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This brochure provides information about the qualifications and business practices of Axonic Capital LLC, a Delaware limited liability company (“**Axonic**”, the “**Firm**”, “**we**”, “**us**” or “**our**”). If you have any questions about the contents of this brochure, please contact Jess Saypoff, Axonic's Chief Compliance Officer (“**CCO**”), at (212) 828-7297.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“**SEC**”) or by any state securities authority.

**Additional information about Axonic also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Axonic is a SEC-registered investment adviser. Registration does not imply a certain level of skill or training.

**Item 2: Material Changes**

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This brochure contains certain changes from the Other-Than-Annual Amendment which was filed with the SEC on August 3, 2012. The material changes that are reflected in this brochure from the last Form ADV filing dated February 6, 2012 are as follows:

Please refer to Items 4 and 8 of this brochure, which has been amended to indicate that Axonic is managing Axonic Residential Asset Fund I, LP, Axonic Systematic Arbitrage Overseas Fund, Ltd, Axonic Systematic Arbitrage Fund, LP, Axonic Systematic Arbitrage Master Fund, LP, OC 523 Offshore Fund Ltd and OC 523 Master Fund, Ltd.

Please refer to Item 10 this brochure, which has been amended to reflect the registration of Axonic as a commodity pool operator.

In the future, we will use this section to report any material changes.

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**Item 4: Advisory Business**

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Formed in December 2010, Axonic serves as investment manager to the investment funds named below. Clayton DeGiacinto controls and is the principal owner of Axonic.

Axonic Credit Opportunities Overseas Fund, Ltd and Axonic Credit Opportunities Fund, LP (collectively, the “**Credit Opportunity Feeder Funds**”) invest substantially all of their assets in the Axonic Credit Opportunities Master Fund, LP (the “**Credit Opportunity Master Fund**” and, together with the Credit Opportunity Feeder Funds, the “**Credit Opportunity Funds**”).

Axonic Systematic Arbitrage Overseas Fund, Ltd and Axonic Systematic Arbitrage Fund, LP (collectively, the “**Systematic Arbitrage Feeder Funds**”) invest substantially all of their assets in the Axonic Systematic Arbitrage Master Fund, LP (the “**Systematic Arbitrage Master Fund**” and, together with the Systematic Arbitrage Feeder Funds, the “**Systematic Arbitrage Funds**”).

The OC 523 Offshore Fund Ltd invests substantially all of its assets in the OC 523 Master Fund, Ltd (together with OC 523 Offshore Fund Ltd, the “**OC 523 Funds**”).

Axonic Capital GP LLC is the general partner of Axonic Credit Opportunities Master Fund, LP, Axonic Systematic Arbitrage Master Fund, LP and OC 523 Master Fund, Ltd (collectively, the “**Master Funds**”) and Axonic Residential Asset Fund I GP, LLC is the general partner to Axonic Residential Asset Fund I, LP (the “**Residential Asset Fund**”). The Credit Opportunity Feeder Funds, the Systematic Arbitrage Feeder Funds and the OC 523 Offshore Fund Ltd are herein collectively referred to as the “**Feeder Funds**”. The Master Funds, the Feeder Funds and the Residential Asset Fund, are herein collectively referred to as the “**Funds**”. Axonic Capital GP, LLC and Axonic Residential Asset Fund I GP, LLC are herein collectively referred to as the “**General Partners**”. The General Partners are controlled by Clayton DeGiacinto. Accordingly, Axonic, the General Partners and the Funds may be deemed to be under common control.

Investors in the Funds include limited partners who invest in the Feeder Funds and the Residential Asset Fund, and are herein collectively referred to as the “**Investors**”.

Our clients consist of the Funds, and our investment advice is tailored to the principal investment objective for each Fund. See Item 8: Methods of Analysis, Investment Strategies and Risk of Loss. Investment restrictions (if any) for each Fund are set forth in the offering documents for that Fund.

As of December 31, 2012 Axonic managed \$2.3 billion in regulatory assets under management on a discretionary basis on behalf of its clients.

*This brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended, and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Persons reviewing this brochure should not construe this brochure as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

## Item 5: Fees and Compensation

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The fees and compensation applicable to each Fund are set forth in detail in that Fund's offering documents and are summarized below.

### *Management Fees*

As compensation for investment advisory services rendered, we deduct a management fee calculated at the annual rate of not more than 2.0% of each Investor's capital account (the "**Management Fee**"). While specific to each Fund, the Management Fee is generally paid monthly in arrears based on the value of each capital account as of the last day of each calendar month (adjusted for contributions made during the month). We may, in our sole discretion, waive or modify the Management Fee for Investors that are members, employees or affiliates of Axonic, relatives of those persons, and for certain large or strategic Investors.

### *Performance Allocations*

For the Credit Opportunities Funds, the Systematic Arbitrage Funds and the OC 523 Funds, Axonic or an affiliate will receive an annual performance allocation of not more than 20.0% of each Fund's annual net profits (the "**Annual Performance Allocation**"), if any, subject to a "loss carry forward" provision. For the Residential Asset Fund, Axonic or an affiliate will receive a performance allocation of not more than 20.0% in respect of amounts distributable to Investors in relation to disposed properties, subject to a cumulative 8% return on capital with respect to the disposed properties (such allocation, together with the Annual Performance Allocation, are referred to herein collectively as the "**Performance Allocations**"). The Performance Allocations are negotiable for Investors and we may waive or reduce the Performance Allocation for Investors that are members, principals, employees or affiliates of Axonic, relatives of those persons, and for certain large or strategic Investors.

### *Withdrawal Fee*

While specific to each Fund, Investors generally pay withdrawal fees of 5% to 10% for certain capital withdrawals. Withdrawal fees are generally deducted from amounts to be distributed to Investors upon redemption. The withdrawal fees are negotiable for Investors and we may waive or reduce the withdrawal fees for Investors that are members, principals, employees or affiliates of Axonic, relatives of those persons, and for certain other Investors.

### *Expenses*

In addition to the Management Fees, Performance Allocations and withdrawal fees, each Fund will be subject to expenses, including but not limited to (i) investment-related expenses (whether related to investments that are consummated or unconsummated), such as brokerage commissions and fees, research, due diligence, acquisition and surveillance expenses (including data and software fees, related travel expenses, legal fees and expenses, and appraisal fees and expenses), interest on margin accounts and other indebtedness, custodial fees, bank service fees and other expenses related to the purchase, sale, financing or transmittal of the Fund's assets and (ii) other expenses related to the operation and administration of the Fund, including fund administrator fees and expenses, directors' and advisors' fees and expenses, fees and expenses for legal, compliance, accounting, auditing, tax and other professionals, insurance premiums (including for E&O and D&O insurance), organizational and offering expenses (in certain cases), third-party

valuation agent fees, licensing and filing fees, taxes and other governmental charges, and litigation and indemnification expenses. In general, the Feeder Funds will indirectly share the administrative and other expenses of the related Master Funds pro rata based upon their interests in the related Master Fund. The Residential Asset Fund will also incur expenses related to its real estate investments (whether related to investments that are consummated or unconsummated) and leasing activities. Some expenses may be capitalized. Please refer to Item 12 of this brochure for a discussion of our brokerage practices.

### ***Side Letters***

We may enter into agreements (sometimes referred to as “**side letters**”) with certain prospective, initial or existing Investors whereby such Investors may be subject to terms and conditions that are more advantageous than those set for other Investors. For example, such terms and conditions may provide for special rights to make future investments in the Funds, other investment vehicles or managed accounts; a reduction or rebate in Management Fees and/or Performance Allocations to be paid by the Investor; rights to receive reports from the Funds on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions) and such other rights which we may negotiate with such Investors. The terms of such side letters are provided solely at our discretion and may be based upon the size or timing of the Investor’s investment in the Funds (or in an affiliated entity), an agreement by the Investor to maintain such investment in the Fund for a certain period of time, or a similar or other type of commitment made by an Investor.

### **Item 6: Performance-Based Allocations and Side-By-Side Management**

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As stated in Item 5: Fees and Compensation, we receive a Performance Allocation in relation to each Fund.

The fact that we are compensated through a Performance Allocation may create an incentive for us to make investments that are riskier or more speculative than would be the case in the absence of such compensation. In addition, in certain cases, the Performance Allocations may be based both on realized and unrealized gains and losses and, as a result, the Performance Allocation which we earn could be based upon unrealized gains that Investors may never realize.

In our allocation of investment opportunities to clients, the Performance Allocation arrangements could create an incentive for us to favor a higher or lower allocation of certain opportunities to certain clients over other clients. We have procedures in place aimed at preventing conflicts and intended to ensure that all clients are treated fairly and to prevent any potential conflicts from influencing our investment recommendations and the allocation of investment opportunities among clients. Please refer to Item 12 of this brochure for further information. Our procedures are intended to ensure fair and equitable allocation among clients. These areas are monitored by the CCO.

No other hourly, flat or asset-based fees are charged.

### **Item 7: Types of Clients**

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Axonic provides investment advisory services directly to the Funds. Investors in the Funds may include high net worth individuals, pension plans and retirement accounts, endowments, foundations, trusts, estates or charitable organizations, other funds (including other Axonic-

managed Funds), family offices, private banks and investment managers, and other individuals and corporate or business entities.

Details concerning applicable Investor suitability criteria and minimum investment amounts are set forth in the Funds' offering documents and subscription materials. Although we and our affiliates have the authority to accept subscriptions for lesser amounts, the minimum initial investment in the Funds is generally \$1 million. Each Investor is required to meet certain suitability qualifications, such as being an "accredited investor" for purposes of Regulation D under the Securities Act of 1933, as amended, and a "qualified client" for purposes of Rule 205-3 under the Investment Advisers Act of 1940 (the "**Advisers Act**"). Additionally, Investors in the Systematic Arbitrage Funds must meet the criteria for "Qualified Eligible Persons" under Regulation 4.7 of the Commodity Futures Trading Commission (the "**CFTC**").

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

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*The descriptions set forth in this brochure of specific advisory services that we offer to clients, and investment strategies pursued and investments made by us on behalf of clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this brochure, that we consider appropriate, subject to each client's investment objectives and guidelines.*

The following is a summary of the strategies and methods we use in formulating advice or managing assets for the Funds.

#### ***Methods of Analysis & Investment Strategy***

##### ***Credit Opportunity Funds***

The Credit Opportunity Funds' principal investment objective is to achieve a positive return on capital by primarily investing in single credit and structured credit products, including public and private U.S. and non-U.S. mortgage-backed securities and consumer-receivable-backed securities including asset-backed securities ("**ABS**"), commercial mortgage securities ("**CMBS**"), collateralized debt obligations ("**CDO**"), collateralized loan obligations ("**CLO**"), insurance-linked securities ("**ILS**"), whole loans, whole loan mortgages, high-yield and corporate bonds, and various single-name and index credit default swaps. In addition, various over the counter and exchange traded derivatives, including various swaps, options, swaptions, futures and forward agreements (both listed and over-the-counter) on various financial instruments, equity securities, government securities, treasuries, currencies and commodities may be used for speculative or hedging purposes. Positions may be leveraged, and may be financed by various sources of funding, including bank lines, margin trading, short positions and repurchase arrangements.

Our investment strategy for the Credit Opportunity Funds relies primarily on three components: (i) our ability to identify and purchase appropriate securities, (ii) an intensive analytical approach to risk management and portfolio construction and (iii) our ability to construct a blended portfolio of risk-based assets and hedges with a return profile over time that demonstrates increased total return while mitigating discrete risks. We carry out our investment process and risk control procedures by applying various valuation tools including our own risk and valuation pricing engine.

***OC 523 Funds***

The OC 523 Funds' principal investment objective is to achieve a positive return on capital by primarily investing in mortgage and consumer receivable cashflow determined securities. The OC 523 Funds may invest in public and private U.S. and non- U.S. mortgage-backed securities and consumer-receivable-backed securities including ABS, CMBS, CDOs, ILS, whole loans, whole loan mortgages, high-yield and corporate bonds, and various single-name and index credit default swaps. In addition, various derivatives, including swaps, options, swaptions, futures and forward agreements (both listed and over-the-counter) on various financial instruments, equity securities, government securities, treasuries, currencies and commodities may be used for speculative or hedging purposes. Positions may be leveraged, and may be financed by various sources of funding, including bank lines, margin trading, short positions and repurchase arrangements.

The investment strategy for the OC 523 Funds relies primarily on three components: (i) our ability to identify and purchase appropriate securities, (ii) an intensive analytical approach to risk management and portfolio construction, and (iii) our ability to construct a blended portfolio of risk-based assets and hedges with a return profile over time that demonstrates increased total return while mitigating discrete risks. We carry out investment process and risk control procedures by applying various valuation tools including our own risk and valuation pricing engine.

***Systematic Arbitrage Funds***

The Systematic Arbitrage Funds' principal investment objective is to achieve a positive return on capital by primarily investing in agency mortgage-backed securities and global fixed income derivative markets. The Systematic Arbitrage Funds use a quantitative investment strategy and may invest in U.S. agency mortgage-backed securities, interest rate swaps, swaptions, fixed-income futures and options, as well as equity and FX variance swaps. In addition, derivatives, both listed and over-the-counter, such as options, futures, forwards and variance swaps on various financial instruments, U.S. and non-U.S. mortgage-backed securities, such as commercial mortgage securities, equity securities, government securities, treasuries, currencies and commodities, exchange traded funds, single-name and index credit default swaps may be used for speculative or hedging purposes. Positions may be leveraged, and may be financed by various sources of funding, including bank lines, margin trading, short positions and repurchase arrangements.

The Systematic Arbitrage Funds' investment strategy relies primarily on three components: (i) our ability to identify persistent inefficiencies and relative value opportunities based on a set of robustly tested systematic rules; (ii) an intensive analytical approach to risk management and portfolio construction; and (iii) our ability to construct a blended portfolio of risk-based assets and hedges with a return profile over time that demonstrates increased total return while mitigating discrete risks. We carry out the investment process and risk control procedures by applying various tools including our own return forecast engine and risk model.



***Residential Assets Fund***

The Residential Assets Fund's principal investment objective is to achieve significant current income and long-term capital appreciation through the acquisition, rental and ultimate sale of single family and multiple family residential properties principally located in the south-eastern part of United States.

We actively participate in the acquisition, management and disposition of the residential properties acquired by the Residential Assets Fund. We believe the Residential Assets Fund will benefit from our experience in (i) identifying and evaluating properties that can be acquired at "below-market" prices; (ii) coordination of acquisitions at favorable prices; (iii) assessing due diligence inspections and arranging for any necessary renovations or required periodic repairs on an economical and timely basis; (iv) managing and coordinating leasing and re-leasing services; and (v) determining the appropriate time to sell the properties for a profit and coordinating the sale process.

***Risk Factors***

*Acquiring an interest in a private investment fund involves a number of risks, including complete loss of investment. An investment in the Funds may be deemed a speculative investment and is designed for sophisticated Investors who fully understand and are capable of bearing the risk of investment. No guarantee or representation is made that a Fund will achieve its investment objective or that Investors in a Fund will receive a return of their capital. The description contained below is a brief overview of different material risks related to our investment strategy and an investment in a Fund. This list does not purport to be a complete enumeration or explanation of the risks involved in our strategy or an investment in the Funds.*

*Limitations on Redemptions and Transfers of Interests in the Funds* – An Investor's investment in the Funds is subject to the structure and terms of each Fund as set forth in that Fund's offering documents and subscription materials. Although Investors in certain Funds may request redemption of their interests on available redemption dates, the Funds may impose limitations on redemptions and may delay payment of a portion of the redemption price. There is no public market for interests in the Funds and those interests may not be sold, assigned, or transferred without our or our consent. Interests in the Funds will not be registered under federal or state securities laws and may not be transferred unless registered under applicable federal and state securities laws or unless an exemption from such registration is available.

*Commercial and Residential Mortgage-Backed Securities* – Investing in commercial and residential mortgage-backed securities involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations (including the risk of principal prepayment and the risk of investing in real estate). Mortgage-backed securities generally provide for the payment of interest and principal on the mortgage-backed securities on a frequent basis and there also exists the possibility, particularly with respect to residential mortgage-backed securities, that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. As a result of prepayments, the Funds may be required to reinvest assets at an inopportune time, which may expose the Funds to a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security, and may have the effect of shortening or extending the effective maturity beyond what was anticipated.

*Asset-Backed Securities* – Asset-backed securities are subject to interest rate risk and, to a lesser degree, prepayment risk. Asset-backed securities may also be subject to additional risks in that, unlike mortgage-backed securities, some asset-backed securities do not have the benefit of a security interest in the related collateral. Each type of asset-backed security also entails unique risks depending on the type of assets involved and the legal structure used. For example, credit card receivables are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer credit laws, many of which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Asset-backed securities typically experience credit risk.

*Structured Investments* – The Funds may invest in entities organized and operated for the purpose of restructuring the investment characteristics of other debt securities. These investments will typically consist of equity or subordinated debt securities issued by a private investment fund that invests, on a leveraged basis, in debt instruments, including primarily senior loans and high yield bonds and mortgage-backed securities and asset-backed securities, directly or through total rate of return swaps or other credit derivatives. The cash flow on the underlying instruments maybe apportioned among the newly issued security to create securities with different investment characteristics such as varying maturities, payment priorities and interest rate provisions, and the extent of the payments made with respect to such securities is dependent on the extent of the cash flow on the underlying instruments. Because the Funds will not own these assets directly, they will not benefit from rights that holders of the assets have, including indemnification and voting rights.

*Changes in the Residential Mortgage Lending Market* – The residential mortgage market has been an attractive environment for finding value in securities, loans and other instruments. There can be no assurance that we will be continue to be able to do so.

*Bank Debt* – The Funds may invest its assets in bank debt, which includes interests in loans to companies or their affiliates undertaken to finance a capital restructuring or in connection with recapitalizations, acquisitions, leveraged buyouts, refinancing or other financially leveraged transactions and may include loans that are 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. The Funds may also invest in collateral on financial instruments, including interests on whole commercial, consumer and other loans and lease contracts. 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. The Fund’s 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**”).

Investments in Participations and Assignments involve additional risks, including the risk of nonpayment of principal and interest by the borrower, the risk that any loan collateral may become impaired and that the Fund may obtain less than the full value for the loan interests sold because they may be illiquid. Purchasers of loans depend primarily upon the creditworthiness of the borrower for payment of interest and repayment of principal. If scheduled interest or principal payments are not made, the value of the instrument may be adversely affected. Participations may also have the risk that the counterparty to the participation becomes insolvent.

*Credit Derivatives* – Credit derivatives are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. Such instruments may include one or more debtors. Payments under credit derivatives may be made during the exercise period of the

contracts. The market for credit derivatives may be illiquid and there are considerable risks that it may be difficult to either buy or sell the contracts as needed or at reasonable prices.

*Interest Rate Risk* – The Funds are subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase.

*Distressed Investments* – The Funds may invest in debt and equity securities, accounts and notes payable, loans, private claims and other financial instruments and obligations of troubled companies that may result in significant returns to the Funds, but which involve a substantial degree of risk. The Funds may lose their entire investment in a troubled company, may be required to accept cash or securities with a value less than the Funds' investment and may be prohibited from exercising certain rights with respect to such an investment. Troubled company investments may not show any returns for a considerable period of time.

*Leverage* – The Funds may utilize leverage. Leverage increases returns to Investors if the Funds earn a greater return on leveraged investments than the Funds' cost of such leverage. However, the use of leverage exposes the Funds to additional levels of risk including (i) greater losses from investments than would otherwise have been the case had the Funds not borrowed to make the investments, (ii) margin calls or changes in margin requirements may force premature liquidations of investment positions, (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Funds' cost of leverage related to such investments and (iv) fluctuations in interest rates on the Funds' borrowings, which may have a negative effect on the Funds' profitability. In case of a sudden, precipitous drop in the value of the Funds' assets, the Funds might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying the losses incurred by the Funds.

*Concentrated Portfolio* – At times, a Fund may have a concentrated portfolio. Accordingly, a Fund's portfolio may not be diversified among a wide range of issuers, industries, geographic areas, capitalizations or types of securities and may have relatively significant, concentrated positions. As a result, the investment portfolio of a Fund may be subject to more rapid changes in value than would be the case if the Fund were required to maintain a wide diversification among issuers, industries, geographic areas, capitalizations or types of securities.

*Options* – The purchase or sale of an option involves the payment or receipt of a premium by a party and the corresponding right or obligation, as the case may be, either to purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the buyer loses its premium. Selling options involves potentially greater risk because the seller is exposed to the extent of the actual price movement in the underlying instrument rather than only the premium payment (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

*Non-U.S. Securities* – Investing in securities of foreign governments and companies that are generally denominated in currencies other than the U.S. dollar, and utilization of foreign currency forward contracts and options on foreign currencies involve certain considerations comprising both risks and opportunities not typically associated with investing in securities of United States issuers.

*Highly Volatile Markets* – The prices of financial instruments in which the Funds may invest can be highly volatile. Price movements of forward and other derivative contracts in which a Fund's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The Funds are subject to the risk of failure of any of the exchanges on which its positions trade or of their clearinghouses.

*Counterparty Risk* – The Funds' assets may be held in one or more accounts maintained for the Funds by counterparties, including their prime brokers, and some of the markets in which we trade for the Funds are "over-the-counter", such as derivatives, repurchase transactions and certain short positions. This exposes the Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem or a counterparty insolvency, thus causing the Funds to suffer a loss.

*Residential Properties* – The Residential Asset Fund invests in real estate properties. Accordingly, the Residential Asset Fund's investments will be subject to the risks incident to the ownership of real estate, including risks associated with changes in the general economic climate, changes in the overall real estate market, local real estate conditions, the financial condition of tenants, buyers and sellers of properties, supply of or demand for competing properties in an area, accelerated construction activity, technological innovations that may dramatically alter space requirements, the availability of financing, changes in interest rates, competition based on rental rates, energy and supply shortages, various uninsured and uninsurable risks (including possible terrorist activity) and law and government regulations, including federal and state environmental laws, regulations and administrative rulings which, among other things, establish standards for the treatment, storage and disposal of solid and hazardous waste, and the imposition of joint and several liability on past and present owners of real property for hazardous substance remediation and removal costs, zoning laws and transfer taxes.

*Other* – To the extent that any of the Funds engage in frequent trading, such frequent trading can increase costs, including brokerage and other transaction costs and taxes, which can affect investment performance. Also, an Investor's tax liability related to an investment in a Fund could exceed the amount distributed to the Investor by the Fund in a particular year.

For a comprehensive discussion of the risks involved in investing in the Funds please see the relevant offering documents and subscription materials.

#### **Item 9: Disciplinary Information**

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Neither we nor any of our management personnel are subject to, or have in the past been subject to, any criminal or civil action in any domestic or foreign court, and neither we nor any of our management personnel have been subject to any administrative proceedings before the SEC or any other state, federal or foreign financial regulatory authority.

**Item 10: Other Financial Industry Activities and Affiliations**

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Axonic applied for approval as a registered Commodity Pool Operator with the CFTC in December 2012 and was approved in February 2013. Axonic was simultaneously approved as a member of the National Futures Association (“NFA”).

Axonic and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

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***Participation or Interest in Client Transactions***

Pursuant to Rule 204A-1 under the Advisers Act, we have adopted a written Code of Ethics predicated on the principal that we owe a fiduciary duty to our clients. The Code of Ethics is designed to address and avoid potential conflicts of interest and is applicable to the Firm’s officers, directors, members, partners and employees (collectively referred to as “employees”). We require our employees to act in our clients’ best interests, abide by all applicable regulations and avoid any action that is, or could even appear to be, legally or ethically improper.

Our Code of Ethics requires, among other things, that our employees:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients, and the interests of Axonic above one’s own personal interests;
- Adhere to the fundamental standard that an employee may not take inappropriate advantage of his or her position with the Firm;
- Avoid and disclose any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with Firm policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect positively upon yourself and the profession;
- Promote the integrity of and uphold the rules governing the capital markets;
- Maintain and improve professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with all applicable provisions of the federal securities laws.

In order to manage conflicts of interest, our Code of Ethics requires employees to:

- Pre-clear certain personal securities transactions;
- Report personal securities transactions on at least a quarterly basis; and
- Provide us with a detailed summary of certain securities holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

A copy of our Code of Ethics will be provided to any Investor or prospective Investor upon request.

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**Item 12: Brokerage Practices**

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As an adviser and a fiduciary to the Funds, we require that the Funds' interests must always be placed first and foremost, and our trading practices and procedures prohibit unfair trading practices and seek to disclose and avoid any actual or potential conflicts of interests or resolve such conflicts in the Funds' favor. We have adopted the following policies and practices to meet the Firm's fiduciary responsibilities and to ensure our trading practices are fair to all Funds and that no Fund or client is advantaged or disadvantaged over any other.

In selecting brokers for execution, we assess the reasonableness of their compensation and commissions charged based on the range and quality of a broker's services including execution capability, trading expertise, accuracy of execution, commission rates, research, reputation and integrity, fairness in resolving disputes, financial responsibility and responsiveness.

***Soft Dollar Benefits***

Although Fund specific, we are generally permitted by the Funds' governing documents to utilize "soft dollars", which are generated by trading activities to purchase research services or products that would otherwise have been an expense of the Firm.

Generally, research services provided by broker dealers may include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues. Such research services are received primarily in the form of written reports, telephone contacts, industry conferences, and personal meetings with security analysts. In addition, such research services may be provided in the form of access to various computer-generated data, software, and meetings arranged with corporate and industry spokespersons, economists, academicians, and government representatives.

Presently, we do not use soft dollars. Should we decide to enter into such soft dollar arrangements, we intend to limit the usage of soft dollars for obtaining research and brokerage services so as to remain within the guidance set forth in Section 28(e) of the United States Securities Exchange Act of 1934, as amended.

***Best Execution***

As a matter of policy and practice, we seek to obtain best execution for client transactions, i.e., seeking to obtain not necessarily the lowest commission but the best overall qualitative execution in the particular circumstances. Other components that we analyze in seeking best execution are timeliness of having a transaction executed by a broker, the value of research provided, the responsiveness of the broker to us and the financial responsibility of the broker.

***Aggregated Trades***

The aggregation or blocking of client transactions allows an adviser to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to the Funds.

Axonic currently conducts all trading activity within the Master Funds and in the Residential Assets Fund. Our policy is to aggregate transactions where possible and when advantageous to the Funds. In these instances, Funds participating in any aggregated transactions will receive an average share price and transaction costs will be shared on a pro-rata basis.

***Allocations***

Our policy prohibits any allocation of trades in a manner that results in more favorable treatment being provided to proprietary accounts, affiliated accounts or any one Fund or client account over another.

We have adopted a policy intended to achieve the fair and equitable allocation of transactions. We generally analyse each trade, taking into consideration the specifics of each trade and the characteristics of each Fund. To the extent that multiple Funds or accounts participate in a particular transaction, such transaction will generally be allocated pro-rata, unless we determine that facts specific to the transaction and Funds or accounts warrant an alternative allocation methodology.

***Principal Trading***

Our policy and practice is to not engage in any principal transactions for the account of Axonic Capital LLC.

***Trade Errors***

As a fiduciary, we have the responsibility to effect orders correctly, promptly and in the best interests of the Funds. In the event that any error occurs in the handling of any Fund transactions, due to our actions, or inaction, or actions of others, our policy is to assess each trade error on a case-by-case basis, and to correct the error promptly and in the best interests of the Funds and so as to avoid incurring a loss to the Fund. The goal of the error correction is to make the Fund “whole”, subject to limits which are set forth in the investment management agreement for each Fund.

In correcting trade errors, any hedge fund gains from trade errors may not offset losses from trade errors, unless the underlying transactions constitute a single transaction. Any hedge fund gains caused by trade errors will be credited to the affected Fund(s). In addition, soft dollars may not be used to pay for correcting our trading errors.

**Item 13: Review of Accounts**

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***Review of Accounts***

Our portfolio manager and investment professionals monitor and analyze Funds’ transactions, positions, and investment levels on an ongoing basis to ensure that they conform with the Funds’ stated investment objectives and guidelines. In these reviews, we pay particular attention to any

changes in the investment's fundamentals, overall risk management and changes in the markets that may affect price levels.

### ***Reporting***

We distribute to Investors in a Fund audited financial reports annually and monthly performance reports for the Fund.

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

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Axonic has and may continue to enter into arrangements to compensate third parties for referring potential clients or Investors to Axonic. Axonic compensates third parties only if the client or Investor is aware of the fee arrangements (through disclosures or acknowledgments included in a Fund's subscription document) and the arrangement otherwise complies with applicable law, rules and regulations, including, if applicable, Rule 206(4)-3 under the Advisers Act.

### **Item 15: Custody**

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We will comply with the requirements of Rule 206(4)-2 under the Advisers Act with regard to custody of assets of the Funds ("**Custody Rule**").

The Master Funds' and Feeder Funds' accounts are held in custody at qualified custodians including unaffiliated broker-dealers or banking institutions. The Residential Assets Fund's cash and liquid investments are held in custody at qualified custodians including unaffiliated broker-dealers or banking institutions. Title to real properties is generally taken in the name of a separate trust of which the Residential Assets Fund is the beneficiary and an affiliate of Axonic is the Trustee.

Both Axonic and the General Partners are deemed to have custody of client assets. In accordance with the SEC's custody rule, each of the Funds is audited on an annual basis. Copies of these audited financial statements are distributed to Investors in a Fund within 120 days of the Fund's fiscal year end.

### **Item 16: Investment Discretion**

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As previously noted, we have full discretionary authority to manage the Funds, including authority to make decisions with respect to which assets are bought and sold, the amount and price of those assets, the brokers or dealers or sellers or buyers to be used for a particular transaction, and the commissions paid. Our authority is limited by our internal policies and procedures and by each Fund's investment guidelines. These terms are set out in the private placement memoranda and in the governing documents of each Fund.

### **Item 17: Voting Client Securities**

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#### ***Proxy Voting Policy***

Axonic accepts authority to vote proxies for clients' securities holdings. In accordance with its fiduciary duty to clients under Rule 206(4)-6 under the Advisers Act, we have adopted and implemented policies and procedures governing the voting of client securities. We will vote



proxies and other issuer solicitations in the best interests of our Funds. All proxies that we receive will be treated in accordance with these policies and procedures. Investors may not direct proxy voting for particular solicitations.

We consider the reputation, experience, and competence of a company's management and board of directors when we evaluate a prospective investment. Generally, we will vote in favor of what would be deemed as routine corporate matters, including the election of directors (where no corporate governance issues are implicated), the selection of auditors and increases in or reclassification of common stock. For other proposals, we will determine whether a proposal is in the best interests of the Funds and may take into account the following factors, among others: whether the proposal was recommended by management (and, to this end, our opinion of management); whether the proposal acts to entrench existing management; and whether the proposal fairly compensates management for past and future performance.

If we identify any material conflict of interest, we will determine whether voting in accordance with our voting guidelines and factors is in the best interests of the Funds.

A copy of our proxy voting policies and procedures is available upon request.

#### **Item 18: Financial Information**

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Axonic has never filed for bankruptcy and is not aware of any financial condition which would negatively affect our ability to manage client accounts.