



## Item 1 – Cover Page

# ZAIS GROUP, LLC

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This brochure provides information about the qualifications and business practices of ZAIS Group, LLC (“ZAIS Group” or “ZAIS”). If you have any questions about the contents of this brochure, please contact us at (732) 978-7551 and/or [karen.shapiro@zaisgroup.com](mailto:karen.shapiro@zaisgroup.com). 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.

ZAIS is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Additional information about ZAIS is also available on the SEC website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

Since the last annual update on March 28, 2018:

On May 18, 2018, ZAIS Group Holdings, Inc. (“ZGH”), ZAIS’s direct parent company, completed a merger that constituted a “going private transaction” under SEC rules. This transaction was carried out by Christian Zugel, ZAIS’s Founder and Managing Member, and Daniel Curry, ZAIS’s President. Consequently, ZAIS is no longer part of a publicly traded company. By December 31, 2018 and following further restructuring, ZAIS is now wholly owned, directly or indirectly, by Messrs. Zugel and Curry and affiliates of Mr. Zugel.

We will provide you with a new brochure as necessary based on material changes or new information, at any time, without charge.

You may request our brochure by contacting Karen L. Shapiro, Chief Compliance Officer, at 732-978-7551 or [karen.shapiro@zaisgroup.com](mailto:karen.shapiro@zaisgroup.com). Our brochure is also available on our web site [www.zaisgroup.com](http://www.zaisgroup.com), free of charge.



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## Item 4 – Advisory Business

ZAIS Group was established as a Delaware limited liability company in July 1997 and is registered as an investment adviser with the United States Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended. ZAIS is also registered as a Commodity Pool Operator and Commodity Trading Advisor with the Commodities Futures Trading Commission, and is a member of the National Futures Association. ZAIS Group (UK) Limited, ZAIS’s London subsidiary, is authorized and regulated by the Financial Conduct Authority in the United Kingdom. ZAIS is owned 100% by ZAIS Group Holdings, Inc. (“ZGH”).

ZAIS’s investment management services focus on specialized credit investments. Using ZAIS’s credit expertise, analytics platform, market share and experienced credit analysts, ZAIS provides a range of alternative and traditional investment management services to pooled investment vehicles and separately managed accounts. The terms of private accounts are negotiated when each account is established and the documents are executed. Every private account has a signed agreement identifying the type of instruments the account will invest in, any restrictions on the types of investments and the services ZAIS provides. The offering documents for each pooled investment vehicle identify the type of instruments in which the vehicle will invest, any investment restrictions or limitations and the advisory services that ZAIS will provide. The primary asset classes ZAIS manages are described below: Item 8 of this Brochure describes ZAIS’s strategies for trading the described assets.

ZAIS provides investment advice on structured products including:

- Investment Grade Credit, including mainly collateralized loan obligations (“CLO”) tranches
- High Yield Credit, including mainly CLO tranches
- Senior Secured Bank Debt
- Securitized Credit, including collateralized debt obligations (“CDOs”) and other asset backed securities
- Derivatives
- Synthetic Securities
- Residential Mortgage Backed Securities (RMBS)
- Asset Backed Securities
- Commercial Mortgage Backed Securities (CMBS)

These investments are subject to credit, liquidity, interest rate, market, operations, fraud and structural risks. In addition, concentrations in particular investments and in investments issued or guaranteed by affiliated obligors, serviced by the same servicer, managed by the same

collateral manager or backed by underlying collateral located in a specific geographic region may subject investors to additional risk.

ZAIS serves as collateral manager for CLO vehicles and CDO vehicles (collectively, the “Vehicles”). In that capacity, ZAIS provides ongoing collateral and asset management services to the Vehicles.

ZAIS also invests in Commercial Real Estate, and engages in credit trading strategies, using Options and Interest Rate, Credit Default and Total Return Swaps.

As of December 31, 2018, ZAIS had \$6,025,265,244 in regulatory assets under management of which \$5,968,945,153 is on a discretionary basis and \$56,320,091 is non-discretionary.

## **Item 5 – Fees and Compensation**

ZAIS Group earns management fees for funds and separately managed accounts based on (i) the net asset value of these funds and separately managed accounts before the accrual of incentive fees or allocations or (ii) drawn capital during the commitment period. ZAIS Group earns management fees for the Vehicles generally based on the par value of the collateral and cash held in the Vehicles.

ZAIS Group typically collects management fees monthly or quarterly, as specified in each investment management agreement, by (i) preparing a calculation and invoicing its clients of separately managed accounts and (ii) reviewing and approving the calculation of management fees prepared by the administrator, in the case of funds. Funds and separately managed accounts may either prepay their management fees or pay in arrears. Should a management agreement terminate for any prepaying client before the end of a billing period, a refund will be calculated and the refund will be applied to the final accounting for the client.

Senior management fees earned from the Vehicles are calculated by the Vehicle’s Trustee, reviewed and approved by ZAIS and paid to ZAIS Group on the quarterly waterfall date which is specific to each Vehicle. In addition to the senior management fee income mentioned above, subordinated management fees also may be earned from the Vehicles. The subordinated management fee is an additional payment for the same service, but has a lower priority in the Vehicles’ cash flows and is contingent upon the economic performance of each Vehicle. If the Vehicles experience a certain level of asset defaults, these fees may not be paid. There is no recovery by the Vehicles of previously paid subordinated fees.

The process for calculating, reviewing, approving and paying the subordinated management fee is the same as for the senior management fees.

The following table presents the range of management fee rates generally charged on the ZAIS Managed Entities during the year ended December 31, 2018:

**Management Fee Income<sup>(1)(2)</sup>**

Funds and accounts	0.35% - 1.25%
Vehicles <sup>(3)</sup>	0.15% - 0.50%

<sup>(1)</sup> Certain management and incentive fees have been and may in the future be adjusted or waived; therefore, the actual fees may be different from those reflected in the range.

<sup>(2)</sup> ZAIS Group did not earn management fee income on two funds in which it had made investments that carried first loss risk. ZAIS Group received distributions of its pro rata share of the gains and losses related to its investments in these funds and incentive income equal to 50% of the net investment gains for the management of these funds. These funds' subadvisory agreements were terminated in March 2018.

<sup>(3)</sup> Includes collateral management fee income for CLOs.

Where expressly contemplated by the relevant fund offering documents or investment management agreement, some ZAIS-managed funds and/or accounts may invest in ZAIS-managed Vehicles, with fees charged at both levels. ZAIS will not charge such dual fees without appropriate disclosure in the fund offering documents or authorizing provisions in the investment management agreement.

**Expense Allocation**

ZAIS limits the expenses that may be charged to clients to conform, first, with each client's investment management agreement and/or disclosure documents, as applicable, and second, absent client-specific provisions, with ZAIS's internal policy. Allocable expenses generally include:

- Fund (or other vehicle) formation expenses, including related legal counsel fees; and
- Product-specific research subscriptions, e.g., Intex, Markit.

Fund clients (or other Vehicles) also pay certain expenses that are directly billed, such as Administrators, custodians; transaction costs, e.g., brokerage commissions, exchange transaction fees, margin interest and the like and annual fund audits and tax filing preparation, to the extent applicable.

Overhead Expenses will not be charged to clients, absent specific authorization, and generally include:

- Staff salaries;
- Rent, utilities, office supplies and equipment including corporate information technology;
- General market data services, e.g., Bloomberg;
- Other manager-related operating expenses, e.g., legal and consulting expenses, general liability and other insurance premiums; and
- Travel and entertainment.

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

The entities ZAIS manages (“ZAIS Managed Entities”) with hedge fund-style fee arrangements generally pay ZAIS Group an annual incentive fee or allocation based on a percentage of the net realized and unrealized profits attributable to each investor, subject to a hurdle (if any) set forth in each entity’s investment management agreement. Additionally, ZAIS Managed Entities with hedge fund-style fee arrangements are subject to a perpetual loss carry forward, or “perpetual high-water mark,” meaning that the ZAIS Managed Entities will not pay incentive fees or allocations with respect to positive investment performance generated for an investor in any year following negative investment performance until that loss is recouped, and an investor’s capital balance surpasses the high-water mark.

ZAIS Managed Entities with private equity-style fee arrangements pay an incentive fee or allocation based on a priority of payments under which investors must receive their capital and a preferred return, as specified in the applicable investment management agreement, prior to any payments of incentive income to ZAIS Group.

In both hedge fund-style and private equity-style fee arrangements, ZAIS Group also collects an incentive fee or allocation upon an investor redemption or withdrawal if the criteria outlined above are met.

For the Vehicles, incentive income is earned based on a percentage of cumulative profits, subject to the return of contributed capital, payment of subordinate management fees (if any) and a preferred inception to date return as specified in each Vehicle’s collateral management agreement.

ZAIS Group (i) prepares a calculation of the incentive fee and invoices its clients of separately managed accounts and (ii) reviews and approves the calculations of the incentive fee or allocation prepared by the administrator for the funds or by the Trustee for the Vehicles.

The following table presents the range of incentive fee rates generally charged on the ZAIS Managed Entities during the year ended December 31, 2018:

**Incentive Income<sup>(1)(2)</sup>**

Funds and accounts	10% - 20%
Vehicles <sup>(3)</sup>	20%

- (1) Certain management and incentive fees have been and may in the future be adjusted or waived and therefore the actual fees rates may be different from those reflected in the range.
- (2) Incentive income earned for certain ZAIS Managed Entities is subject to a hurdle rate of return as specified in each ZAIS Managed Entity's operative agreement.
- (3) Includes incentive income for Structured Products, subject to each Vehicle's hurdle.

In light of varying incentive fees, ZAIS Group could have an incentive to favor any accounts that pay higher performance fees. To mitigate this potential conflict of interest, ZAIS manages all accounts in a similar manner and consistent with its rigorous Allocations policy. Similarly, incentive fees could create a conflict of interest and incentivize ZAIS to over-value investments. To mitigate this potential conflict of interest, ZAIS's Valuation Committee operates independently from its portfolio managers and is chaired by its Chief Financial Officer.

**Item 7 – Types of Clients**

ZAIS Group provides investment advisory services to pooled private investment funds and other vehicles, and to private accounts. Investors in the pooled vehicles are accredited and qualified; separately managed account clients are predominately institutional investors.

Minimum investment amounts for private accounts are negotiated at the time an account is established, and the initial commitments will depend on the complexity of the separate account. Pooled investment vehicles have minimum investment amounts that are set out in their offering documents. These amounts are dictated in some cases by the regulatory authority with jurisdiction over the investment vehicle.

Minimum investments in feeder funds for the pooled vehicles ZAIS currently offers is \$5 million. ZAIS reserves the right to waive or modify these minimums, in its sole discretion. Additionally, eligible ZAIS personnel may invest in either fund in amounts below the stated minimums.

The minimum investments in our Luxembourg Société d'investissement à Capital Variable ("SICAV") are €125,000 for Euro-denominated sub-funds and \$200,000 for USD-denominated sub-funds.

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

Investments involve risk of loss that clients should be prepared to bear. The following are summaries of ZAIS's assets, strategies and their principal risks. More detailed disclosure is generally included in the offering document relating to a fund or will be provided on request to a managed account client.

### **CLO Securities**

CLO securities are subject to credit, liquidity and interest rate risks. In addition, holders of CLO securities are subject to many of the same risks applicable to holders of RMBS, discussed below. CLO securities generally are limited recourse obligations payable solely from the related CLO collateral or its proceeds. If distributions on the underlying CLO collateral are insufficient to make payments on the CLO securities, no other assets will be available to pay the deficiency, and after the underlying assets have been sold, the CLO's obligation to pay any deficiency will be extinguished.

CLO collateral generally consists of high yield and non-investment grade-rated loans, structured finance securities, high yield debt securities and other instruments that are typically rated below investment grade. High yield debt securities and certain loans may be unsecured and may be subordinated to certain other obligations of the issuer.

### **Structured Finance Securities**

Investments in structured finance securities differ from those of traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying debt instruments generally may be prepaid at any time. Credit card receivables, automobile, boat and recreational vehicle installment sales contracts, commercial and industrial bank loans, home equity loans and lines of credit, manufactured housing loans, corporate debt securities and various types of accounts receivable commonly support structured finance securities. Holders of structured finance securities bear various risks, including credit, liquidity, interest rate, market, operations, structural and legal risks. The risk of investing in structured finance securities ultimately depends on the debtors paying their loans.

### **Residential Mortgage-Backed Securities (“RMBS”)**

Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans, which may be prepaid at any time. Residential mortgage loans are obligations of the borrowers only and are not typically insured or guaranteed by any other person or entity, although some loans may be securitized by government agencies. The rate of prepayment defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the loan and the borrower’s financial circumstances and equity in the mortgaged property. If a residential mortgage loan is in default, foreclosure may be a lengthy and difficult process, and may involve significant expenses. Further, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

### **Commercial Mortgage-Backed Securities (“CMBS”) and Commercial Real Estate**

Collateral underlying CMBS generally consists of mortgage loans secured by income producing property, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, rental apartments, nursing homes, senior living centers, student housing facilities and self-storage properties. Performance of a commercial mortgage loan depends primarily on the net income generated by the underlying mortgaged property. The market value of a commercial property similarly depends on its income-generating ability. As a result, income generation will affect both the likelihood of default and the severity of losses with respect to a commercial mortgage loan. Any decrease in income or value of the commercial real estate underlying an issue of CMBS could result in cash flow delays and losses on the related issue of CMBS. Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower.

### **Synthetic Securities**

ZAIS invests some client assets in synthetic securities, the reference obligations of which may be substantially the same as CLO securities or structured finance securities. Investments in synthetic securities present risks in addition to those of directly purchasing the underlying reference obligation securities or structured finance securities. For each synthetic security, a fund will usually have a contractual relationship only with the counterparty of the synthetic security and not the obligor on the reference obligation. A fund generally will have no right directly to enforce the reference obligor’s compliance with the terms of the reference obligation, nor any rights of set-off against the reference obligor, nor directly benefit from the collateral, if any, supporting the reference obligation and will not have the benefit of the remedies that would normally be available to a holder of the reference obligation. In addition

to general market risks, synthetic securities are subject to liquidity risk and the counterparty's credit risk. ZAIS also invests in other synthetic securities, including TRS and CDX Derivatives.

### **Repackaged Securities**

Investments may consist of trust certificates or similar securities of the type generally considered to be repackaged securities. Repackaged securities may present risks similar to those of the other types of investments that may have greater significance for repackaged securities. Repackaged securities may be subject to prepayment risk, credit, liquidity, market, structural, legal and interest rate risks. These risks may depend on any associated hedge agreement providing for the exchange of interest accruing on the security being repackaged into interest stated to be payable on the trust certificates or similar securities. The performance of a repackaged security will be affected by a variety of factors, including the level and timing of payments and recoveries on and the characteristics of the underlying collateral, the remoteness of those assets from the originator or transferor and the adequacy of and ability to realize upon the collateral.

### **Bank Debt and Leveraged Loans**

Bank debt includes interests in loans to companies or their affiliates to finance a capital restructuring or in connection with recapitalizations, acquisitions, leveraged buyouts, refinancing or other leveraged transactions and may include loans designed to provide temporary or bridge financing to a borrower pending the sale of identified assets, the arrangement of longer-term loans or the issuance and sale of debt obligations. These loans, which may bear fixed or floating rates, have generally been arranged through private negotiations between a corporate borrower and one or more financial institutions ("Lenders"), including banks. Investment may be in the form of participations in loans ("Participations") or of assignments of all or a portion of loans from third parties ("Assignments").

In certain cases, the rights and obligations acquired through the purchase of an Assignment may differ from, and be more limited than, those held by the assigning seller. Assignments are sold strictly without recourse to the selling institutions, and the selling institutions will generally make no representations or warranties about the underlying loan, the borrowers, the loans' documentation or any collateral securing the loans.

Interests in loans are also subject to additional liquidity risks. Loans are generally subject to legal or contractual restrictions on resale. Loans are not listed on any securities exchange or automatic quotation system; rather, they are traded by banks and other institutional investors engaged in loan syndication. As a result, no active market may exist for some loans. ZAIS relies on third party pricing sources to value these loans. The accuracy and/or reliability of the pricing depends on the loan's liquidity.

## **Short Sales**

ZAIS sometimes engages in short sales of index instruments. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on a portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

There is also the risk that the securities borrowed for a short sale must be returned to the securities lender on short notice. If ZAIS is asked to return borrowed securities when other short sellers of the security are receiving similar requests, a “short squeeze” can occur, and ZAIS may have to replace the borrowed securities with purchases on the open market at the most disadvantageous time, possibly at prices significantly higher than the proceeds received in the original short sale. ZAIS’s inability to continue to borrow securities previously sold short may also force ZAIS to unwind other elements of an investment position, possibly at a loss. From time to time, regulatory or legislative action taken by regulators around the world may restrict the ability of ZAIS to enter into short sales.

## **Options**

Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Because option premiums paid or received by an investor are small in relation to the market value of the investments underlying the options, buying and selling put and call options can result in large amounts of leverage. As a result, the leverage offered by trading in options could cause the value of a fund to be subject to more frequent and wider fluctuations and potentially greater losses than would be the case if it did not invest in options.

## **Cybersecurity Risk**

In the course of conducting its business, ZAIS and its third party service providers process, store and transmit electronic information, including personally identifiable information (“PII”) about its clients and investors, including transaction information and know-your-customer information. While we and our providers have in place policies, procedures and systems to protect this data from loss and security breaches, these procedures may not protect against all threats, and may not identify an intrusion until long after the incident, as the nature of the threats changes frequently and detection software cannot always keep pace with these new developments. Further, bad actors often take measures to thwart detection, which can further impede identifying and remediating a breach. As a result, there can be no assurance that

information about ZAIS's clients and investors, including their PII and transactions, will not be improperly accessed, used or disclosed.

Additionally, a significant breach of ZAIS's network could cause a disruption of business, financial loss, regulatory scrutiny and reputational harm which, in turn, could adversely affect ZAIS's clients, our investors and ZAIS.

## **Item 9 – Disciplinary Information**

ZAIS Group is required to disclose all material facts about any legal or disciplinary events that would be material to your evaluation of ZAIS or the integrity of its management. ZAIS has no items to disclose.

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

ZAIS Group is registered with the CFTC as a commodity trading advisor and commodity pool operator. Certain of its personnel are registered as associated persons. ZAIS operates its funds under the requirements of Commodity Exchange Act Section 4.7. The CFTC does not address the merits of a particular pool or the adequacy or accuracy of any offering memorandum or other disclosure statement.

ZAIS's wholly owned subsidiaries and Relying Advisers, ZAIS Leveraged Loan Manager, LLC, ZAIS Leveraged Loan Manager 2, LLC, ZAIS Leveraged Loan Manager 3, LLC and ZAIS Leveraged Loan Master Manager, LLC provide ongoing collateral and asset management services to support ZAIS's CLO management business.

ZAIS UK Limited, a wholly owned ZAIS subsidiary incorporated under the laws of England and Wales, is the controlling member of ZAIS Group UK. ZAIS Group UK, a company formed under the laws of England and Wales, holds Part IV permission under the Financial Services and Markets Act 2000.

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

ZAIS Group has adopted a Code of Ethics stating its commitment to maintain the highest ethical standards. In keeping with these standards, ZAIS personnel must always place clients' interests ahead of their own interests.

In managing ZAIS's private accounts and pooled investment vehicles, there may be occasions when it becomes appropriate to transfer an investment from one client to another. ZAIS's policy states that the price for these transfers will be determined on a basis that is fair, reasonable and equitable to all clients and in a manner that avoids any actual or appearance of favoritism or discrimination among clients.

ZAIS policy permits cross trades so long as no client is disfavored. Generally, cross trades between clients will be permitted if: (1) third party bids are obtained to assess appropriate market values, (2) ZAIS receives any necessary client permissions; and (3) complete records are maintained. Any cross trades involving assets for which third party bids are not available will only be executed after obtaining a reasonable, independent indicator of value and approval from the ZAIS Conflicts and Cross Trades Committee. If there is an overall investment strategy that impacts the re-allocation of multiple securities from one set of clients to another through a series of cross trades over time, the Conflicts and Cross Trades Committee will consider the impact of those trades on the underlying client accounts. No cross trades to implement such a strategy may be executed until and unless the Committee has approved the strategy. ZAIS does not receive any special compensation for cross trades.

While cross trades may create the appearance of a conflict of interest, ZAIS believes its cross trade procedures mitigate the potential conflict and provide all parties to the transaction with a fair and equitable price.

ZAIS generally does not buy or sell securities for itself or sell securities it owns to any client, or buy or sell for itself securities that it recommends to clients. In exceptional circumstances, ZAIS will buy securities from or sell securities to one or more clients. When ZAIS acts as a principal in such a transaction, it complies with Section 206(3) of the Advisers Act, after review by and approval from ZAIS's Conflicts and Cross Trades Committee or CCO, as appropriate.

ZAIS and its principals and/or related persons invest in certain entities that ZAIS or its affiliates manage and in managers of funds and entities in which clients of ZAIS may invest. Any of the former type of investments would require approval from ZAIS's Chief Compliance Officer, who may in her discretion refer a matter to the ZAIS Conflicts and Cross Trades Committee.

Under ZAIS's Code of Ethics and policy on personal investments, all personnel must pre-clear investments in private placement and initial public offering securities. To monitor compliance with the Code of Ethics, ZAIS requires that personnel provide statements of securities holdings not less than quarterly and an annual Code of Ethics Certification that provides, among other things, a list of (i) all investment accounts over which they have investment control (including certain related persons' accounts), (ii) their outside business activities, (iii) any significant role they or their related persons have in certain external businesses and (iii) any securities in

which such personnel or any related person has any beneficial ownership, to ZAIS's Compliance Department.

ZAIS will provide a copy of its Code of Ethics to any client or prospective client upon request. Clients may request a copy of the Code of Ethics by email at [compliance@zaisgroup.com](mailto:compliance@zaisgroup.com).

## **Item 12 – Brokerage Practices**

ZAIS Group generally has the authority to select the broker or dealer to be used and negotiate the commission rates or, as in most instances, markups or markdowns, to be paid without obtaining specific client consent. In selecting brokers or dealers, ZAIS is not required to solicit competitive bids and is not obligated to seek the lowest possible execution cost but, rather, seeks the best execution in light of the circumstances of each transaction, giving consideration to qualitative as well as quantitative factors.

ZAIS, as a matter of policy, will aggregate client transactions where possible and when advantageous to clients. Generally, ZAIS will not aggregate client transactions with transactions for ZAIS and its personnel or principals.

ZAIS, as a matter of policy, does not use brokerage commissions (or markups or markdowns) to obtain research or other products or services (so-called "Soft Dollars"). As such, ZAIS has no incentive to select or recommend a broker or dealer based on its interest in receiving the research or related services, rather than on clients' interest in receiving best execution.

Several advisory clients have investment strategies and investment policies that are the same as or substantially similar to other clients. Accordingly, clients may invest in many of the same securities and issues. ZAIS allocates investment opportunities and aggregated trades to clients in a fair and equitable manner over time, consistent with each client's stated investment objectives, and will never allocate trades based on an account's performance or fee structure.

In determining the allocation of trades, ZAIS considers each participating account's size, diversification, cash availability, investment objectives, life cycle and any other relevant factors. Any partial fills are allocated pro-rata among the participating clients per the specified allocation unless otherwise designated in writing. Minimal deviations from the intended allocation are permitted in the interest of maintaining round lots. Clients participating in any aggregated transactions receive an average price; transaction costs are shared on a pro-rata basis.

ZAIS strives to execute trades in a timely and accurate manner. Occasionally, though, personnel make trade errors, such as:

- a) Trades that should not have occurred (e.g., trades that are not legally permitted, not within a client's mandate or not authorized by a fund's governing document), or
- b) Trades that were erroneously executed (e.g., incorrect security, quantity, price, terms or allocation).

ZAIS takes appropriate action to correct or limit the consequences of any trade errors, and to date, has always allocated any resulting profit for the benefit of the affected client and reimbursed the client for any resulting losses.

### **Item 13 – Review of Accounts**

ZAIS Group's Financial Reporting Department reviews all periodic net asset value ("NAV") reports prepared by the vehicles' administrator. In most cases, the NAV report is prepared monthly, although some clients and investors receive quarterly reports.

ZAIS reviews all periodic trustee reports for structured vehicles, such as CLOs and CDOs, where a trustee has been appointed. Trustee reports are typically distributed to investors monthly and on distribution dates.

In addition, an experienced Portfolio Manager is assigned to each vehicle and account, and is responsible for monitoring and maintaining compliance with applicable guidelines. The Portfolio Manager is responsible for reviewing the above reports before they are distributed.

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

ZAIS Group has agreements with third party marketing representatives to solicit prospective investors for ZAIS-managed funds or a separately managed account. When referrals are made, ZAIS pays a negotiated fee based on assets under management or net profits referred by the representatives. Currently, two third parties, Silver Leaf Partners, LLC and Phoenix Capital Advisory Pty Ltd., are actively soliciting prospective new clients or investors and will be compensated for any successful solicitations. ZAIS continues to pay Greensledge Capital Markets, LLC for services provided in connection with the advisory clients it previously brought to ZAIS. While the use of third party marketers can potentially give rise to a conflict of interest if the marketers put their interests in being paid a referral fee ahead of the client's or investor's interest in receiving suitable recommendations, we believe our clients and investors are sufficiently sophisticated to decide whether investing with ZAIS is in their interest. Additionally, all prospective clients conduct extensive diligence on ZAIS; prospective fund investors receive a detailed private placement memorandum and have the opportunity to ask questions.

Consequently, we believe prospects receive sufficient information to make well informed decisions before investing with ZAIS.

## **Item 15 – Custody**

ZAIS Group does not have physical custody of any client funds. Although, pursuant to Rule 206(4) of the Adviser's Act, ZAIS is deemed to have custody of certain fund assets by virtue of its role as a general partner of private investment partnerships and/or sponsor of collective investment vehicles, all such assets are held in the name of each of the applicable funds by an independent qualified custodian. Such funds produce audited financial statements and deliver them to investors within 120 days following such fund's fiscal year end, as required by applicable law.

Clients should receive at least quarterly statements from the broker-dealer, bank or, the qualified custodian that holds and maintains their investment assets. You should carefully review your statements and compare the official custodial records to any account statements ZAIS provides to you. ZAIS's statements may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies for certain securities.

## **Item 16 – Investment Discretion**

ZAIS Group usually receives discretionary authority from its clients at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. If a client does not grant discretion, all transactions are submitted to the client for approval before execution.

When selecting securities and determining amounts, ZAIS observes its clients' stated investment policies, limitations and restrictions. If ZAIS begins to advise or sub-advise ERISA plans, and/or registered investment companies, its authority to trade securities will be limited by certain federal securities and/or tax laws that impose restrictions on investment managers and/or require diversification of investments and favor holding rather than actively trading investments.

Investment guidelines and restrictions must be provided to ZAIS in writing.

## **Item 17 – Voting Client Securities**

ZAIS Group considers corporate action notices to be a form of proxy voting. Exercising proxy discretion can (but does not always) have economic value for ZAIS's clients. When ZAIS

determines that exercising proxy discretion does have value for one or more clients, it votes in a prudent and diligent manner based on its reasonable judgment of what will serve its clients' financial interest. If a client has authorized ZAIS to vote proxies on its behalf, ZAIS generally will not accept instructions from the client or an investor about how to vote.

ZAIS has not adopted standing instructions about exercising proxy discretion. ZAIS makes each decision based on its analysis of and judgment about each situation's particular facts and circumstances. In exercising proxy discretion, ZAIS does not subordinate its clients' economic interests to any other entity or interested party, including those of ZAIS, its personnel, affiliates, business associates or other clients. There may be instances when certain consideration, such as waiver or amendment fees, is paid for exercising proxy discretion. Any such consideration belongs to the affected ZAIS client and not to ZAIS or its affiliates or personnel. ZAIS seeks to identify and address material conflicts that may arise between and/or among ZAIS interests and those of its clients and investors before voting proxies. Any such conflicts would be addressed by ZAIS's Conflicts and Cross Trades Committee. Clients and investors can request information on how ZAIS voted on their securities by directing questions to [compliance@zaisgroup.com](mailto:compliance@zaisgroup.com).

## **Item 18 – Financial Information**

ZAIS Group is required to provide you with certain financial information or disclosures about its financial condition. ZAIS does not solicit the prepayment of fees more than one quarter in advance. ZAIS has no financial condition that would impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of any bankruptcy proceeding.