expected payments may adversely affect the Funds' performance.

Structured Securities Risks. The value of some structured securities are particularly sensitive to changes in prevailing interest rates. The yield and payment characteristics of the structured securities differ from traditional debt securities. Interest and principal prepayments are made more frequently, usually monthly, over the life of the loans and principal generally may be prepaid at any time because the underlying loans generally may be prepaid at any time. Faster or slower prepayments than expected on underlying loans can dramatically alter the yield to maturity of an asset-backed security. The value of most structured securities, like traditional debt securities, tends to vary inversely with changes in interest rates. The value of such securities may fluctuate in response to the market's perception of the creditworthiness of the issuers. Structured securities also carry credit or

default risk. If many borrowers on the underlying loans default, losses could exceed the credit enhancement level and result in losses to investors in a structured securities transaction. Structured securities may be highly illiquid, and the value of structured securities may fluctuate widely. If a fund is forced to liquidate investments in structured securities to satisfy withdrawals, it may be difficult or impossible to do so on favorable terms and may result in losses.

Risks of Commercial mortgages and CMBS. Commercial mortgage-backed securities (or CMBS) are collateralized by loans with mortgages on real property that serve as multifamily residential housing and other commercial uses, such as retail space, office buildings, warehouse property and hotels. With most commercial mortgage loans the bulk of the loan balance is payable at maturity with a one-time payment, commonly known as a "balloon payment" and is usually non-recourse in nature. The prospect of full repayment of the commercial mortgage loans underlying CMBS depends on the ability of the commercial borrower to generate current income from its commercial property. Also, the likelihood of the commercial borrower repaying the commercial mortgage loan at maturity is heavily influenced by the commercial borrower's ability to secure subsequent financing.

If a commercial borrower defaults on the commercial mortgage loan underlying a CMBS, then the options for financial recovery are limited in nature. In the event of default, the lender will have no right to assets

beyond collateral attached to the commercial mortgage loan. In certain instances, a negotiated settlement or an amendment to the terms of the commercial mortgage loan are the only options before an ultimate foreclosure on the commercial property. Foreclosures can be lengthy and expensive and borrowers often assert claims, counterclaims and defenses to delay or prevent foreclosure actions. At any time during the proceedings, the borrower could file for bankruptcy, which would have the effect of staying the foreclosure action and further delaying the process, and materially increasing the expense thereof, which expenses may not be recoverable. The ultimate disposition of a foreclosed property may also yield a price insufficient to cover the cost of the foreclosure process and the balance attached to the defaulted commercial mortgage loan, which would result in investment losses, and ultimately a decline in the value of CMBS.

Use of Derivatives. We can make extensive use of various types of derivative instruments for our clients. These instruments typically involve highly leveraged exposure to the underlying assets from which their performance is derived. The use of derivatives involves a variety of material risks, including the possibility of counterparty non-performance as well as deviations between the actual and the theoretical value of such derivatives. Derivatives are subject to a wide variety of contractual terms including a range of “early termination events” permitting the counterparty to liquidate the position prematurely. Derivatives can be extremely illiquid.

Personal Information. We and our proprietary funds collect sensitive data, including personal information of employees, clients, investors and other natural persons. The storage and secure processing, maintenance and transmission of this information on third party cloud services are critical to our operations. We have implemented policies and procedures, and have made significant investments in our information technology in order ensure the integrity of the data that we hold and to safeguard against security breaches. Despite our security measures, our information technology and infrastructure remains vulnerable to attacks by third parties or breaches due to employee error, malfeasance or other disruptions, and there can be no assurance that these policies, procedures and measures will be effective. For example, our employees or service providers could be the target of fraudulent emails or other targeted attempts to gain unauthorized access to proprietary or sensitive information that we hold. A significant actual or potential theft, loss, corruption, exposure, fraudulent use or misuse of client, employee or other personal information or proprietary business data, whether by third parties or as a result of employee malfeasance or otherwise, non-compliance with our contractual or other legal obligations regarding such data or intellectual property or a violation of our privacy and security policies with respect to such data could result in significant remediation and other costs, fines, litigation or regulatory actions. Such an event could additionally disrupt operations and the services we provide to clients and investors, damage our

reputation, result in a loss of a competitive advantage, impact our ability to provide timely and accurate financial data, and cause a loss of confidence in our services and financial reporting, which could adversely affect our business and the accounts to which we provide investment advisory services.

Disciplinary Information

PCAM has not been the subject of any legal or disciplinary events that would be material to a client's or prospective client's evaluation of our business or the integrity of our management.

Additional information is available at www.adviserinfo.sec.gov.

Other Financial Industry Activities and Affiliations

As described above, in addition to his position as a founder and partner of PCAM, Robert Epstein is the founder and sole owner of Prophet Capital GP, LLC ("PCGP"). PCGP is the general partner of PCAM and PCI. Mr. Epstein is also the founder and sole owner of Prophet Asset Management, LLC ("PAM") which serves as the general partner for PIP, POP, PEBO, PMSRO and PREO. PAM is wholly owned by Robert Epstein, and is governed by its Board of Managers, which is currently comprised of three managers: Mr. Epstein and two individuals that are not affiliated with PCAM.

PCAM and PCI are owned by Mr. Epstein, David Rosenblum, Kurt Rechner and Michael Hirschberg (a

retired PCAM partner), each of whom is designated as a limited partner in those entities. PCGP owns less than one percent of PCAM and PCI.

While PCAM manages PAP, the general partner of PAP is Prophet Advantage Partners GP LLC ("PAP GP"), which is an affiliate of PCAM through Mr. Epstein's ownership and voting control. PAP GP is managed by a board of managers comprised of Mr. Epstein, Mr. Rechner and James "Rad" Weaver. Mr. Weaver is involved in the investment activities of and fundraising for PAP, and is subject to monitoring by our compliance team in such respects, but he is not an employee of PCAM. PAP GP receives the performance fees paid by PAP, which accrue to PCI (as a member of PAP GP), subject to the payment of the expenses of PAP GP.

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

We have adopted a Code of Ethics ("Code") to address the securities-related conduct of our partners, officers and employees. The Code includes our policies and procedures developed to protect the interests of our clients in relation to the following:

- the duty at all times to place the interests of our clients ahead of our own;
- that all personal securities transactions of our partners, officers and employees be conducted in a manner consistent with the Code and avoid any actual or potential conflict of

interest, or any abuse of their positions of trust and responsibility;

- that our partners, officers and employees cannot take inappropriate advantage of their positions;
- that information concerning the identity of clients, their security holdings and financial circumstances are confidential; and
- that independence in the investment decision-making process is paramount.

We will provide a copy of the Code to clients or investors or prospective clients or investors upon request.

PCAM does not buy or sell securities that we recommend to our clients for its own account. Our partners, officers and employees, however, are permitted to buy or sell the same securities for their personal or family accounts that are bought or sold for the accounts of our clients. This can raise potential conflicts of interest when a partner, officer or employee purchases or sells a security that is also owned by a client, or is being considered for purchase or sale by a client account.

We have adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our partners, officers and employees to act in the best interests of our clients;
- prohibit favoring one client over another; and
- provide for the review of personal

transactions to discover and correct any same-day trades that result in a partner, officer or employee receiving a better price than a client.

Our partners, officers and employees must follow our procedures when purchasing or selling the same securities purchased or sold for client accounts.

Brokerage Practices

We use the prime brokerage services of J.P. Morgan Clearing Corp. (“JP Morgan”) with respect to the proprietary hedge fund portfolios that we manage. “Prime brokerage” refers to a group of services that a securities brokerage firm makes available to certain institutional clients like hedge funds. These services include (among others) transaction settlement, custody of assets, securities lending, and cash management.

We use Bank of New York Mellon (“BONY”) as a secondary prime broker with respect to PIP and POP, our two oldest proprietary hedge funds.

Prospective clients can request that we employ the services of a securities brokerage firm other than JP Morgan to provide prime brokerage services. The selection of a prime brokerage arrangement will be mutually agreed at the time we enter into an investment advisory agreement.

We are independently owned and operated and not affiliated with JP Morgan. Our use of JP Morgan and other broker-dealers, however, can be a

beneficial business arrangement for us and for the broker-dealers.

PCAM has the discretionary authority to both choose the broker-dealer selected for each trade as well as negotiate commissions on behalf of the clients it advises. In selecting broker-dealers to execute transactions for our clients, we consider, among other things, the broker-dealer's:

- existing relationship with us,
- reputation,
- reporting capabilities,
- execution capabilities,
- pricing, and
- types and quality of research.

The determining factor in our selection of a broker-dealer is not the lowest possible transaction charges that it will assess, but whether it can provide what is, in our view, the best qualitative executions for transactions in the accounts of our clients.

Broker-dealers can offer to make available to us products and services that benefit us but not benefit our clients directly. Some of these products and services can assist us in managing and administering our client accounts, such as software and other technology that:

- provide access to account data such as duplicate trade confirmations and duplicate account statements;
- facilitate trade execution, including access to a trading desk serving investment adviser participants exclusively;
- provide pricing information and other market data;

- facilitate payment of our fees from client accounts; and
- assist with back-office functions, record keeping and client reporting.

We do not currently receive soft dollar benefits from JP Morgan or any broker-dealers and will not voluntarily or knowingly make use of soft dollar services for ourselves or our clients. Moreover, we do not receive client referrals from JP Morgan or any broker-dealers.

Custodial fees and other fees for transactions settled through JP Morgan can be higher than the fees charged by other prime brokers providing the same services. We nonetheless believe that our selection of JP Morgan is consistent with our efforts to act in the best interests of all of our clients at all times. Furthermore, PCAM does not warrant or represent that commissions for transactions implemented by the broker-dealers we select are lower than commissions available elsewhere.

We can aggregate the purchase or sale of securities for various client accounts (purchase or sale of a security for the accounts of multiple clients in a single transaction). If we aggregate orders when we have the opportunity to do so, each participating client will receive a price that represents the average of the prices at which all of the transactions in a given block were executed. Aggregating trades allows transaction costs to be shared equally and on a pro rata basis among all of the participating clients. If the order is not completely filled, the securities purchased or sold are distributed among all participating

clients on a pro rata basis or in some other equitable manner.

Aggregate trades are placed only when we reasonably believe that the combination of the transactions provides better prices for clients than had individual transactions been placed for their accounts. We can aggregate trades concurrently in both discretionary and non-discretionary accounts.

Transactions for the account of our partners, officers and employees could be included in aggregate trades. Those transactions will be charged the same average price and pay the same commissions and other transaction costs as clients. Transactions for the accounts of our partners, officers and employees will not be favored over transactions for client accounts.

We are not obligated to include the transactions for any client's account in an aggregate trade. These trades will not be effected for any client if doing so is prohibited in the offering documents for that client. No client will be favored over any other client.

Review of Accounts

We review the investment portfolios of our client accounts on a continuous basis. Account reviews are conducted by Robert Epstein, David Rosenblum, Kurt Rechner (Chief Compliance Officer), Michael Murphy (Chief Financial Officer), and Brooke Courtade (Compliance Officer).

Client Referrals and Other Compensation

We have and can enter into written compensation agreements with unaffiliated third-party solicitors who refer clients to us or prospective investors to our clients. We can agree to pay these solicitors a percentage of the advisory fees paid to us by the clients or investors that they refer to us. These payments will solely be a portion of the fee that we customarily charge and will not result in an increase in the amount of the fee paid by the client or investor.

Any solicitation or referral arrangements will comply with applicable laws and regulations that govern the nature of the service provided. Should a client or proprietary fund investor be referred to us by a third-party to whom we will pay a referral fee, we will provide such client or proprietary fund investor with a written disclosure that describes the specific fees to be paid. We disclose to any impacted investor or client any such arrangements before we pay solicitation or referral fees to the third-party that referred such investors or a client.

Custody

It is Prophet's general policy not to have physical custody of any client assets. As noted above, JP Morgan serves as the prime broker and a qualified custodian of investment assets of our proprietary fund clients (i.e., PIP, POP, PAP, PEBO, and PREO); and for separately managed accounts and PMSRO, BONY-Mellon serves as a qualified custodian. In each case, other brokerage firms (that are also qualified custodians) can custody certain

investment assets of our proprietary fund clients.

Due to the fact that Prophet is deemed to have custody of asset of its proprietary funds because an affiliate entity is their general partner, audited financial statements are prepared separately for each of our fund clients in accordance with generally accepted accounting principles, which are delivered annually to the limited partners of such client funds (generally within 120 days of the end of our clients' fiscal year, except that PIP's audited financial statements are delivered within 180 days of its fiscal year end due to its availing itself of an extended deadline available to "funds of funds").

JP Morgan provides the independent administrator of each of our proprietary fund clients with regular reports on the assets held in the fund and the advisory fee we charge. Each administrator is responsible for confirming the value of client account assets and verifying the accuracy of our advisory fee. Upon request, administrators provide investors in our proprietary funds with regular reports regarding their respective investments.

Institutional or corporate clients will receive statements no less than quarterly from the custodian of their accounts; such clients should carefully review the statements from the custodian.

Investment Discretion

As previously noted, we offer advisory services on both a discretionary and a non-discretionary basis.

When we service a client's account on a discretionary basis, we do not need advance approval from the client to determine the type and amount of securities to be bought and sold for its account. We will only exercise discretion if our client has provided that authority to us in writing. This authorization is typically included in the investment advisory agreement the client enters into with us.

As previously described, PCAM also has the discretionary authority to both choose the broker-dealer selected for each trade, as well as negotiate commissions on behalf of the clients it advises. We will exercise discretion in a manner consistent with the stated investment objectives of each client as set forth in offering documents of the client fund.

When we service a client's account on a non-discretionary basis, we will be permitted to purchase and sell certain types of investments pre-determined by the client, subject to the subsequent review and approval or rejection by the client.

Voting Client Securities

Because of the nature of the securities we purchase and sell for the accounts of our clients, we generally do not receive proxies on behalf of our clients for the majority of the securities we purchase and sell for the accounts of our clients. PCAM can be granted authority by its clients to vote the proxies of the securities held in client portfolios. PCAM has developed proxy voting procedures to ensure that the proxies

are voted in the best interests of its clients.

Similarly, securities held in PCAM client accounts can be named in, or become subject to, class action lawsuits. PCAM has developed procedures taking into account all of the information available to it at the time to ensure that class action legal matters involving any securities in any PCAM client account are handled in the best interest of its clients.

We will provide a copy of the proxy voting policies and procedures and historical information on proxy voting relevant to a client or investor upon request.

Financial Information

We have no financial commitment that impairs our ability to meet contractual and fiduciary obligations to our clients. We have not been the subject of a bankruptcy proceeding.