

Item 1.



**Sovarnum Capital L.P.
Part 2A of Form ADV**

The Brochure

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This brochure provides information about the qualifications and business practices of Sovarnum Capital L.P. ("Sovarnum" or the "Firm"). If you have any questions about the contents of this brochure, please contact us at (212) 698-8060. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about the Firm is also available on the SEC's website at:
www.adviserinfo.sec.gov

Sovarnum is registered as an investment adviser with the United States Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940 (the "Advisers Act"). Registration as an investment adviser with the SEC does not imply a certain level of skill or training.

This brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described herein. Any such offer or solicitation will be made solely to qualified investors by means of a private placement memorandum and related subscription materials.

Item 2. Material Changes

In February 2012, Sovarnum filed its initial application to register as an investment adviser with the SEC. The SEC approved the Firm's investment adviser registration on March 16, 2012. The following summarizes certain changes to the brochure made since the Firm's last ADV filing, in June 2012. While the Firm does not believe that the changes are material, Sovarnum has nevertheless decided to update its Brochure to complement its annual Form ADV filing and update.

We encourage all recipients of this brochure to read it carefully in its entirety.

This brochure has been updated to include a description of its current operations, personnel and client base, as well as its current regulatory assets under management, and other miscellaneous updates.

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Item 4. Advisory Business

Sovarnum, a Delaware limited partnership, was founded in January 2012 and commenced operations in March 2012. The general partner of Sovarnum is Sovarnum Capital GP LLC (“SCGP”), a Delaware limited liability company. Vikas Shilpiekandula, the President and Chief Executive Officer of Sovarnum, is also the managing member of SCGP. The employees and partners of Sovarnum shall be based in offices located in New York.

Sovarnum is registered as an investment adviser with the SEC. Sovarnum is also registered as a commodity pool operator (“CPO”) with the U.S. Commodity Futures Trading Commission (“CFTC”), and is exempt from registration as a commodity trading advisor (“CTA”). Sovarnum is a member of the National Futures Association (“NFA”).

Sovarnum serves as the investment manager and provides discretionary advisory services to pooled investment vehicles, which currently include a Delaware limited partnership (the “Domestic Fund”) and a Cayman Islands exempted limited company (the “Offshore Fund,” and collectively with the Domestic Fund, the “Funds”). These Funds are organized to invest in securities and other financial instruments. Currently, Sovarnum only provides investment advice to the Funds, and does not provide advice on an individual basis to the limited partners and shareholders of the Funds. The Firm manages the Funds’ assets in accordance with the terms of the governing documents applicable to each Fund, including any offering memoranda and agreements of the Funds.

Shares or limited partnership interests in the Funds are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), nor are the Funds registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Accordingly, interests or shares in the Funds will be offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements, either in private transactions within the United States or in offshore transactions.

Sovarnum anticipates that the Funds will continue to follow a single investment strategy and will invest primarily in securitized products which include residential mortgage backed securities (both private-label and agency), agency mortgage derivatives, commercial mortgage backed securities and covered bonds. In addition, the Funds may also invest in equity and debt securities of institutions exposed to securitized products. Sovarnum does not currently, but may in the future, act as investment manager to additional pooled investment vehicles, both affiliated and unaffiliated, or managed accounts, that employ distinct strategies from those of the Funds and that may have different structures and fees.

Sovarnum currently does not participate in wrap fee programs, though it may do so in the future.

As of December 31, 2012, Sovarnum managed approximately \$700,672,342.00 of client assets on a discretionary basis. Sovarnum does not currently manage any assets on a non-discretionary basis.

Item 5. Fees and Compensation

The Firm uses the following fee structure for the Funds:

The Domestic Fund:

The Domestic Fund will pay to the Firm a monthly management fee equal to an annual rate of 2% of each limited partner's capital account balance. The management fee is calculated and paid each calendar month.

In addition, the general partner of the Domestic Fund, Sovarnum Capital Partners GP LLC ("SCPGP"), is entitled to receive an annual performance based profit allocation equal to 20% of net profits.

The Offshore Fund:

The Offshore Fund will pay to the Firm a monthly advisory fee equal to an annual rate of 2% of the net asset value of the Fund as of the end of each month.

The Firm will also receive as of the end of each fiscal year, an incentive fee equal to 20% of net profits.

Generally, with respect to the profit allocation and the incentive fee, if a Fund has a net loss during any fiscal year, during a subsequent fiscal year, there will be no profit allocation made or incentive fee payable until the amount of the net loss previously allocated has been recouped.

Although fee terms are not negotiable, Sovarnum may waive or reduce fees or allocations due from any client or any investor in one of the Funds.

In addition to Sovarnum's fees and allocations, the Funds will bear certain operating expenses and fees, including but not limited to taxes, offering and investment expenses which may be determined as relating to investment of the Funds' assets, such as brokerage commissions, initial and variation margin and interest expense, administrative expenses, directors' fees and expenses, legal expenses, internal and external accounting expenses, audit and tax preparation expenses, corporate licensing, custodial fees and set-up costs and other expenses associated with operation of the Funds.

Item 6. Performance Based Fees and Side-by-Side Management

As noted above in Item 5, the Firm anticipates charging performance based fees and making certain performance allocations which are based on appreciation of the Funds' assets. Such performance based compensation will comply with Section 205 of the Advisers Act and Rule 205-3 thereunder, as applicable.

A performance based compensation arrangement could create an incentive for Sovarnum to make investments that are riskier and more speculative than would be the case in the absence of a performance based compensation arrangement. In addition, any performance based compensation will be made or based on unrealized gains and losses. As a result, the performance compensation earned could be based on unrealized gains that may never be realized by the Funds.

Insofar as Sovarnum initially intends to trade the Funds' assets on a side-by-side basis, as opposed to through a common investment vehicle, certain conflicts may arise. Sovarnum will nevertheless endeavor to minimize such conflicts where possible and will trade between the Funds in a manner it believes is equitable and in the best interest of all its Funds.

Item 7. Types of Clients

As described in Item 4 above, Sovarnum currently advises pooled investment vehicles, the Funds.

Investors in the Funds will generally be required to meet certain suitability qualifications, such as being an “accredited investor” within the meaning set forth in Rule 501(a) of Regulation D under the Securities Act and a “qualified purchaser” within the meaning of Section (2)(a)(51) of the Investment Company Act. The Offshore Fund is currently offered only to non-U.S. Persons.

Also, investors in the Funds will be required to make certain representations when investing in a Fund, including, but not limited to: (i) that they are acquiring an interest for their own account; (ii) that they received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment and; (iii) that they have the ability to bear the economic risk of an investment in the Fund. Details concerning applicable investor suitability criteria are set forth in each Fund’s governing documents, which are furnished to each investor in the Funds.

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

The Funds seek to achieve superior capital appreciation by investing in a diversified portfolio of U.S. and non-U.S. securities and other instruments. Such instruments may include but are not limited to, mortgage securities, bank loans, high-yield securities, distressed debt securities, equities and equity-related securities (including stock market indices), commodities, futures, swaps and currency forward contracts, as well as listed and over-the-counter options on all of the foregoing. The Fund will also focus on worldwide investments in a variety of arbitrage strategies, including but not limited to, convertible arbitrage, fixed income arbitrage, event driven arbitrage and relative value investing. While long-term capital appreciation will be the primary objective, the Fund also pursues capital preservation and superior risk-adjusted returns through risk control measures both at the portfolio and position level.

Currently, the Firm pursues a strategy on behalf of the Funds that seeks to provide attractive risk adjusted returns in securitized products and related securities, futures and swaps.

Investment Strategy: Sovarnum intends to focus on private label residential mortgage backed securities (RMBS), agency derivatives (IOs) and commercial mortgage backed securities (CMBS). In addition, Sovarnum may make investments for the Funds in related securities, *e.g.*, equities, bonds or CDSs of institutions exposed to securitized products on an event driven basis. Sovarnum believes that successful investing in securitized products and related securities requires a combination of extensive prepayment and credit analysis and an understanding of the macro environment.

Methods of Analysis: Sovarnum utilizes a variety of techniques to make investment decisions for the Funds. The Firm will develop views on the macro environment through a study and analysis of macro data and any potential policy actions. Sovarnum uses proprietary quantitative models to forecast prepayment and credit behavior which are estimated based on historical patterns. The Firm also uses data and qualitative factors to estimate the positioning of the market players and their implications for pricing.

Risk of Loss: An investment in any of the Funds that are managed by the Firm entails a certain degree of risk. Sovarnum's investment strategies and methods carry significant risks, some of which are detailed below. Only investors capable of evaluating and bearing such risks should undertake investing in a Fund. Certain risks related to an investment in the Funds include:

Business Risks

Limited operating history. Sovarnum and the Funds have a limited operating history, upon which prospective investors may base an evaluation of its possible future performance. The Funds' investment program should be evaluated on the basis that there can be no assurance that the Funds will be able to achieve their investment objectives. ***Past performance is not indicative of future results.*** An investment in the Funds is suitable only for certain sophisticated investors who do not require immediate liquidity for their investments.

Competition and availability of investments. Certain markets in which the Funds may invest are extremely competitive for attractive investment opportunities. There can be no assurance that the Funds will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles and other investors may reduce the availability of investment opportunities. There has been significant growth in the number of firms organized to make such investments, which may result in increased competition to the Funds in obtaining suitable investments.

Operational risk. The Funds will depend on Sovarnum to develop the appropriate systems and procedures to control operational risk. Operational risks arising from mistakes made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or other similar disruption in the Funds' operations may cause the Funds to suffer financial losses, the disruption of its business, liability to third parties, regulatory intervention or damage to its reputation. Human error (including, without limitation, trading errors), system failure or other problems with any of the operational processes could result in material losses or costs, which will generally be borne by the Funds. Sovarnum is not liable to the Funds for losses incurred due to the occurrence of any errors (unless such errors were the result of Sovarnum's gross negligence).

Trading Program of Investment Manager. The trading program utilized by Sovarnum relies on both technical and fundamental analyses to identify potential investments. "Fundamental" analysis relies on the study of external factors to predict the price movement of a given investment. Such factors include government regulation, new technologies and political and economic events. "Technical" analysis relies on the study of actual daily, weekly and monthly price fluctuations, volume variations and changes in interest rates, and utilizes computer software and other sources to measure the interrelationships of this data in order to predict future price movements. Technical analysis produces positive results only to the extent that the trends followed are actually present or discernible in a given market. Fundamental analysis produces positive results only to the extent that Sovarnum correctly predicts how external factors (such as government regulation, new technologies and political and economic events) will influence the market price of a given investment. No assurance can be given that the trading system employed by Sovarnum will be successful in a given set of market conditions, or that such trading system is the most successful available system.

In addition, the use of trading systems based on technical analysis, or a combination of technical and fundamental analyses, is not new. If numerous traders employ a similar system, these systems may generate substantial buy and sell orders simultaneously. This may result, particularly in markets with limited liquidity, in an inability of Sovarnum to execute its trades for the Funds at desired prices.

Leverage. Sovarnum intends to fully utilize leverage to finance the purchase of investments, to the fullest extent allowable by law, when it deems it appropriate. The level of interest rates and the rates at which the Funds can borrow therefore affects the operating results of the Funds. Moreover, to the extent that the Funds hold heavily leveraged investments, fluctuations in the market value of those investments may have a disproportionately severe negative impact on the net asset values of the Funds.

Turnover. A substantial portion of the Funds' capital may be invested on the basis of short-term market considerations. The portfolio turnover rate of those investments may be significant, potentially involving substantial brokerage commissions and fees. These commissions and fees will, of course, reduce the Funds' net profits.

Market Risks and Lack of Liquidity. The success of the Funds' investment programs will depend to a great extent upon the ability of Sovarnum to assess correctly the future course of price movements of stocks, bonds, commodities and foreign currencies. There can be no assurance that Sovarnum will accurately predict such movements. In addition, certain of the investments in which a substantial portion of the Funds' capital may be invested, from time to time, may have limited liquidity. This lack of liquidity, together with a failure to accurately predict market movements, may adversely affect the ability of Sovarnum to execute trade orders at desired prices. Moreover, because illiquid investments may be difficult to value, the net asset values of the Funds may fluctuate widely from one period to the next.

Market Events. Market movements with respect to securities and other investments may significantly affect the value of the Funds' investments. In addition, the SEC, other regulators and self-regulatory organizations and exchanges are authorized to intervene, directly and by regulation, in certain markets, and may restrict or prohibit certain market practices. The length of such prohibitions and type of transactions prohibited vary from country to country and may significantly affect the value of the Funds' holdings. The effect of any regulatory change on the Funds could be substantial and adverse. The Funds are also subject to the risk of the failure of any exchanges on which their positions trade or of the exchanges' clearinghouses.

Recent Developments in the Financial Services Industry. Recent developments in the U.S. financial markets illustrate that the current environment is one of extraordinary and possibly unprecedented uncertainty for the financial services industry. These developments have heightened the risks associated with the investment activities and operations of hedge funds, including without limitation, those resulting from a substantial reduction in the availability of

credit and the increased cost of short-term credit, a decrease in market liquidity, an increased risk of insolvency of prime brokers and other counterparties, and regulatory changes that may have an adverse effect on hedge funds generally, and in particular, on the Funds' ability to achieve their investment objectives. In addition, U.S. governmental action concerning the recent instability in the U.S. financial markets could have a significant impact on the financial services industry. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") dramatically steps up regulation of U.S. and non-U.S. private fund advisers and promises to make major changes in the world of securities enforcement and regulation. The hedge fund industry may continue to be adversely affected by the recent developments in the financial markets in the U.S. and abroad, and any future legal, regulatory, or governmental action and developments such financial markets and the broader U.S. economy could have an adverse effect on the Funds' business, operations and performance. In light of such recent market turmoil and the overall weakening of the financial services industry, the Funds, Sovarnum's and other financial institutions' financial conditions may be adversely affected.

In the past, declines in the market value of asset-backed securities, especially securities backed by subprime mortgages, have been concomitant with significant market events. Increasing credit and valuation problems in the asset-backed securities market have generated extreme volatility and illiquidity in the markets for securities directly or indirectly exposed to subprime mortgage loans and other types of asset-backed securities. This volatility and illiquidity extended to the global credit and equity markets generally, and, in particular, to the high-yield bond and loan markets, exacerbated by, among other things, growing uncertainty regarding the extent of the problems in the economy and the degree of exposure of financial institutions and others, decreased risk tolerance by investors and significantly tightened availability of credit. The effect of current market conditions cannot be predicted, nor is it known whether, or the degree to which, such conditions may worsen, or improve; however, the continuation of current market conditions, uncertainty or further deterioration could result in further declines in the market values of potential investments or declines in the market values of subsequently purchased investments. Such declines could lead to diminished investment opportunities for the Funds, prevent the Funds from successfully executing their investment strategies or require the Funds to dispose of investments at a loss while such adverse market conditions prevail.

Commodities and Futures. The Funds may trade in commodity interests. Such trading activity is regulated by the CFTC. Sovarnum acts as CPO and is also the CTA for each of the Funds. Sovarnum is registered as a CPO with the CFTC and is exempt from CTA registration. Sovarnum is also a member of the NFA.

The Funds may trade non-U.S. futures or options contracts. Transactions on markets located outside the United States, including markets formally linked to a United States market, may be subject to regulations that offer different or diminished protections to the pool and its participants. Further, U.S. regulatory authorities may be unable to compel the enforcement of

the rules of regulatory authorities or markets in non-U.S. jurisdictions where transactions for the pool may be effected.

Securities to be Purchased. The Funds intend to purchase low rated or unrated debt securities. Such securities may offer higher yields than do higher rated securities, but generally involve greater volatility of price and risk of principal and income, including the possibility of default by, or bankruptcy of, the issuers of the securities. In addition, the markets for such securities may be limited. Such transactions are not subject to exchange rules. Investments in sovereign debt involve special risks in that in the event of default, the Funds' recourse against the issuer may be limited. The Funds may invest in securities of U.S. or non-U.S. open-ended investment companies. There may be no liquid secondary market for these securities and some of the companies may limit the intervals at which shares may be redeemed.

Counterparty Creditworthiness. To the extent that the Funds engage in transactions with counterparties, including, but not limited to, swap transactions, forward foreign currency transactions and bonds and other fixed income securities, the Funds must rely on the creditworthiness of its counterparty. In certain instances, counterparty or credit risk is affected by the lack of a central clearinghouse for foreign exchange trades. To reduce their credit risk exposure, the Funds will trade in the forward market through money center banks and leading brokerage firms. Sovarnum believes that these options provide greater liquidity and involve less counterparty risk than customized options for which a clearinghouse does not exist.

Off-Balance Sheet Risk. In the normal course of business, the Funds may invest in financial instruments with off-balance sheet risk. These instruments include futures contracts, forward contracts, swaps and securities and options contracts sold short. An off-balance sheet risk is associated with a financial instrument if such instrument exposes the investor to an accounting and economic loss in excess of the investor's recognized asset carrying value in such financial instrument, if any; or if the ultimate liability associated with the financial instrument has the potential to exceed the amount that the investor recognizes as a liability in the investor's statement of assets and liabilities. Additionally, in the normal course of business, the Funds may purchase long positions in option contracts that do not have off-balance sheet risk. The risk to which these financial instruments expose the investor is not in excess of the investor's recognized asset carrying value in the statement of assets and liabilities.

Concentration of Investments. Although Sovarnum intends to follow a general policy of seeking to spread the Funds' capital among a number of investments, Sovarnum may depart from that policy from time to time and may hold a few positions that represent a large portion of the Funds' capital. The result of such concentration of investments is that a loss in any such position could materially reduce the Funds' capital.

Competition in the Arbitrage Business. The securities industry generally, and the arbitrage business in particular, is extremely competitive, and is expected to remain so in the foreseeable

future. The continued increase in arbitrage activity by securities firms generally, and by newly organized arbitrage firms, has continued to narrow the “spreads” between the prices at which securities may be purchased by the Funds and the prices that they expect to receive upon the sale thereof. This increase in competition also has increased the risks which arbitrage firms are willing to assume in risk arbitrage situations, and, consequently, exposes arbitrage firms to greater potential losses.

Diversification. Since the Funds’ portfolios will not necessarily be widely diversified, the investment portfolios of the Funds may be subject to more rapid changes in value than would be the case if the Funds were required to maintain a wide diversification among companies, securities and types of securities.

Investment Risks

Current Market Risk for Fixed Income Securities. Instability in the markets for fixed income securities may affect the liquidity of the Funds’ portfolios. It is uncertain how long and to what extent these conditions will continue. Under certain market conditions, it may be difficult to liquidate the Funds’ investments at a fair price when necessary to pay for redemptions from the Funds, and for other purposes. Such illiquidity may result in the Funds incurring greater losses on the sale of some fixed income securities than under more stable market conditions. Such losses can adversely impact the Funds’ net asset values. The current market instability may also make it difficult to obtain realistic values for fixed income securities based on market quotations.

Investing in Distressed Securities. The Funds intend to invest in “below investment grade” (also known as “distressed”) securities and obligations of U.S. and non-U.S. issuers in weak financial condition, including those experiencing poor operating results, having substantial capital needs or negative net worth, and/or facing special competitive or product obsolescence problems, and including companies involved in bankruptcy or other reorganization and liquidation proceedings. Investments of this type involve substantial financial business risks that can result in substantial or total losses. Such risks include, but are not limited to: (i) the possibility of substantial changes in rights and covenants which could result in less protection for the Funds with respect to securities purchased in proceedings under Chapter 11 of the U.S. Bankruptcy Code; (ii) the lack of regulation of the over-the-counter securities markets (in which distressed securities often are traded) by any exchange; and (iii) the lack of any established market-making, margin or other requirements that would help to insure a viable trading market exists for a particular security. The market prices of the securities of such issuers are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such securities may be greater than normally expected. It may take a number of years for the market prices of such securities to reflect their intrinsic values. It is anticipated that some of such securities in the portfolios of the Funds may not be widely traded, and that the Funds’ positions in such securities may be substantial in relation to the market for such securities. In addition, adverse publicity, legislative and regulatory developments, and investor perceptions,

whether or not based on fundamental analysis, may also decrease the value and liquidity of these securities. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims.

Troubled company and other asset-based investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by Sovarnum. To the extent that Sovarnum becomes involved in such proceedings, the Funds may have a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by Sovarnum in an issuer's reorganization proceedings could result in the imposition of restrictions limiting the Funds' ability to liquidate its position in the issuer. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There can be no assurance that Sovarnum will correctly evaluate the value of a company's assets or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Funds invest, the Funds may lose their entire investments, may be required to accept cash or securities with a value less than the Funds' original investments and/or may be required to accept payment over an extended period of time, if ever. Under such circumstances, the returns generated from the Funds' investments may not compensate the investors adequately for the risks assumed. The Funds may also become involved in litigation by third parties as a result of their investing activities if the Funds exercise control over an issuer. Such litigation could result in considerable costs to the Funds.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Funds of the security in respect to which such distribution was made.

In certain transactions, the Funds may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

Mortgage Securities Risk. The Funds invest in private label securities originally rated AAA by one or more of the Rating Agencies. These securities are not guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, and can subject the Funds to a high degree of risk. Sovarnum may also invest the assets of the Funds in subordinate mortgage securities originally rated AA or lower by one or more of the Rating Agencies, when Sovarnum believes that these securities offer opportunities for capital appreciation. Both classes of mortgage securities are expected to

receive both principal and interest payments on a monthly basis, although the subordinate securities may actually receive little or no principal payments.

The Funds may invest in (i) non-agency, interest-only mortgage securities, (ii) agency passthroughs and securities on the to-be-announced market, which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae and are expected to receive both interest and principal payments, and (iii) agency interest-only mortgage securities and derivatives, which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae and are expected to receive interest payments but may or may not receive principal payments.

Commercial Mortgage-Backed Securities. The Funds' portfolios may include commercial mortgage-backed securities, which are securities backed by obligations (including certificates of participation in obligations) that are principally secured by interests in real property having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. Commercial mortgage-backed securities have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Commercial mortgage loans generally lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the repayment of all or substantially all of the principal only at maturity. All of these factors increase the risk involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project as well as upon the liquidation value of the underlying real estate. The value of commercial real estate is also subject to a number of laws and regulations, such as regulations and laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Most commercial mortgage loans underlying mortgage-backed securities are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related mortgage-backed securities are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of mortgage-backed

securities may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related mortgage-backed securities. Revenues from the assets underlying such mortgage-backed securities may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

Commercial mortgage-backed securities may pay fixed or floating rates of interest. Fixed-rate commercial mortgage-backed securities, like all fixed income securities, generally decline in value as rates rise. Moreover, although generally the value of fixed income securities increases during periods of falling interest rates, the inverse relationship may not be as marked in the case of commercial mortgage-backed securities due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for mortgage loans providing for a period during which no prepayments may be made. Certain commercial mortgage-backed securities lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

Asset-Backed Securities, Collateralized Debt Obligations and Mortgage-Backed Securities. The investment characteristics of these structured finance products differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually semi-annually, quarterly or monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time. The collateral supporting asset-backed securities is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments.

Structured finance products are subject to credit, liquidity, market value, interest rate, operations, structural, legal and certain other risks. Structured finance products are generally privately placed and offer less liquidity than other investment grade or non-investment grade corporate debt. They are also generally issued in structured transactions with risks different from regular corporate debt. In addition, concentrations of structured finance products of a particular type, as well as concentrations of structured finance products issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the Funds to additional risk. A portion of the Funds' portfolios may consist of structured finance products that are subordinate in right of payment and rank junior to other

securities that are secured by, or represent an ownership interest in, the same pool of assets. In addition, certain transactions have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. In certain circumstances, payments of interest may be reduced or eliminated for one or more payment dates.

Credit Risk; Lower Credit Quality Securities. The Funds invest in debt, including, without limitation, “higher yielding” (and, therefore, higher risk) debt securities, including bonds, preferred securities, bank debt and other debt products, when Sovarnum believes that debt securities offer opportunities for capital appreciation. The Funds are exposed to the risk that one or more of the issuers of debt securities in the Funds’ portfolios may default in paying principal or interest. Such companies’ securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Funds’ investments in any instrument, and a significant portion of the obligations and preferred stock in which the Funds invest may be less than investment grade. As a result, the Funds may lose all or substantially all of their investments in any particular instance.

Securities in which the Funds may invest may be deemed by rating companies to have substantial vulnerability to default in payment of interest and/or principal. Other securities may have the lowest quality ratings or may be unrated. Lower rated and unrated securities in which the Funds may invest have large uncertainties or major risk exposures to adverse conditions, and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher rated securities, but involve greater volatility of price and greater risk of loss of income and principal.

The market values of certain of these securities (such as subordinated securities) also tend to be more sensitive to changes in economic conditions than higher rated securities. Such securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. Any economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the quality of securities that they rate. These ratings may be used by Sovarnum as initial criteria for the selection of portfolio securities. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market

value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

Securities in which the Funds may invest may rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of whose debt securities may be secured by substantially all of the issuer's assets. Moreover, the Funds may invest in securities that are not protected by financial covenants or limitations on additional indebtedness.

Investments in Illiquid Securities. There is no limit on the percentage of the Funds' assets that Sovarnum may invest in illiquid securities. The Funds might be unable to dispose of illiquid securities promptly or at reasonable prices and might thereby experience difficulty satisfying redemptions on a timely basis. Moreover, determining the fair value of illiquid securities may be difficult. Distributions in kind (including interests in affiliated liquidating vehicles) of securities may be made in lieu of or in addition to cash. In the event distributions of securities in kind are made, such securities could be illiquid or subject to legal, contractual and other restrictions on transfer.

Risks Associated with Bankruptcy Cases. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Funds. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Funds and is subject to unpredictable and lengthy delays. In addition, during the process the company's competitive position may erode, key management may depart, and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during reorganization, and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing, and the classification, seniority, and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Event-Driven Situation Companies. Event-driven situations include events such as corporate reorganizations and business combinations, corporate debt and balance sheet restructurings and financings and catalyst driven situations where there has been some form of public disclosure impacting the value of a company's assets or liabilities. Because it is not possible to predict the outcome of such situations, the Funds may take positions in securities based upon judgments that ultimately prove to be incorrect. For example, where Sovarnum determines that it is more probable that a transaction will be consummated, the Funds may buy securities in the target company at a price that anticipates the completion of the transaction. If, contrary to Sovarnum's belief, the transaction is not consummated at the announced price because of factors such as unforeseen regulatory issues or unanticipated poor financial results, the Funds may be forced to sell their positions in the market at a significantly lower price than the purchase price, with a substantial resulting loss. Conversely, where Sovarnum determines that it is more probable that a transaction will not be consummated, the Funds may sell the securities of the target company short, at times significantly below the announced price for the securities in the transaction. If, contrary to Sovarnum's belief, the transaction is consummated at the announced price or a higher price, the Funds may be forced to cover the short position in the market at a significantly higher price than the short sale price, with a substantial resulting loss.

Event-driven situations may be cyclical in nature and reflect worldwide conditions in the merger, acquisition, debt and restructuring markets. Since the late 1990s, there has been a significant increase in traditional strategic acquisitions, both in the United States and internationally, including a rise in the number of cross-border transactions. In addition, investment opportunities have arisen in the recapitalization of distressed and over-leveraged corporations. There can be no assurance that past performance results in event-driven situations will be indicative of future results.

Valuation. Securities that Sovarnum believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame Sovarnum anticipates. In particular, purchasing securities at prices that Sovarnum believes to be distressed or below fair value is no guarantee that the price of such securities will not decline even further.

Bank Loans and Participations. The Funds' investment programs may include significant amounts of bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a "fraudulent conveyance" under relevant creditors' rights laws; (ii) so-called "lender liability" claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Funds to directly enforce their rights with respect to participations. In analyzing each bank loan or participation, Sovarnum compares the relative significance of the risks against the expected benefits. Successful claims by third parties can adversely impact the Funds and their performance.

While participations in loans by the Funds and/or assignments to or purchases by the Funds of loans are generally collateralized, the Funds may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. The Funds cannot guarantee the adequacy of the protection of the Funds' interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Funds cannot assure that claims may not be asserted that might interfere with enforcement of their rights. In the event of a foreclosure, the Funds or an affiliate may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Funds. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Interest Rate Risk. The Funds are subject to the risk of a change in interest rates. A decline in interest rates could reduce the amount of current income a Fund is able to achieve from interest on convertible debt and the proceeds of short sales. An increase in interest rates could reduce the value of convertible securities owned by the Funds. To the extent that the cash flow from a fixed income security is known in advance, the present value (i.e., discounted value) of that cash flow decreases as interest rates increase; to the extent that the cash flow is contingent, the dollar value of the payment may be linked to then prevailing interest rates. Moreover, the value of many fixed income securities depends on the shape of the yield curve, not just on a single interest rate. Thus, for example, a callable cash flow, the coupons of which depend on a short rate such as three-month LIBOR, may shorten (i.e., be called away) if the long rate decreases. In this way, such securities are exposed to the difference between long rates and short rates. The Funds may also invest in floating rate securities. The value of these investments is closely tied to the absolute levels of such rates, or the market's perception of anticipated changes in those rates. This introduces additional risk factors related to the movements in specific interest rates that may be difficult or impossible to hedge, and that also interact in a complex fashion with prepayment risks.

Prepayment Risk. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying structured finance products will be affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. Although asset-backed securities and collateralized debt obligations are generally less likely to experience substantial prepayments than are mortgage-backed securities, certain of the factors that affect the rate of prepayments on mortgage-backed securities also affect the rate of prepayments on asset-backed securities and collateralized debt obligations.

During any particular period, however, the predominant factors affecting prepayment rates on such products, may be different.

In general, “premium” securities (securities the market values of which exceed their respective principal or par amounts) are adversely affected by faster than anticipated prepayments, and “discount” securities (securities the principal or par amounts of which exceed their respective market values) are adversely affected by slower than anticipated prepayments. Since many structured finance products will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these structured finance products may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact the Funds in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that Sovarnum may have constructed for these investments, resulting in a loss to the Funds. In particular, prepayments (at par) may limit the potential upside of many structured finance products to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Systemic Risk. Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Funds may interact on a daily basis.

Short Sales Risk. A short sale involves the sale of a security that a Fund does not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, a Fund must borrow the security, and is obligated to return the security to the lender, which is accomplished by a later purchase of the security by that Fund. In some cases, the lender may rescind the loan of securities, and cause the borrower to repurchase shares at inflated prices, resulting in a loss. When a Fund makes a short sale in the United States, it must leave the proceeds thereof with the broker and it must also deposit with the broker an amount of cash or marketable securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security. The extent to which the Funds engage in short sales depends upon its investment strategy and perception of market direction.

In response to current economic conditions, regulators in many jurisdictions have recently imposed restrictions and reporting requirements on short selling. In particular, the SEC

temporarily suspended short selling on the stocks of over 950 publicly traded companies and required money managers to report their short positions in all stocks. Although the SEC short selling ban has been lifted, the SEC reporting requirements remain and similar short-selling bans may remain in other jurisdictions. These restrictions may prevent or limit the Funds' ability to fully implement their investment strategies, and may provide transparency to the Funds' competitors as to their positions, thereby having a detrimental impact on their returns.

Convertible Securities. The convertible securities transactions in which the Funds will engage involve substantial trading risks. Because it is not possible to predict the outcome of convertible trading situations, the Funds may take positions in securities based upon judgments that ultimately prove to be incorrect. For example, where Sovarnum determines that it is attractive to purchase a convertible security and short the underlying stock, the underlying assumptions that make the transaction attractive may change, such as the interest rate environment, the credit quality of the issuer or the volatility of the underlying stock. Any one of these conditions could make the transaction unprofitable. In addition, if the underlying company is acquired by another company for cash, the holder of the convertible security could lose the entire conversion premium. Many convertible securities are issued by below investment grade issuers and therefore hold many of the same characteristics and risks as high yield bonds. The Funds could also own fixed income or other securities where the issuer files for bankruptcy protection.

Trading on Foreign Exchanges; Foreign Investments. The Funds may trade futures, securities and other instruments in markets (both on and off exchange) located outside the United States. Trading in such non-U.S. markets is not regulated by the CFTC or the SEC and may, therefore, be subject to more risks than trading on United States markets.

Investing in securities and other instruments issued by non-U.S. companies and countries involves certain considerations not usually associated with investing in securities and other instruments of U.S. companies, including political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Funds' investment opportunities. In addition, accounting and financial reporting standards that prevail in foreign countries generally are not equivalent to United States standards. There is also less regulation, generally, of the financial markets in foreign countries than there is in the United States.

Currency Risk. The Funds may invest a portion of its assets in equity securities and other investments denominated in currencies other than the U.S. dollar and in other financial instruments, the prices of which are determined with reference to currencies other than the U.S.

dollar. The Funds, however, will value their securities and other assets in U.S. dollars. To the extent unhedged, the value of the Funds' assets will fluctuate with U.S. dollar exchange rates as well as with price changes of the Funds' investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Funds may make their investments will reduce the effect of increases and magnify the U.S. dollar equivalent of the effect of decreases in the prices of the Funds' securities and other investments in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the Funds' non-U.S. dollar securities or other investments. Sovarnum intends to use spot currency transactions, forward currency contracts and options to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

Eurozone Risks. In addition to specific national concerns, the Eurozone is currently undergoing a collective debt crisis. Greece, Ireland and Portugal have already received very substantial financial assistance from other members of the European Union, and it is unclear how much additional funding they will require. Investor confidence in other EU member states, as well as European banks exposed to sovereign debt of Eurozone countries experiencing financial turmoil, has been severely impacted, threatening capital markets throughout the Eurozone. Although the resources of various financial stability mechanisms in the Eurozone continue to be bolstered, there can be no assurance that the level of funds being committed to such facilities will be sufficient to resolve the crisis. It is also unclear whether ultimately a political consensus will emerge in the Eurozone concerning whether and how to restructure sovereign debt. The consequences of any sovereign default would likely be severe and wide-reaching, and could include the removal of one or more member states from the Eurozone, or even the abolition of the Euro. The removal of one or more member states from the Eurozone or the abolition of the Euro could result in significant exchange rate volatility and could have a severe negative impact on the financial and other markets, not only within Europe but globally and could result in serious losses to the Funds.

Hedging Transactions. The Funds may utilize financial instruments such as forward contracts, credit default swaps and other derivatives both for investment purposes and to seek to hedge against fluctuations in the relative values of the Funds' portfolio investments. Hedging against a decline in the value of a portfolio investment does not eliminate fluctuations in the values of portfolio investments or prevent losses if the values of such investments decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio investments' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio investments should increase. In addition, various investments within risk arbitrage, convertible securities and other strategies may involve hedges that are insufficient to offset anticipated market price changes. Sovarnum may utilize hedges, or choose not to hedge, based on judgments about economic or other factors that prove to be incorrect.

Derivative Instruments in General. In managing the Funds, Sovarnum may use various derivative instruments, including options, forward contracts, swaps and other derivatives, which may be volatile and speculative. Certain positions may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. Use of derivative instruments presents various risks, including the following:

- **Marking Risk** — Derivatives, especially derivatives engaged as a privately negotiated contract against a principal counterparty, may be subject to adverse valuations reflecting the counterparty's marks (or valuations), which might not correspond to the valuations of other market or exchange-traded instruments.
- **Tracking Risk** — When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Funds from achieving the intended hedging effect or expose the Funds to the risk of loss.
- **Liquidity Risk** — Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets the Funds may not be able to close out a position without incurring a loss.
- **Leverage Risk** — Trading in derivative instruments can result in large amounts of leverage. Thus, the leverage offered by trading in derivative instruments may magnify the gains and losses experienced by the Funds and could cause the Funds' net asset values to be subject to wider fluctuations than would be the case if the Funds did not use the leverage feature in derivative instruments.
- **Hedging Risk** — When a derivative is used as a hedge against an opposite position that the Funds also hold, any loss generated by the derivative should be substantially offset by gains on the hedged investment, and vice versa. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains.
- **Investment Risk** — When the Funds use derivatives as an investment vehicle to gain market exposure, rather than for hedging purposes, any loss on the derivative investment will not be offset by gains on another hedged investment. The Funds are therefore directly exposed to the risks of that derivative. Gains or losses from derivative investments may be substantially greater than the derivative's original cost.
- **Availability Risk** — Derivatives may not be available to the Funds upon acceptable terms. As a result, the Funds may be unable to use derivatives for hedging or other purposes.
- **Credit Risk** — When the Funds use derivatives, it is subject to the risk that the other party to the agreement will not be able to perform.

Swap Transactions. The Funds may engage in swap transactions, for example, credit default swaps. A credit default swap is an agreement used to transfer credit exposure to a third-party credit risk between two counterparties. The Funds will usually enter into swaps on a net basis, i.e., the two payment streams are netted out in a cash settlement on the payment date or dates specified in the agreement. The Funds receive or pay, as the case may be, only the net amount of the two payments. The Funds may employ swaps for speculative purposes, such as to obtain the price performance of a security without purchasing it in cases where, for example, the security is illiquid, unavailable for direct investment or available only on less attractive terms.

Unlike futures and options on futures contracts and commodities, swap contracts are not traded or cleared by an exchange or clearinghouse. The Funds will be subject to the risk of counterparty default on its swaps. Since swaps do not generally involve the delivery of underlying assets or principal, any loss would likely be limited to the net amount of payments required by contract. In some swap transactions, the counterparty may require a Fund to deposit collateral to support its obligation under the swap agreement. If the counterparty to the swap defaults, that Fund would lose the net amount of payments that it is contractually entitled to receive, as well as any collateral deposits made with the counterparty.

Enhanced Regulation of Swaps. Due to the requirements imposed by the Wall Street Transparency and Accountability Act of 2010 (known as the “WSTAA”), the Funds may experience increased transaction costs to pay for the clearing, execution and segregation obligations. In addition, margin requirements may increase once margin is set by derivatives clearing organizations (known as “DCOs”) with input from the CFTC, which may limit the Funds’ ability to engage in leverage and limit the Funds’ returns. The application of position limits to swap contracts may also limit the Funds’ ability to concentrate in any particular contract or exposure to an underlying commodity and may negatively impact the Funds’ ability to take advantage of current market trends or conditions. Any tightening in the market for swaps may significantly impact the Funds and their returns.

While it is not currently expected to be the case, if the Funds are in the future deemed to be a swap dealer or a “major swap participant,” the Funds may be required to register with the CFTC as such and would be subjected to a number of regulatory requirements that would significantly impact the Funds and their returns. If they were required to register as a swap dealer or major swap participant, in addition to the recordkeeping, back-office and reporting requirements, the Funds would be subject to margin collection requirements for swaps that are not cleared, capital requirements, disclosure obligations and special duties to governmental entities. These requirements may increase the potential liability of the Funds when trading swaps and impact their ability to deploy their capital in the most productive manner. The scope of the above concepts is currently unclear as is the extent to which it will impact the Funds and their operations.

Options. Both the purchasing and selling of call and put options entail risks. Although an option buyer's risk is limited to the amount of the purchase price of the option, an investment in an option may be subject to greater fluctuation than an investment in the underlying securities. In theory, an uncovered call writer's loss is potentially unlimited, but in practice the loss is limited by the term of existence of the call. The risk for a writer of a put option is that the price of the underlying security may fall below the exercise price.

Cash and Forward Trading. Cash and forward contracts for the trading of certain commodities, such as foreign currencies, may be entered into with banks and market makers. Although the banks and market makers may be regulated in various ways by the CFTC, the NFA, the SEC, the Federal Reserve Board, the Comptroller of the Currency, and other Federal and state authorities, these regulatory agencies do not regulate the trading of cash commodities or forward contracts. In addition, such contracts are not traded on exchanges. As a result, there is no limitation on daily price movements of cash or forward contracts and market makers are not required to make markets in any cash commodities. Also, certain customer protections will not be available to the Funds in connection with any such trading. There have been periods during which certain market makers have refused to quote prices for cash commodities or forward contracts or have quoted prices with an unusually wide spread between the price at which the market maker is prepared to buy and the price at which it is prepared to sell. If this should occur, Sovarnum might not be able to utilize effectively its cash and forward trading programs. This could result in significant losses to the Funds.

Futures Contracts Risks.

- **Volatility** — Futures prices are highly volatile. The average margin deposit on futures trades by a Fund is less than 5% of the value of the contract. Because of the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract price may result in substantial losses to the Funds. Like other leveraged investments, any purchase or sale of a futures contract may result in losses in excess of the amount invested. Accordingly, relatively small futures positions have the potential to erode significantly or erase a Fund's gains in other investments.
- **Margin Requirements** — Margin requirements with respect to futures contracts are set by the individual futures exchange or other trading facility for each type of futures contract based upon the perceived volatility of each type of contract. The margin requirements for each transaction vary not only by the type of futures contract, but also depending upon whether the transaction is deemed to be "bona fide hedging" within the meaning of CFTC Rule 1.3(z). Margin requirements with respect to transactions that are not bona fide hedging are significantly higher than margin requirements for bona fide hedging transactions. In addition to traditional commodity and financial futures contracts, the Funds may trade security futures contracts, which

are jointly regulated by the CFTC and the SEC. Margin requirements for security futures contracts generally will be the same as those for comparable equity options.

- **Daily Price Fluctuation Limits** — Futures exchanges and trading facilities limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” During a single trading day no trades may be executed at prices beyond the daily limit. Once the price of a futures contract for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices have occasionally moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the prompt liquidation of unfavorable positions and subject the Funds to substantial losses.
- **Possible Effects of Speculative Position Limits** — The CFTC and certain futures exchanges and trading facilities have established limits referred to as “speculative position limits” on the maximum net long or net short positions that any person may hold or control in particular commodity interests (including certain swaps). All of the futures positions held by all accounts owned or controlled by Sovarnum and its principals will be aggregated with positions of the Funds for the purpose of determining compliance with position limits. Trading instructions may have to be modified and positions held by the Funds’ account may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could adversely affect the operations and profitability of the Funds. Speculative position limit rules also apply to exchange traded equity options.
- **Risk Disclosure** — Futures trading is highly speculative. Price movements of futures contracts are influenced by, among other things, changing supply and demand relationships, governmental agricultural and trade programs and policies, and national and international political and economic events. Changing crop prospects occasioned by unexpected weather or damage by insects or plant diseases make it difficult to forecast supplies of agricultural commodities. Similarly, demand is also difficult to forecast because of such factors as variable world production patterns, unexpected purchases by foreign countries and continued changes in U.S. needs. Financial instrument futures prices are influenced primarily by changes in interest rates. Foreign currency futures prices are influenced by, among other things, changes in balances of payments and trade, U.S. and international rates of inflation, international trade restrictions and currency devaluations and revaluations. In addition, unless the Funds hedge themselves against fluctuations in the exchange rate between the U.S. Dollar and the currencies in which trading is done on some foreign exchanges, any profits that the Funds realize in trading on such exchanges could be eliminated by adverse changes in the exchange rate, or the Funds could incur losses as a result of any such changes.

- **Bankruptcy of Futures Commission Merchant** — In the unlikely event that a futures commission merchant of a Fund fails, investors may not receive the full value of their segregated funds. A segregated account is not a guaranteed account.
- **Over-the-Counter Trading** — Derivative instruments that may be purchased or sold by the Funds may include instruments not traded on an exchange. Over-the-counter (“OTC”) options, unlike exchanged-traded options, are two-party contracts with price and other terms negotiated by the buyer and seller. Significant disparities may exist between “bid” and “asked” prices for derivative instruments that are not traded on an exchange. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions.

Financial Fraud. Instances of fraud and other deceptive practices committed by senior management of certain companies in which the Funds invest may undermine Sovarnum’s due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of the Funds’ investments. In addition, when discovered, financial fraud may contribute to overall market volatility which can negatively impact the Funds’ investment program.

Enhanced Regulation of the OTC Derivatives Markets. The Dodd-Frank Act includes provisions that comprehensively regulate the OTC derivatives markets for the first time. The Dodd-Frank Act requires that a substantial portion of OTC derivatives must be executed in regulated markets and submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC or CFTC-mandated margin requirements. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives. Although the Dodd-Frank Act includes limited exemptions from the clearing and margin requirements for so-called “end-users,” the Funds do not expect to be able to rely on such exemptions. In addition, the OTC derivative dealers with which the Funds execute the majority of their OTC derivatives will not be able to rely on the end-user exemptions under the Dodd-Frank Act and therefore such dealers will be subject to clearing and margin requirements notwithstanding whether the Funds are subject to such requirements. OTC derivative dealers also will be required to post margin to the clearinghouses through which they clear their customers’ trades instead of using such margin in their operations, as is currently permitted. This will increase the OTC derivative dealers’ costs, and these increased costs are expected to be passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the possible imposition of new or increased fees.

The SEC and CFTC may also require a substantial portion of derivatives transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Such requirements may make it more

difficult and costly for investment funds, including the Funds, to enter into highly tailored or customized transactions. They may also render certain strategies in which the Funds might otherwise engage impossible or so costly that they will no longer be economical to implement. OTC derivative dealers and major OTC derivatives market participants will be required to register with the SEC and/or CFTC. The Funds may be required to register as major participants in the OTC derivatives markets. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers will also be subject to new business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements may increase the overall costs for OTC derivative dealers, which are likely to be passed along, at least partially, to market participants in the form of higher fees or less advantageous dealer marks. The overall impact of the Dodd-Frank Act on the Funds is highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime.

Management Risks

Reliance on Investment Manager. Sovarnum has exclusive responsibility for the Funds' investment activities. The success of Sovarnum's trading is to a large degree dependent upon Mr. Shilpiekandula, as well as the skills and abilities of Sovarnum's other investment professionals. The loss of Mr. Shilpiekandula's services could result in Sovarnum's inability to trade effectively the Funds' accounts. In the event Sovarnum withdraws from the Funds or Mr. Shilpiekandula is no longer actively engaged in formulating the investment philosophy of Sovarnum, there can be no assurance that a suitable successor investment manager would be located or appointed. In addition, Mr. Shilpiekandula may engage in various other business activities in addition to managing the Funds, and consequently may not devote all his time to the business of the Funds.

Execution Risks and Investment Manager Error. Sovarnum's trading and investment for the Funds involves multiple instruments, brokers, counterparties and strategies. The execution of the trading and investment strategies employed by Sovarnum may often require rapid execution of trades, high volume of trades, complex trades, difficult to execute trades, use of negotiated terms with counterparties such as in the use of derivatives and the execution of trades involving less common or novel instruments. In each case, Sovarnum seeks best execution and has trained execution and operational staff devoted to executing, settling and clearing such trades. However, in light of the high volumes, complexity and global diversity involved, some slippage, errors and miscommunications with brokers and counterparties may occur and could result in losses to the Funds. In such circumstances, Sovarnum will evaluate the merits of potential claims for damage against brokers and counterparties who are at fault, and to the extent practicable will seek to recover losses from those parties. In its sole discretion, Sovarnum may choose to forego pursuing claims against brokers and counterparties on behalf of the Funds for any reason

including, but not limited to, the cost of pursuing claims relative to the likely amount of any recovery and the maintenance of its business relationships with brokers and counterparties. In addition, Sovarnum's own execution and operational staff may be solely or partly responsible for errors in placing, processing, and settling trades that result in losses to the Funds. Sovarnum is not liable to the Funds for losses caused by brokers or counterparties selected by Sovarnum in good faith or by Sovarnum's own negligence or contributory negligence. Sovarnum will be liable to the Funds for acts that constitute willful misconduct, gross negligence or if Sovarnum is liable to the Funds for damages under the securities laws of the United States. Interests are only available for subscription by investors who understand that they and the Funds are waiving potential claims for damages arising from the operation of the Funds, including damages resulting from Sovarnum's own negligence or contributory negligence, and the execution losses due to Sovarnum's negligence would be borne by the Funds, unless otherwise determined by Sovarnum in its discretion.

While Sovarnum will endeavor to detect trade errors prior to settlement and reverse errant trades, trade errors may occur, as may investment errors. In the event of a trade error or an investment error, any losses resulting from such errors will be borne by the Funds. Any errors that result in gains will be to the benefit of Funds, and not to Sovarnum.

Item 9. Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or an investor's evaluation of the adviser or the integrity of the adviser's management.

As of the date of this brochure, neither Sovarnum nor any of its officers, directors, employees or other management persons, have been involved in any legal or disciplinary events in the past 10 years that would be material to Sovarnum's advisory business, or to the integrity of its management or personnel.

Item 10. Other Financial Industry Activities and Affiliations

Neither the Firm nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Sovarnum is a member of the NFA, and is registered as a CPO with the CFTC and is exempt from registration as a CTA. Sovarnum is not registered, nor does it have an application pending to register, as a futures commission merchant.

In addition to serving as discretionary investment manager to the Funds, Sovarnum's affiliate, SCPGP, is the general partner of the Domestic Fund, and Mr. Shilpiekandula serves as a director of the Offshore Fund. Mr. Shilpiekandula is also the managing member of SCPGP. As a result, the Funds do not have wholly-independent management. Further, insofar as the Firm has more than one client, Sovarnum's personnel cannot devote their exclusive attention to any single Fund.

Sovarnum does not recommend or select unaffiliated investment advisers for our clients, receive compensation directly or indirectly from unaffiliated advisers that create a material conflict of interest or have other business relationships with them that create material conflicts of interest.

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

Pursuant to Rule 204A-1 of the Advisers Act, Sovarnum has adopted a written Code of Ethics (the “Code”) predicated on the principle that the Firm owes a fiduciary duty to its clients, the Funds and its investors. The Code is designed to address and avoid potential conflicts of interest and is applicable to all officers, directors, members, partners and employees of Sovarnum and its affiliates (collectively the “Employees”). The Firm will require its Employees to act in the Funds’ best interests, abide by all applicable regulations and avoid any action that is, or could even appear to be, legally or ethically improper.

Employees of the Firm are prohibited from investing for their personal account in any securities with the exception of open ended mutual funds, any obligations issued or guaranteed by the U.S. Government or its agencies, municipal securities, bank certificates of deposit, exchange traded funds (ETFs) and certain private investment partnerships. In the event a new Employee of Sovarnum has prior investments that are not in the list above, the positions may be retained, but any trading in them after joining Sovarnum will require approval from the Firm’s Chief Compliance Officer (CCO). The Firm’s Employees should enable direct reporting of their brokerage accounts to the CCO, as described in more detail in the Code. A copy of Sovarnum’s Code shall be provided to any investor or prospective investor upon request.

Some of the Firm’s Employees may own, either directly or through the Funds’ general partner, a financial interest in any of the Funds, assuming such Employee meets the qualifications for investing. Therefore, Sovarnum will be considered to participate in transactions effected for the Funds. The Firm does not believe this arrangement presents any material conflicts of interest since the interests of its Employees and Sovarnum will be aligned with the interests of the investors in the Funds.

Item 12. Brokerage Practices

- a. **Factors Considered in Selecting Broker-Dealers for Client Transactions.** Sovarnum has a fiduciary duty to use its reasonable efforts to obtain best execution of securities transactions for its client, specifically, the Funds. The Firm may at times choose to solicit competitive bids or offers to ensure the most favorable execution for the Funds. Sovarnum, however, need not necessarily solicit competitive bids on every transaction, and may ultimately consider several factors in choosing a broker-dealer to execute transactions. Some of the factors Sovarnum may consider in choosing a broker-dealer include, but are not limited to, reputation, financial strength, willingness to commit capital and confidentiality. Sovarnum will periodically review its relationships with broker-dealers and effectiveness of best execution.
- b. **Soft dollars.** The Firm believes it is important to its investment decision-making processes to have access to independent research. From time to time, the Firm may consider the value of research and brokerage products and services provided by brokers. Since commission rates in the U.S., as well as in certain other jurisdictions, are negotiable, selecting brokers on the basis of considerations that are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable. Research products and services furnished by brokers may include research concerning market, economic and financial data; a particular aspect of economics or on the economy in general; statistical information; pricing data and availability of securities; financial publications; electronic market quotations; performance measurement services; analyses concerning specific securities, companies, industries or sectors; market, economic and financial studies and forecasts; appraisal services; and invitations to attend conferences or meetings with management or industry consultants.

The use of soft dollars to obtain research services and to pay for other costs and investment expenses that the Firm might otherwise incur (such as third party research and investment information, investment execution services, research and financial newsletters) creates a conflict of interest between the Firm and the Funds because the Funds pay for products and services that are not exclusively for their benefit and that may be primarily or exclusively for the benefit of the Firm or other clients. To the extent that the Firm is able to acquire these products and services without expending its own resources, the use of soft dollar benefits tends to increase profitability. In addition, the availability of these benefits may influence the Firm to select one broker rather than another to perform services for clients. The Firm will effect such transactions, and receive such brokerage and research services, only to the extent that they fall within the

safe harbor provided by Section 28(e) of the Exchange Act, and subject to prevailing guidance provided by the SEC regarding Section 28(e).

- c. **Trade errors.** It is Sovarnum's policy that any losses resulting from trading errors will be borne by the Funds. As disclosed in the offering documents of the Funds, the investors in the Funds should assume that occasional trading errors may occur. These trading errors may include, but are not limited to, typographical errors when entering transactions, miscommunications with brokers and the Firm's traders, and confirmation or settlement of a trade. Any errors that result in gains, similarly, will be to the benefit of the Funds' investors and not the Firm.
- d. **Trade Aggregation and Allocation.** Sovarnum has a fiduciary obligation to use its best efforts to ensure that no client is treated unfairly in relation to any other client with respect to the allocation of securities or investment opportunities, or in the order in which transactions are executed. Accordingly, Sovarnum seeks to allocate orders and investment opportunities among the Funds in a manner that it believes is equitable and in the best interests of all its clients.

Item 13. Review of Accounts

The Firm's investment committee, which consists of Sovarnum's Chief Executive Officer and other key Employees, periodically reviews the securities and other financial instruments which are held by the Funds. The investment committee reviews the risk profiles of the Funds in order to attempt to ensure that they are appropriate in light of prevailing market conditions and consistent with the Funds' current investment objectives.

Investors in the Funds will receive audited annual financial statements and necessary U.S. federal tax information. Fund investors will also receive unaudited performance information no less frequently than quarterly. In the sole discretion of the Firm, and upon the specific request of a Fund's investor or a party representing a Fund investor, greater disclosure may be provided in regards to the Funds' investments.

Item 14. Client Referrals and Other Compensation

The Firm does not currently have any arrangements whereby it will compensate third parties for soliciting new investors for the Funds.

Item 15. Custody

All of the Funds' assets are held in custody by unaffiliated broker-dealers, futures commission merchants or banks. As a registered investment adviser that directly, or through an affiliate, acts as the general partner or managing member to a limited partnership or other pooled investment vehicle, the Firm will be considered to have custody over client assets. Rule 206(4)-2 under the Advisers Act imposes a number of requirements on an SEC-registered investment adviser that is deemed to have custody of its clients' funds and securities.

To comply with Rule 206(4)-2, and to provide meaningful protection to investors, the Funds are subject to an annual financial statement audit by an independent public account registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements will be prepared in accordance with generally accepted accounting principles, and will be distributed to each investor or shareholder in the Funds within 120 days of the Funds' fiscal year end.

Item 16. Investment Discretion

Sovarnum maintains investment discretion and will be generally authorized to make the following determinations, subject to the Funds' investment objectives and restrictions, without obtaining prior consent from the Funds or their underlying investors: (i) which securities or other instruments to buy or sell; (ii) the total amount of securities or other instruments to buy or sell; (iii) the executing broker or dealer for any transaction; and (iv) the commission rates or commission equivalents charged for transactions.

Item 17. Voting Client Securities

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, Sovarnum has adopted and implemented written policies and procedures that govern the voting of client securities in a prudent and diligent manner. The Firm has implemented its voting policy in an attempt to serve the best interests of the Funds in a manner that is consistent with the respective investment objectives of the Funds.

Sovarnum will take into account all relevant factors, as determined in its discretion, including, without limitation: (i) the impact on the value of the securities or instruments owned by the Funds and the returns on those securities; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices.

In limited circumstances, Sovarnum may refrain from voting proxies where it believes that voting would be inappropriate when considering the cost of voting such proxies weighed against the anticipated benefit to the Funds. As a general matter, investors in the Funds will not be able to direct the Firm's vote in a particular solicitation.

Conflicts of interest may arise between the interests of the Funds, on the one hand and Sovarnum on the other. If the Firm determines that it may have, or is perceived to have, a conflict of interest when voting proxies, Sovarnum will vote in accordance with its proxy voting policies and procedures. Investors may obtain a copy of the Firm's proxy voting policies and its proxy voting record, when applicable, upon request.

Item 18. Financial Information

A balance sheet is not required to be provided as Sovarnum (i) does not solicit or otherwise require prepayment of fees more than six months in advance, (ii) does not have a financial condition that is likely to impair its ability to meet contractual commitments to clients or (iii) has not been subject to any bankruptcy proceeding during the past 10 years.