February 13, 2018

Dear Shareholders,

We are writing to provide our commentary on the February 9, 2018 ruling by the U.S. Court of Appeals for the D.C. Circuit regarding the U.S. risk retention regulations of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") in the case *Loan Syndications & Trading Association v. Securities and Exchange Commission* ("LSTA v. SEC").

Will the Court's decision affect EJFI's Investment Objective?

No. One of the core investment objectives of EJF Investments Limited ("EJFI" or the "Company") is to own debt issued by small U.S. banks and insurance companies. These institutions enjoy four tailwinds: (1) concrete deregulatory steps taken by the Federal Reserve, the Trump Administration and Congress; (2) rising interest rates; (3) corporate tax cuts; and (4) deregulatory and market forces promoting industry consolidation. We believe it is extremely difficult for non-U.S. investors to gain exposure to this compelling asset class. Through its interest in an affiliate of EJF Capital LLC ("EJF"), EJFI has the first right to purchase 5% of the residual interest (or equity tranche) of securitizations sponsored by EJF, with the option to purchase additional residual interests. The diversified debt securities collateralizing these securitizations are issued by small U.S. banks and insurance companies. *This investment objective will not change regardless of the judicial outcome of LSTA v. SEC.* If EJFI had a larger pool of capital to deploy, it would seek to purchase more, not less, residual interests of EJF managed securitizations.

Will EJF face increased competition if U.S. risk retention regulations go away?

EJF does not expect competition in its space to develop. While one would logically expect that the barriers to entry for open market CLOs of broadly-syndicated high yield loans will be lowered and greater competition will develop, EJF's securitizations are focused exclusively on highly regulated small bank and insurance company collateral. *It is our belief that the limiting barrier to entry in these types of securitizations is not capital to purchase risk retention residual interests, but rather access to debt issued by U.S. small bank and insurance companies.*

What did the Court decide?

In late 2014, the SEC and the three primary federal banking regulators (Federal Reserve, Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation) (collectively the "Agencies") issued regulations implementing Section 941 of the Dodd-Frank Act. Section 941 sought to require certain participants in a securitization to retain economic interests reflecting risk associated with the assets underlying the securitization. The statute, among other things, directed the Agencies to issue regulations "to require any securitizer to retain an economic interest in a portion of the credit risk for any asset that the securitizer, through the issuance of an asset-backed security, transfers, sells, or

conveys to a third party." The Agencies issued regulations that deemed managers of open market CLOs as "securitizers" for this purpose and thus subject to the risk retention regulations. As a result, since late 2016, managers of open market CLOs have had to retain interests in CLOs sponsored representing financial exposure to the performance of the loans supporting CLOs, beyond the exposure that investors would otherwise have required them to retain.

An industry group representing CLO managers, the Loan Syndications and Trading Association ("LSTA"), brought a suit against the Agencies challenging their interpretation of Dodd-Frank. After a federal district court ruled against the LSTA, a three-judge panel of the D.C. Circuit reversed the lower court and rejected the construction of the Dodd-Frank statute put forth by the Agencies. The Court held that the statute does not authorize the Agencies to subject open market CLO managers to U.S. risk retention regulation because those managers are not "securitizers." To be a securitizer for purposes of Section 941, the Court concluded, "a party must actually be a transferor, relinquishing ownership or control of assets to an issuer" of the securitization notes. Because managers of open market CLOs do not own or control assets that are transferred to a CLO issuer and do not otherwise transfer assets to the issuer, they are not "securitizers" for purposes of the statute. The Court found that the Dodd-Frank statute thus does not authorize the Agencies to regulate open market CLO managers as "securitizers" or to impose risk retention obligations upon them.

A copy of the full court opinion can be found at:
https://www.cadc.uscourts.gov/internet/opinions.nsf/871D769D4527442A8525822F0052E1E9/$file/17-5004-1717230.pdf

Will the Court's ruling affect CLO managers immediately?

The Court's decision is not immediately effective. The government has 45 days in which to decide whether to seek review before the full D.C. Circuit. The Court's panel decision does not address which parties may or must retain risk under E.U. risk retention rules when those rules are applicable.

Will the Court's decision apply to EJF?

It is not clear from the Court's decision whether its conclusions regarding the non-applicability of the risk retention requirements to open market CLO managers apply to EJF and its securitization activities. The Court, however, noted that the reasoning of its decision may well apply to managers of other types of securitizations.

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Chief Executive Officer
EJF Investments Manager LLC

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