

**Axonic Capital LLC  
and  
Soma Specialty Management LLC**

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

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

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

Axonic and Soma Management are each an SEC-registered investment adviser. Registration does not imply a certain level of skill or training.

**Item 2: Material Changes**

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This brochure contains certain changes from the Amendment which was filed with the SEC on August 2, 2013. The material changes that are reflected in this brochure from the last Form ADV filing dated August 2, 2013 are as follows:

Axonic Capital LLC is now managing Axonic Special Opportunities Fund 2013-1, LP and Axonic Residential Assets Fund II, LP.

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

**Item 3: Table of Contents**

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**Item 4: Advisory Business**

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**Axonic**

Formed in December 2010, Axonic Capital LLC (“**Axonic**”) serves as investment manager to the investment funds named below. Clayton DeGiacinto controls and is the principal owner of Axonic, which is dependent on the services of Mr. DeGiacinto and other key personnel to perform its services to its clients.

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

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

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

Axonic Special Opportunities Fund 2013-1 GP LLC is the general partner of Axonic Special Opportunities Fund 2013-1, LP (the “**ASO Fund**”).

Axonic Capital GP LLC is the general partner of the ACO Master Fund and the ASA Master Fund (collectively, together with OC 523 Master Fund, the “**Master Funds**”), the Axonic Credit Opportunities Fund, LP and the Axonic Systematic Arbitrage Fund, LP.

Axonic Residential Assets Fund I GP LLC is the general partner of Axonic Residential Assets Fund I, LP (“**ARA Fund I**”).

Axonic Residential Assets Fund II GP LLC is the general partner of Axonic Residential Assets Fund II, LP (“**ARA Fund II**” and, together with ARA Fund I, the “**ARA Funds**”).

The ACO Feeder Funds, the ASA Feeder Funds and the OC 523 Feeder Fund are herein collectively referred to as the “**Feeder Funds**.”

The Master Funds, the Feeder Funds, the ARA Funds and the ASO Fund are herein collectively referred to as the “**Funds**.”

Axonic Capital GP LLC, Axonic Residential Assets Fund I GP LLC, Axonic Residential Assets Fund II GP LLC and Axonic Special Opportunities Fund 2013-1 GP LLC are herein collectively referred to as the “**General Partners**.”

The General Partners and the Firm are controlled and principally owned by Clayton DeGiacinto. Accordingly, the Firm, the General Partners and the Funds may be deemed to be under common control.

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

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

As of December 31, 2013 Axonic managed \$3,801,368,775 in regulatory assets under management on a discretionary basis on behalf of its clients.

### **Soma Management**

Formed in July 2013, Soma Management is a wholly owned subsidiary of Axonic and dependent on Axonic personnel to perform its services. Soma Management is registered with the SEC as an investment adviser together with Axonic and, accordingly, is subject to Axonic’s supervision and control, code of ethics and compliance policies and procedures.

Soma Management serves as investment manager to Soma Specialty Holdings LLC (“**Soma Holdings**”), an investment vehicle that invests substantially all of its assets in Soma Specialty Finance LLC (“**Soma**”) a wholly owned operating subsidiary of Soma Holdings. Soma Management also makes all investment decisions on behalf of Soma. Investors in Soma Holdings are herein referred to as the “**Soma Investors.**”

As noted above, Clayton DeGiacinto controls and is the principal owner of the Firm. Accordingly, Axonic, Soma Management, the General Partners, the Funds, Soma Holdings, Soma and the Soma Carried Interest Member (defined below) may be deemed to be under common control.

Soma Management’s investment advice is tailored to the principal investment objective of Soma Holdings. See Item 8: Methods of Analysis, Investment Strategies and Risk of Loss. Investment restrictions (if any) for Soma Holdings are set forth in its offering documents.

As of December 31, 2013 Soma Management managed \$6,094,726 in regulatory assets under management on a discretionary basis on behalf of its clients.

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

## **Item 5: Fees and Compensation**

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### **Axonic**

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

#### ***Management and other Fees***

While specific to each Fund, as compensation for investment advisory services rendered, Axonic deducts a management fee calculated at the annual rate of not more than 2.0% of each Investor's capital account (the "**Management Fee**"). The Management Fee is generally paid monthly or quarterly in arrears based on the value of each capital account as of the last day of the relevant calendar month or quarter (adjusted for contributions made during the month). The ARA Fund II also charges (i) a property administration fee of 0.25% per annum of the gross purchase cost for each property and (ii) a property acquisition/diligence fee of 1.0% of the gross purchase cost for each property, upon acquisition. The Management Fees are negotiable for Investors and we may waive or reduce the Management Fees for Investors that are members, principals, employees or affiliates of Axonic, relatives of those persons, trusts formed by or for the benefit of those persons and their relatives, and for certain large or strategic Investors.

#### ***Performance Allocations***

For the ACO Funds, the ASA Funds and the OC 523 Funds, an affiliate of Axonic will receive an annual performance allocation of not more than 20.0% of each Fund's annual net profits (the "**Annual Performance Allocation**"), if any, subject to a "loss carry forward" provision. For the ARA Funds, an affiliate of Axonic will receive a performance allocation of not more than 20.0% in respect of amounts distributable to Investors in relation to disposed properties, subject to a cumulative 8% return on capital with respect to the disposed properties. For ARA Fund II, the performance allocation may increase from 20% to 30%, if certain performance hurdles are met. For the ASO Fund, an affiliate of Axonic will receive a performance allocation of not more than 10.0% in respect of total profits distributed to Investors (such allocations, together with the Annual Performance Allocation, are referred to herein collectively as the "**Performance Allocations**"). The Performance Allocations are negotiable for Investors and we may waive or reduce the Performance Allocation for Investors that are members, principals, employees or affiliates of Axonic, relatives of those persons, trusts formed by or for the benefit of those persons and their relatives, and for certain large or strategic Investors.

#### ***Withdrawal Fee***

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

#### ***Expenses***

In addition to the Management Fees, Performance Allocations and withdrawal fees, each Fund will be subject to expenses, including but not limited to (i) investment-related expenses (whether related to investments that are consummated or unconsummated), such as brokerage commissions and fees, research, due diligence, acquisition and surveillance expenses (including data and software fees, related travel expenses, legal fees and expenses, and appraisal fees and expenses),

interest on margin accounts and other indebtedness, custodial fees, bank service fees and other expenses related to the purchase, sale, financing or transmittal of such Fund's assets and (ii) other expenses related to the operation and administration of such Fund, including fund administrator fees and expenses, directors' and advisors' fees and expenses, fees and expenses for legal, compliance (including expenses related to various filings (or portions thereof) that Axonic is required to make as a result of managing a Fund's portfolio, including Form PF, tax and withholding tax compliance that Axonic or a Fund undertakes, including under the Foreign Account Tax Compliance Act (FATCA), and anti-money laundering / know-your customer compliance that Axonic or a Fund undertakes), accounting, auditing, tax and other professionals, insurance premiums (including for E&O and D&O insurance), organizational and offering expenses (in certain cases), third-party valuation agent fees, licensing and filing fees, taxes and other governmental charges, and litigation and indemnification expenses. In general, the Feeder Funds will indirectly share the administrative and other expenses of the related Master Funds pro rata based upon their interests in the related Master Fund. The ARA Funds will also incur expenses related to its real estate investments (whether related to investments that are consummated or unconsummated) and leasing activities. Some expenses may be capitalized. Please refer to Item 12 of this brochure for a discussion of Axonic's brokerage practices. In connection with one or more Funds' investment in securities backed by commercial real estate loans, Axonic may negotiate to appoint a servicer for the underlying loans and in connection with that appointment require the servicer to rebate to Axonic (on behalf of such Funds) a portion of the fees payable to the servicer by the trust or similar entity holding the loans. Any such amounts received by Axonic from these servicers will reduce on a dollar-for-dollar basis the management fee to be paid to Axonic by the Funds (in proportion to each Fund's interest in such securities).

#### ***Side Letters***

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

#### **Soma Management**

##### ***Soma Management Fee***

Soma is managed as an operating business. Accordingly, it will incur all expenses ("**Soma Operating Expenses**") for operating a business, including all overhead expenses. Prior to the fifth anniversary of November 27, 2013, the date of the first closing of the issuance of the Series 1 interests of Soma Holdings (the "**Soma First Closing Date**"), certain services and overhead may be provided by Axonic or other affiliates of Soma Management and will be reimbursable at amounts ("**Soma Overhead Amounts**") determined by Soma Management from time to time in its discretion (subject to certain caps, as described in Soma Holding's offering documents).

Soma Management may pay or advance any expenses of Soma Holdings or Soma that exceed the available cash held by Soma. Any such payments or advancements will be reimbursed by Soma as a Management Fee, as described below.

Soma Management will receive a monthly management fee (the “**Soma Management Fee**”) for managing the affairs of Soma Holdings and Soma, payable at the end of each month. However, until the fifth anniversary of the Soma First Closing Date, the Soma Management Fee will equal the amount of Soma Operating Expenses paid or advanced by Soma Management (subject to an operating expense cap, as described in Soma Holding’s offering documents) plus the Overhead Amount.

On and after the fifth anniversary of the Soma First Closing Date, the monthly Soma Management Fee will equal 1/12 of 1.0% of net asset value of Soma.

In addition, on and after the fifth anniversary of the Soma First Closing Date, Soma Management will bear its general overhead expenses but will be entitled to reimbursement for any other Soma Operating Expenses that it pays for out of pocket.

Soma Management may, in its sole discretion, waive or modify the Soma Management Fee for Soma Investors that are members, employees or affiliates of Soma Management, relatives of those persons, and for certain large or strategic Soma Investors.

#### ***Soma Carried Interest Distributions***

An Axonic affiliate (the “**Soma Carried Interest Member**”) will receive a carried interest distribution (a “**Soma Carried Interest Distribution**”) representing a portion of certain distributions made to Soma Investors, as more fully described below.

As more fully described in Soma Holding’s offering documents, distributions are, in general, apportioned between each Soma Investor and the Soma Carried Interest Member in the following order of priority (as more fully described in Soma Holdings’ offering documents): (i) first, to the Soma Investor until it has received an amount equal to the liquidation preference amount attributable to the aggregate capital contributions made by such Soma Investor; (ii) second, to the Soma Investor until it has achieved a preferred rate of return on its aggregate liquidation preference amount; (iii) third, to the Soma Carried Interest Member and the Soma Investor pursuant to a catch-up provision until the Soma Carried Interest Member has received 20% of the amounts distributed to the Soma Investor and the Soma Carried Interest Member under clause (ii) above and this clause (iii); (iv) fourth, 20% to the Soma Carried Interest Member and 80% to the Soma Investor until cumulative distributions to such Soma Investor under clauses (i)-(iii) above equal an amount that provides an additional preferred rate of return on its aggregate liquidation preference amount for such Soma Investor, (v) thereafter, 30% to the Soma Carried Interest Member and 70% to the Soma Investor. Such amounts may be reduced in accordance with the operating expense cap described in Soma Holdings’ offering documents.

#### ***Soma Organizational and Operating Expenses***

In addition to the Management Fee and the Carried Interest Distributions, Soma Holdings will be subject to legal and other organizational and offering expenses incurred in connection with the formation of Soma Holdings, Soma and Soma Management.

As noted above, Soma will incur all Soma Operating Expenses for operating a business, including all overhead expenses such as rent, stationery, charges for furniture and fixtures; legal, accounting, audit and other professional fees and expenses; administrative fees and expenses and

equivalent internal administration expenses; research expenses (including research-related travel) and expenses of third-party valuation agents (if any); commissions, custodial fees, bank services fees and insurance (including D&O and E&O insurance); compliance expenses (including expenses of registration and the development of compliance programs and other functions required of an adviser registered with the SEC, and expenses related to ongoing compliance obligations, including various filings (or portions thereof) that Soma Management and/or Axonic is required to make as a result of managing Soma Holdings and Soma, including Form PF, and tax and withholding tax compliance that Soma Management, Soma or Soma Holdings undertakes); all expenses of the nature described herein that are paid out of pocket by Soma Management for the benefit of Soma; and until the fifth anniversary of the First Closing Date, all general operating overhead expenses of Soma Management, including the base compensation, benefits and bonuses of employees, employee insurance and payroll taxes of Soma Management employees hired to assist in the operation of Soma as a business.

***Soma CRE CLO Fees and Certain Other Fees***

Soma Management or any of its affiliates may be entitled to senior and subordinate collateral management fees and/or incentive fees with respect to any subsidiary **Soma CRE CLO** (as defined below) that it manages. For as long as, and to the extent that, Soma Holdings holds all or substantially all the equity or residual interest in such Soma CRE CLO, such fees will be paid over to Soma or Soma Holdings or offset against the Management Fee. Any origination or arrangement fees with respect to funding an investment or a proposed investment or other fees paid to Soma Management or any of its affiliates by third parties will be paid over to Soma or Soma Holdings or offset against the Management Fee.

***Soma Side Letters***

Soma Holdings (or Soma Management) may enter into side letters or other written agreements (sometimes referred to as “side letters”) with certain Soma Investors whereby such Soma Investors may be subject to terms and conditions that are more advantageous than those set for other Soma Investors. For example, such terms and conditions may provide for (i) a lower Management Fee and/or Carried Interest Distribution to be paid by the Soma Investor, (ii) more favorable reporting rights, (iii) less restrictive transfer conditions, (iv) greater transparency on Investments or operations, (v) commitments to provide seats on a board of advisors of Soma Holdings, (vi) rights to elect to convert Interests of one Series into another, (vii) rights to consent to the issuance of Interests at a discount to the amount of capital contributions deemed made and (viii) rights to vary the amount of capital contributions deemed made attributable to any Interest. The terms of such side letters are provided solely at the discretion of Soma Holdings or Soma Management and may be based upon the size or timing of the Soma Investor’s investment in Soma Holdings (or in an affiliated entity), an agreement by the Soma Investor to maintain such investment in Soma Holdings for a certain period of time, or a similar or other type of commitment made by a Soma Investor.

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

As stated in Item 5: Fees and Compensation, Axonic or an affiliate receives a Performance Allocation in relation to each Fund and the Soma Carried Interest Member, an affiliate of Soma Management, is entitled to performance-based compensation in the form of Soma Carried Interest Distributions

The fact that Axonic and/or its affiliates are compensated through performance-based compensation may create an incentive for us to make investments that are riskier or more speculative, and/or to obtain greater leverage thereon, than would be the case in the absence of



such compensation. In addition, in certain cases, the Performance Allocation may be based both on realized and unrealized gains and losses and, as a result, the Performance Allocation which we earn could be based upon unrealized gains that Investors may never realize.

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

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

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**Item 7: Types of Clients**

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Axonic provides investment advisory services directly to the Funds, and Soma Management provides investment advisory services directly to Soma Holdings and Soma. Investors in the Funds and Soma Investors may include high net worth individuals, pension plans and retirement accounts, endowments, foundations, trusts, estates or charitable organizations, other funds (including other Axonic-managed Funds), family offices, private banks and investment managers, and other individuals and corporate or business entities for which such investment is suitable. Currently, only U.S. taxable investors are expected to invest in Soma Holdings.

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

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

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

**Axonic**

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

***Methods of Analysis and Investment Strategy******ACO Funds***

The ACO Funds' principal investment objective is to achieve a positive return on capital by primarily investing in single credit and structured credit products, including public and private U.S. and non-U.S. mortgage-backed securities ("MBS") and consumer-receivable-backed securities including residential mortgage-backed securities ("RMBS"), asset-backed securities ("ABS"), commercial mortgage securities ("CMBS"), commercial mortgage mezzanine loans and participations ("Mezzanine Loans"), collateralized debt obligations ("CDO"), collateralized loan obligations ("CLO"), whole loans and participations, whole loan mortgages, corporate and bank-issued bonds, loans and participations, various single-name and index credit default swaps (cleared and uncleared), and any other instruments Axonic deems appropriate in order to achieve the ACO Funds' investment objective. In addition, various cleared and uncleared over the counter and exchange traded derivatives, including various swaps, options, swaptions, futures and forward agreements (both listed and over-the-counter) on various financial instruments, equity securities and indices, debt instruments and indices, government securities, treasuries, currencies and commodities may be used for speculative or hedging purposes. Financial instruments traded by the ACO Funds may be fixed, floating or inverse floating; interest-only or principal-only; of any maturity or no maturity; performing or distressed; senior or subordinate; or secured or unsecured. Positions may be leveraged, and may be financed by various sources of funding, including bank lines, margin trading, short positions, derivatives, including total return swaps, and repurchase arrangements.

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

***OC 523 Funds***

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

The investment strategy for the OC 523 Funds relies primarily on three components: (i) our ability to identify and purchase appropriate securities, (ii) an intensive analytical approach to risk

management and portfolio construction, and (iii) our ability to construct a blended portfolio of risk-based assets and hedges with a return profile over time that demonstrates increased total return while mitigating discrete risks. We carry out investment process and risk control procedures by applying various valuation tools including our own risk and valuation pricing engine.

**ASA Funds**

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

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

**ARA Funds**

The ARA Fund I's principal investment objective is to achieve significant current income and long-term capital appreciation through the acquisition, rental and ultimate sale of single family and multiple family residential properties principally located in the south-eastern part of the United States. ARA Fund II's principal investment objective is to achieve significant current income and long-term capital appreciation through the acquisition, rental and ultimate sale of multiple family residential properties located in United States. Properties owned by the ARA Funds may be financed or refinanced using mortgages.

**ASO Fund**

The ASO Fund was formed to invest in a specifically identified instrument.

**Risk Factors**

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

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

*Commercial and Residential Mortgage-Backed Securities.* Investing in commercial and residential mortgage-backed securities, forward contracts with respect thereto, and derivatives thereon involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations (including the risk of principal prepayment and the risk of investing in real estate). Mortgage-backed securities may provide for the payment of interest or principal (or both) monthly or on a less frequent basis and there exists the possibility, particularly with respect to residential mortgage-backed securities, that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. As a result of prepayments, a Fund may be required to reinvest assets at an inopportune time, which may expose that Fund to a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security, and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Further, different types of mortgage-backed securities are subject to varying degrees of prepayment risk. The risks of investing in such instruments reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments, and the ability to attract and retain tenants. Axonic may decide to dispose of a distressed Mezzanine Loan rather than foreclose, which could result in less proceeds to a Fund than would have been achieved upon a sale following foreclosure. In addition, Axonic may decide to hold any foreclosed property in a separate investment vehicle, which vehicle may be subject to entity-level taxation. Investing in such instruments may also be subject to changes in the government's and government sponsored enterprise's housing policies, such as, but not limited to, changes in housing related tax deductions, or changes in affordability housing government programs.

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

*Structured Investments.* A Fund may invest in entities organized and operated for the purpose of restructuring the investment characteristics of other debt securities. These investments will typically consist of equity or subordinated debt securities issued by a private investment fund that

invests, on a leveraged basis, in debt instruments, including primarily senior loans and high-yield bonds and mortgage-backed securities and asset-backed securities, directly or through total rate of return swaps or other credit derivatives. The cash flow on the underlying instruments may be apportioned among the newly issued security to create securities with different investment characteristics such as varying maturities, payment priorities and interest rate provisions, and the extent of the payments made with respect to such securities is dependent on the extent of the cash flow on the underlying instruments. Because a Fund will not own the underlying assets directly, they will not benefit from rights that holders of the assets have, including indemnification and voting rights.

Exposure to structured finance securities entails various risks: credit risks, liquidity risks, prepayment risks, interest rate risks, market risks, operations risks, structural risks, geographical concentration risks, basis risks and legal risks. Structured finance securities are also subject to the risk that the servicer fails to perform. Structured finance securities are subject to risks associated with their structure and execution, including the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such structured finance securities, whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the structured finance instrument) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such structured finance securities.

*Recent Developments in the Residential Mortgage Lending Market.* The residential mortgage market has been an attractive environment for finding value in securities, loans and other instruments. There can be no assurance that Axonic will continue to be able to find value in such securities, loans and other instruments.

Delinquencies, defaults and foreclosures on residential mortgage loans may affect the performance of collateralized debt obligations, asset backed securities and other securities, in particular residential mortgage securities that are backed by mortgage loans. Mortgage backed securities backed by mortgage loans made to borrowers with lower credit scores and/or higher loan-to-value ratios may be more sensitive to economic factors affecting the ability of borrowers to repay their obligations under the mortgage loans backing these securities. A portion of CDO and asset backed securities' collateral may consist of these residential mortgage securities. A deterioration in the assets collateralizing the CDO, asset backed or other securities held by a Fund could negatively affect the cash flows of the collateral securities, and consequently the performance or market value of that Fund. Further, a portion of the collateral underlying residential mortgage securities may have been originated or are serviced (or both) by mortgage companies which are currently in bankruptcy proceedings or which are experiencing financial difficulties or regulatory enforcement actions which have restricted the ability of the lender or its affiliates to originate mortgage loans and may affect its ability to service or subservice mortgage loans.

*Loans.* A Fund may invest in loans, including loans to companies or their affiliates undertaken to finance a capital restructuring or in connection with recapitalizations, acquisitions, leveraged buyouts, refinancings or other financially leveraged transactions and may include loans that are designed to provide temporary or bridge financing to a borrower pending the sale of identified assets, the arrangement of longer-term loans or the issuance and sale of debt obligations. A Fund may also invest in collateral on financial instruments, including interests on whole commercial, consumer and other loans and lease contracts. These loans, which may bear fixed or floating

rates, have generally been arranged through private negotiations between a corporate borrower and one or more financial institutions (“Lenders”), including banks. A Fund’s investment may be in the form of participations in loans (“Participations”) or of assignments of all or a portion of loans from third parties (“Assignments”). In certain cases, the rights and obligations acquired by a Fund through the purchase of an assignment may differ from, and be more limited than, those held by the assigning selling institution. Assignments are sold strictly without recourse to the selling institutions, and the selling institutions will generally make no representations or warranties to a Fund about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans.

With respect to Participations, a Fund has the right to receive payments of principal, interest and any fees to which it is entitled only from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. A Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan in which it has purchased a Participation, nor any rights of set-off against the borrower, and that Fund may not benefit directly from any collateral supporting the loan in which it has purchased the Participation. Thus, a Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. In addition, in connection with purchasing Participations, a Fund generally will have no role in terms of negotiating or effecting amendments, waivers and consents with respect to the loans underlying the Participations. In the event of the insolvency of the Lender, a Fund may be treated as a general creditor of the Lender and may not benefit from any set-off between the Lender and the borrower.

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

Investments in loans through direct assignment of a financial institution’s interests with respect to a loan may involve additional risks. For example, if a loan is foreclosed, the Fund could become part owner of any collateral, in which case it would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that under emerging legal theories of lender liability, a Fund could be held liable as a co-lender.

A loan is often administered by a bank or other financial institution that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. Unless, under the terms of the loan or other indebtedness, a Fund has direct recourse against the borrower, that Fund may have to rely on the agent to apply appropriate credit remedies against a borrower. If assets held by the agent for the benefit of a Fund were determined to be subject to the claims of the agent’s general creditors, that Fund might incur certain costs and delays in realizing payment on the loan or loan participation and could suffer a loss of principal or interest.

Interests in loans are also subject to additional liquidity risks. Loans are generally subject to legal or contractual restrictions on resale. Loans are not currently listed on any securities exchange or automatic quotation system, but are traded by banks and other institutional investors engaged in loan syndication. As a result, no active market may exist for some loans, and to the extent a secondary market exists for other loans, such market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Consequently, a Fund may have

difficulty disposing of Assignments or Participations in response to a specific economic event such as deterioration in the creditworthiness of the borrower, which can result in a loss. In such market situations, it may be more difficult for a Fund to assign a value to Assignments or Participations when valuing that Fund's securities and calculating its net asset value.

Certain of the loans or loan participations may be governed by the law of a jurisdiction other than the United States which may present additional risks as regards the characterization under such laws of such participation in the event of the insolvency of the selling institution or the borrower.

*Credit Derivatives.* Credit derivatives are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. Such instruments may include one or more debtors. Payments under credit derivatives may be made during the exercise period of the contracts. Payments under many credit derivatives are triggered by credit events such as bankruptcy, default, restructuring, failure to pay, cross default or acceleration, etc. Such payments may be for notional amounts, actual losses or amounts determined by formula. The market for credit derivatives is somewhat illiquid and there are considerable risks that it may be difficult to either buy or sell the contracts as needed or at reasonable prices. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments covered by the derivative instruments. Buyers of credit derivatives carry the risk of non-performance by the seller due to inability to pay. There are also risks with respect to credit derivatives in determining whether an event will trigger payment under the derivative and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk.

*Credit Default Swap Agreements.* The buyer of a credit default contract is obligated to pay the seller a periodic stream of payments over the term of the contract, together with in certain cases an upfront lump sum, in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation or entity. Credit events are contract specific and may include bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium, restructuring and write-downs. A Fund may be either the buyer or seller in a transaction. If a Fund is a buyer and no credit event occurs, that Fund will have made fixed payments and received nothing. However, if a credit event occurs, a Fund, as a buyer, typically will receive full notional value for a reference obligation that may have little or no value although that Fund also assumes the risk of non-performance by the seller of the credit default swap. In certain circumstances, the buyer can receive the notional value of a credit default swap only by delivering a physical security to the seller, and is at risk if the deliverable security is unavailable or illiquid. As a seller, a Fund receives a fixed rate of income throughout the term of the contract, provided that no credit event occurs. If a credit event occurs, a Fund will be obligated to pay the buyer the full notional value of the reference obligation, which may have little or no value and result in a loss for that Fund. In addition to general market risks, credit default swaps are subject to liquidity risk and credit risk by counterparties.

*Variance Swaps.* Variance swaps are subject to various risks, including market volatility risk. When a Fund is long a variance swap, its potential losses are capped as volatility cannot be lower than zero. However, when a Fund is short a variance swap, it will incur potentially unlimited loss. When market sentiment deteriorates, resulting in market expectations of higher future volatility, the value of a variance swap increases, resulting in gains for a long positions and losses for a short position. In certain situations, such as when an exchange unexpectedly has to suspend trading, the price of the underlying investment might not be observable, which can trigger a market disruption event. The occurrence of a market disruption event impacts the valuation of

variance swaps in that it changes the way realized volatility is computed. There are therefore risks with respect to variance swaps in determining whether an event will be considered a market disruption event.

*Interest Rate Risk.* A Fund may be subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. A Fund may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that such hedges will be implemented and, if implemented, will be successful in mitigating the impact of interest rate changes on the portfolios.

*Swaptions.* Swaptions are subject to various risks, including interest rate risk, market volatility risk, counterparty risk, liquidity risk and risks associated with the use of leverage. Depending on the terms of the particular swaption agreement, a Fund will generally incur a greater degree of risk when it writes a swaption than it will incur when it purchases a swaption. When a Fund purchases a swaption, it risks losing only the amount of the premium it has paid should it decide to let the swaption expire unexercised. However, when a Fund writes a swaption, upon exercise of the option that Fund will become obligated according to the terms of the underlying swap agreement, which could result in a potentially unlimited loss. During the life of the swaption, its price will be affected by the level of volatility in the interest rate swap market and by the market's expectation of future volatility. Swaptions have levered exposure to the underlying swap, so that high realized volatility in the underlying swap can result in even higher volatility in the price of a swaption. Similarly, when market sentiment deteriorates, resulting in market expectations of higher future volatility, the price of a swaption typically increases, resulting in gains for a long position and losses for a short position. Swaptions are over-the-counter instruments and therefore involve counterparty risk. Swaptions may also expose a Fund to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding contracts, in which case that Fund may be required to maintain a position until exercise or expiration, which could result in losses, or have to unwind it at an unfavorable price.

*Foreign Exchange Forwards.* Foreign exchange forward contracts are relatively unregulated investments. There are no limitations on daily price moves in such contracts and speculative position limits are not applicable to such contract trading. Performance of contracts is not guaranteed by any exchange or clearinghouse. As a result, a Fund will be subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties through which that Fund trades. Any such failure or refusal, whether due to insolvency, bankruptcy or other causes, could subject that Fund to substantial losses.

*Futures.* The use of futures is a specialized activity that involves investment strategies and risks different from those associated with ordinary portfolio securities transactions, and there can be no guarantee that their use will increase a Fund's return or not cause a Fund to sustain large losses. While the use of these instruments by a Fund may reduce certain risks associated with portfolio positions, these techniques themselves entail certain other risks. A Fund could experience losses if the values of its futures positions were poorly correlated with its other investments, or if it could not close out its positions because of an illiquid market. In addition, a Fund will incur transaction costs, including trading commissions, in connection with its futures transactions and these transactions could significantly increase a Fund's investment turnover rate. There is no assurance that a liquid market will exist for futures contracts or options on futures purchased or



sold, and a Fund may be required to maintain a position until exercise or expiration, which could result in losses. Many futures exchanges limit the amount of fluctuation permitted in contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit. Contract prices could move to the daily limit for several consecutive trading days permitting little or no trading, thereby preventing prompt liquidation of futures and options positions and potentially subjecting a Fund to substantial losses.

*Distressed Investments.* A Fund may invest in debt and equity securities, accounts and notes payable, loans, private claims and other financial instruments and obligations of troubled companies or borrowers that may result in significant returns to that Fund, but which involve a substantial degree of risk. A Fund may lose its entire investment in a troubled company or borrower, may be required to accept cash or securities with a value less than that Fund's investment and may be prohibited from exercising certain rights with respect to such investment. Troubled company or borrower investments may not show any returns for a considerable period of time. Funding a plan of reorganization involves additional risks, including risks associated with equity ownership in the reorganized entity. Troubled company or borrower investments may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies or borrowers made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. A Fund may have significant investments in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, take considerable time or result in a distribution of cash or a new security, the value of which will be less than the purchase price to that Fund of the security, or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, that Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies or borrowers in which a Fund may invest, there is a potential risk of loss by that Fund of its entire investment in such companies.

*High Yield Securities.* A Fund may invest in "high yield" bonds and preferred securities that are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

*Leverage.* As noted in Section 4 above, a Fund may utilize leverage. Leverage increases returns to investors if a Fund earns a greater return on leveraged investments than that Fund's cost of

such leverage. However, the use of leverage exposes a Fund to additional levels of risk including (i) greater losses from investments than would otherwise have been the case had that Fund not borrowed to make the investments, (ii) margin calls or changes in margin requirements may force premature liquidations of investment positions, (iii) losses on investments where the investment fails to earn a return that equals or exceeds that Fund's cost of leverage related to such investments and (iv) fluctuations in interest rates on that Fund's borrowings, which may have a negative effect on that Fund's profitability. In case of a sudden, precipitous drop in the value of a Fund's assets, that Fund might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying the losses incurred by that Fund. Axonic may find it difficult to obtain leverage on acceptable terms. Since leveraging its assets may be part of the investment strategy of a Fund, in such event, that Fund could find it difficult to fully implement its strategy. In addition, any leverage obtained, if terminated on short notice by the lender, could result in that Fund being forced to unwind positions quickly and at prices below what Axonic deems to be fair value for the positions.

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

*Short Sales.* Short selling, or the sale of securities not owned by a Fund, necessarily involves certain additional risks. Such transactions expose a Fund to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by a Fund in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein that Fund might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

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

*Non-U.S. Securities.* Investing in securities of foreign governments and companies that are generally denominated in currencies other than the U.S. dollar, and utilization of foreign currency forward contracts and options on foreign currencies involve certain considerations comprising both risks and opportunities not typically associated with investing in securities of United States issuers. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than are generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, difficulty in

enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

*Currency Risks.* A Fund's investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

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

*Counterparty and Settlement Risk.* To the extent a Fund invests in uncleared swaps, derivatives or "synthetic" instruments, repurchase agreements, other over-the-counter transactions or non-U.S. securities or engages in securities lending, that Fund may take a credit risk with regard to parties with which it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded or cleared transactions, which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. Any such default by a trading counterparty could result in losses to a Fund due to the delay of settlement of a transaction, loss of market gains or, in certain circumstances, loss of a portion or the full amount of the notional value of the transaction.

A Fund's assets may be held in one or more accounts maintained for that Fund by counterparties, including its prime brokers, and some of the markets in which a Fund trades are "over-the-counter", such as derivatives, repurchase transactions and certain short positions. This exposes a Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem or a counterparty insolvency, thus causing that Fund to suffer a loss. To the extent that swaps, repurchase transactions, forwards or other transactions are cleared, a Fund will be exposed to the credit risk of its futures commission merchant ("FCM") or carrying broker, as applicable, and of the related clearinghouse.

*Use of Quantitative Methodologies.* The quantitative methodologies used by Axonic to make investments for the ASA Funds utilize historical data. Financial and economic patterns, trends and relationships are not immutable, however, and there is no guarantee that the patterns, trends and relationships that appear to Axonic to govern any investments or markets will continue to govern such investment or market in the future. While Axonic will make efforts to control the risks associated with market changes, and will attempt to identify changes as they occur, market environment changes can be sudden and extreme. When these changes occur, certain market dynamics can make the changes more severe and can cause their adverse effects to spread to other markets not affected by the initial changes. In particular, events can cause other market participants to liquidate large positions in a short period of time in order to raise capital, reduce risk or meet margin calls. To the extent that these market participants hold positions in a portfolio of strategies similar to that of the ASA Funds, all of these strategies may begin to

exhibit adverse returns and correlations not seen under normal market conditions, even if the initial changes were in markets in which the ASA Fund was not involved. Positions that would typically serve as hedges may actually move in tandem with the instruments they were initially attempting to hedge, adding further risk to the ASA Funds.

*Statistical Measurement Error.* Many of the trading methodologies employed by Axonic in connection with the ASA Funds rely on patterns inferred from the historical series of prices. Even if all of the assumptions of the models underlying the strategies were met exactly, the model can only make a prediction, which can be far from certain. Further, statistically-based models cannot fully match the complexity of the financial markets and as such, results of their application are uncertain. In addition, changes in underlying market conditions can adversely affect the performance of a statistical model.

*Reliance on Technology.* Certain of Axonic's methodologies may be highly reliant on technology, including hardware, software and telecommunications systems. Trade execution, data gathering, risk management and accounting systems all integrally require a high degree of automation and computerization. The incidence of software errors should be reduced by internal testing and the impact of such errors should be reduced by independent safeguards in the applicable software code. However, software errors could result in the execution of unanticipated trades, either through direct automated execution or because Axonic followed such unanticipated trades and created unintended results. Errors in the code may be very hard to detect and can potentially degrade or impact results over a long period of time. Further, to the extent that an unforeseeable software or hardware malfunction or problem is caused by a defect, virus or other outside force, a Fund may be materially adversely affected.

*FCM, Clearinghouse, Custody and Prime Brokerage Risk.* There are risks involved in dealing with the custodians or prime brokers who settle trades and FCMs who carry positions for the Funds. Under certain circumstances, including certain transactions where a Fund's assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of the prime broker, or where a Fund's assets are held at a non-U.S. prime broker, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of a Fund and hence that Fund could be exposed to a credit risk with regard to such parties. In addition, there may be practical or time problems associated with enforcing a Fund's rights to its assets in the case of an insolvency of any such party. Certain Funds maintain custody accounts with their prime broker, JP Morgan (the "Prime Broker") or, at any time, with an affiliate of the Prime Broker. Although Axonic monitors the Prime Broker and believes it or its affiliate is an appropriate custodian, there is no guarantee that the Prime Broker, or any other custodian that a Fund may use from time to time, will not become insolvent. While both the Bankruptcy Code and the Securities Investor Protection Act of 1970 seek to protect customer property in the event of a failure, insolvency or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer that has custody of Fund assets, a Fund would not incur losses due to its assets being unavailable for a period of time, ultimately less than full recovery of its assets, or both. A Fund and/or the Prime Broker may appoint sub-custodians in certain non-U.S. jurisdictions to hold the assets of a Fund. The Prime Broker may not be responsible for cash or assets which are held by sub-custodians in certain non-U.S. jurisdictions, nor for any losses suffered by a Fund as a result of the bankruptcy or insolvency of any such sub-custodian. A Fund may therefore have a potential exposure on the default of any sub-custodian and, as a result, many of the protections which would normally be provided to a Fund by a custodian will not be available to that Fund. Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of regulations on custodial activities and

bankruptcy in certain non-U.S. jurisdictions, the ability of a Fund to recover assets held by a sub-custodian in the event of the sub-custodian's bankruptcy would be in doubt.

Certain Funds clear swaps that they execute bilaterally with counterparties. Upon acceptance of a swap for clearing by a derivatives clearing organization (“DCO”), the original bilateral swap is terminated and replaced by an identical swap between the Fund and the DCO which is carried in an account of the Fund with its FCM that is a member of the DCO. Under any cleared swap contract, the Fund must make an initial margin deposit equal to a certain percentage of the contract amount. Subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuations in the value of the swap contract. The FCM is an intermediary for all payments to and from the DCO so carrying cleared swap positions through a FCM means that the Fund is exposed to both the credit risk of the FCM and of the relevant DCO, subject to the mitigating effect of actual receipt of daily variation margin when the contract is in the money for the Fund. The Commodity Exchange Act requires a FCM to segregate all customer transactions and assets from the FCM's proprietary activities. The Fund's cash and other property deposited with the FCM are subject to the FCM's segregation requirements and redeposited with the relevant DCO. In the event of a FCM's or DCO's insolvency, it is possible that the recovery amount could be less than the total amount due to the Fund from the FCM and the DCO.

*Residential Properties* – The ARA Funds invests in real estate properties. Accordingly, the ARA Funds' investments will be subject to the risks incident to the ownership of real estate, including risks associated with changes in the general economic climate, changes in the overall real estate market, local real estate conditions, the financial condition of tenants, buyers and sellers of properties, supply of or demand for competing properties in an area, accelerated construction activity, technological innovations that may dramatically alter space requirements, the availability of financing, changes in interest rates, competition based on rental rates, energy and supply shortages, various uninsured and uninsurable risks (including possible terrorist activity) and law and government regulations, including federal and state environmental laws, regulations and administrative rulings which, among other things, establish standards for the treatment, storage and disposal of solid and hazardous waste, and the imposition of joint and several liability on past and present owners of real property for hazardous substance remediation and removal costs, zoning laws and transfer taxes. An investment in the ARA Funds requires the financial ability and willingness to accept significant risk and illiquidity. Investors in the ARA Funds will not be able to voluntarily withdraw any portion of their investment, and interests in the ARA Funds are not transferable.

*Lack of Liquidity of Fund Assets; Valuation.* A Fund's assets may, at any given time, include securities and other financial instruments or obligations that are thinly traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws or pursuant to their terms. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value accurately any such investments.

*Incentive Allocation.* The allocation by a Fund of a percentage of that Fund's net profits to the General Partner, an affiliate of Axonic, may create an incentive for Axonic to cause that Fund to make investments that are riskier or more speculative than would be the case if this allocation were not made. When the Incentive Allocation is calculated on a basis that includes unrealized appreciation of assets, such allocation may be greater than if it were based solely on realized gains.

*No Separate Counsel.* A Fund does not have counsel separate and independent from counsel to Axonic, and no independent counsel has been retained to act on behalf of all investors in a Fund.

*Accounting for Uncertainty in Income Taxes.* The Financial Accounting Standards Board has released Accounting Standards Codification Topic 740 (“ASC 740”) (formerly known as “FIN 48”) to provide consistent guidance on the recognition of uncertain tax positions. ASC 740 prescribes, among other things, the minimum recognition threshold that a tax position is required to meet before being recognized in an entity’s financial statements. ASC 740 could have a material adverse effect on the periodic calculations of the net asset value of a Fund, including reducing the net asset value of a Fund to reflect liability for income taxes that may be payable in respect of prior periods by a Fund. This could adversely affect certain investors in a Fund, depending upon the timing of their investment in a Fund.

*Tax Uncertainty.* A Fund may take positions with respect to certain tax issues that depend on legal conclusions not yet addressed by the courts or by U.S. Treasury regulations or other guidance. Should any such position be successfully challenged by the US Internal Revenue Service (“IRS”), an investment in a Fund may be adversely affected. Certain Funds’ activities are intended generally to be conducted such that no income realized by these Funds will be effectively connected with the conduct of a U.S. trade or business or otherwise subject to regular United States federal income taxation on a net basis (with the exception of certain interests in United States real property). However, because the law is unclear as to what activities constitute an active lending business, it is possible that such Funds may engage in certain activities that may later be considered by the IRS to be a financing business if, among other facts, such activity is regularly carried on by such Funds during a taxable year. If, contrary to the intended method of operation, such Funds were engaged in, or deemed to be engaged in, a U.S. trade or business in any year, such Funds would be subject to United States federal income tax and branch profits tax on some or all of its income and profits, and may be subject to state and local taxation as well. An Investor’s tax liability related to an investment in such Funds could exceed the amount distributed to the Investor by these Funds in a particular year.

*Conflicts of Interest.* Axonic serves as the investment manager to the Funds, and the General Partners, an affiliate of Axonic, serves as the general partner to certain Funds. Axonic and its respective affiliates, principals, members and employees (hereinafter referred to as the “Affiliated Parties”) may conduct investment activities for their own accounts. Such activities may include making personal investments in real property, private companies, other funds and public companies, in each case, subject to Axonic’s compliance policies and procedures. Such activities may be in competition with any Fund. The Affiliated Parties may also give advice or take action with respect to any Fund that differs from the advice given with respect to another Fund. As a result of the foregoing, the Affiliated Parties may have conflicts of interest in allocating their time and activities between any Fund and the other Funds or clients, in allocating investments among any Fund and the other Funds or clients and in effecting transactions between any Fund and the other Funds or clients, including ones in which the Affiliated Parties may have a greater financial interest.

*Other* – To the extent that a Fund engages in frequent trading, such frequent trading can increase costs, including brokerage and other transaction costs and taxes, which can affect investment performance. Various capital markets and other transactions may require a Fund to provide representations, warranties, covenants and indemnities, which provisions may be highly negotiated, may survive the termination of the relevant transaction, and, as a contingency, may not be reflected on the published financial statements or in the net asset value of that Fund. The Funds are dependent on the services of Axonic, including in order to achieve their investment

objectives, and Axonic is dependent on the services of Mr. DeGiacinto as well as other key personnel to perform its services to the Funds.

*For a more complete discussion of the risks involved in investing in a Fund please see the relevant offering documents and subscription materials.*

### **Soma Management**

The following is a summary of the strategies and methods Soma Management uses in formulating advice or managing assets for Soma Holdings and Soma.

#### ***Soma Methods of Analysis and Investment Strategy***

Soma Holdings' principal investment objective is to achieve a positive return on capital through its ownership and ultimate disposition of its operating subsidiary, Soma, by means of a merger, sale or initial public offering of Soma (which may include the conversion of Soma to a real estate investment trust or taxable corporation), or the sale of all or substantially all the investments of Soma (excluding any sale to a Soma CRE CLO, or under repurchase agreements or other financing transactions) (each, a "**Soma Liquidity Event**"). The investment assets held by Soma, including interests in any Soma CRE CLO, are referred to herein as the "**Soma Investments**."

Soma Management will use reasonable efforts to arrange a Soma Liquidity Event before the fifth anniversary of the Soma First Closing Date (the "**Soma Targeted Liquidity Date**"). If there is no Soma Liquidity Event by the Soma Targeted Liquidity Date, following the Soma Targeted Liquidity Date current income and disposition proceeds from Soma Investments in excess of amounts deemed necessary by Soma Management to pay expenses, fund reserves and manage the Soma Investments (including any real property acquired upon foreclosure of a Soma Investment) will be distributed by Soma to Soma Holdings, and in turn by Soma Holdings to the Soma Investors, and not reinvested (except in connection with the purchase of assets from a Soma CRE CLO). Soma Management may then also opportunistically seek to dispose of Soma Investments (including to one or more funds or other accounts managed by Axonic or its affiliates) and may distribute the proceeds thereof.

#### ***Soma's Business***

Soma's business is to originate and/or acquire income-producing loans, debt and preferred equity instruments, participations and pass-through certificates, in each case, directly or indirectly secured or backed by commercial real estate, and to finance or leverage all or a portion of its assets. Soma's targeted assets primarily are mezzanine loans, but may also include whole mortgage loans, B Notes and preferred equity, and tranches of various seniority of commercial mortgage-backed securities (as defined above, "**CMBS**"). Soma will also seek opportunities to finance or leverage all or a portion of its assets, including through warehouse facilities, and by transferring the relevant assets to a wholly owned subsidiary or other entity that would issue debt to third parties and a subordinated tranche or residual interest to Soma (a "**Soma CRE CLO**"). Soma may repurchase assets (whether or not performing) previously transferred to a Soma CRE CLO.

Mezzanine loans are secured by one or more direct or indirect ownership interests (which may be only partial ownership interests) in a company, partnership or other entity owning, operating or controlling, directly or through subsidiaries or affiliates, one or more commercial properties and interests therein ("**Mezzanine Loans**"). Soma will originate Mezzanine Loans through several channels, including conduit lending programs and mortgage brokers.

***Soma Risk Factors***

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

*No Ability to Withdraw; Long-Term Commitment* -- An investment in Soma Holdings requires the financial ability and willingness to accept significant risk and illiquidity. Soma Investors may not receive significant payments until a Soma Liquidity Event or any disposition of Soma Investments occurs. An investment represents a long-term commitment of at least five years. Soma Investors will not be able to voluntarily withdraw any portion of their investment in Soma Holdings, and interests in Soma Holdings are not transferable except with the consent of Soma Management. There is no public market for the interests and none is expected to develop.

*Use of Leverage* -- Soma will seek to finance or leverage all or a portion of its Investments, including by transferring the relevant Investments to a wholly owned Soma CRE CLO. The greater the total borrowings of Soma relative to its Soma Investments, the greater will be its risk of loss and possibility of gain due to market fluctuations in the values of its investments. Money borrowed by Soma will be subject to interest costs, which will be an expense of Soma, and, to the extent not covered by income attributable to the investments acquired, will adversely affect the operating results of Soma Holdings. In anticipation of creating a Soma CRE CLO, Soma may enter into warehousing arrangements with one or more lenders. Terms of warehouse financing may impose restrictions of the types of Soma Investments that Soma can make, and may require that Soma abide by certain covenants and maintain cash balances to meet margin calls. A default under a warehouse facility could materially and adversely affect Soma Holdings and the Soma Investors' interest therein. There can be no assurance that Soma will be successful in arranging a Soma CRE CLO or otherwise obtaining leverage at all or on favorable terms. The failure to obtain leverage could adversely affect the returns to Soma Investors and result in the failure of Soma's business and the winding up of Soma and Soma Holdings.

*Uncertain Exit Strategies* -- Due to the illiquid nature of many of the Investments that Soma expects to make, Soma Holdings is unable to predict with confidence what, if any, Soma Liquidity Event will ultimately be available for its investment in Soma. If there is no Soma Liquidity Event by the Soma Targeted Liquidity Date, following the Soma Targeted Liquidity Date current income and disposition proceeds from Soma Investments will be distributed by Soma to Soma Holdings, and in turn to the Soma Investors, and generally not reinvested. Soma Management may at any time also opportunistically seek to dispose of Soma Investments and distribute the proceeds. There can be no assurances that a market for Soma Investments will exist or that any Soma Investment may be realized at a profit. Accordingly, Soma Investors may remain invested in Soma Holdings (and indirectly in Soma) for a significant amount of time beyond such fifth anniversary.

*Risk of Investing in Loans* -- The Soma Investments will include Mezzanine Loans and may consist of other loans (together, "**Loans**"). The risks relating to Loans include (among others): (i) limited liquidity and secondary market support, (ii) the possibility that cash flow of the borrower of the Loan may be insufficient to meet its debt service, (iii) declining creditworthiness and



potential for insolvency of the borrower of such Loan during periods of economic downturn, (iv) spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received, (v) with respect to participations, in the event the holders of such participations cannot agree on a course of action, the related participation agreement may provide for one participant to act unilaterally, or the appointment of a third party operating advisor, or a buy/sell mechanism permitting such holders to specify the price at which party may elect to buy or sell its participation interest and (vi) if subordinated, subordination to the prior claims of senior lenders. Non-performing Loans may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write down of the principal of the Loan. In addition, because of the unique and customized nature of a Loan, certain Loans may not be purchased or sold as easily as publicly traded securities.

*Mezzanine Loans* -- Typically, the ownership interests pledged by a mezzanine borrower as security for a Mezzanine Loan represents all or a portion of the direct or indirect equity in an entity that itself is a borrower under a commercial mortgage loan pursuant to which such mortgage borrower has pledged commercial property as security for such mortgage loan and perhaps other indebtedness and obligations (including derivatives and future advances), all of which will be senior in priority to the Mezzanine Loan. Also, typically, distributions in respect of its equity interest in the mortgage borrower constitute the sole source of income of the mezzanine borrower (and, therefore, the sole source of debt service payments on the related Mezzanine Loan). Accordingly, although a mezzanine borrower does not own or operate any commercial property, its ability to meet its obligations under its Mezzanine Loan depends upon the performance of the related commercial property. As with commercial mortgage loans, repayment of a Mezzanine Loan is thus dependent on the successful operation of the underlying commercial properties and, therefore, is subject to similar considerations and risks.

*Risks Arising in Connection with Foreclosure and Taking Title to Real Property* – Soma Management does not have experience foreclosing on loans, nor does it have experience owning commercial properties. Soma Management's ability to promptly foreclose upon defaulted Mezzanine Loans and operate the underlying real property and sell the interest therein obtained upon foreclosure, and the costs and expenses incurred in undertaking such foreclosures, including real estate transfer and recording taxes, is a material factor in the expected return on those investments. If Soma Management forecloses on a loan, Soma may take ownership of the entity owning the property, subject to any mortgages on the property, and if Soma Management does not or cannot sell the interests foreclosed upon, Soma would then come to own and operate the property. Owning and operating real property involves risks that are different (and in many ways more significant) than the risks faced in owning a loan secured by the equity in an entity that owns and operates the property. In addition, Soma may end up owning a property that Soma Management would not otherwise have decided to acquire directly at the price of Soma's original investment or at all.

*Soma CRE-CLO Residual Interests* – The Soma CRE CLO residual interest acquired by Soma will generally be the junior-most securities issued by the Soma CRE CLO. Subordinate classes of Soma CRE CLO securities generally are expected to provide that a deferral of interest thereon will not constitute an event of default and the holders of such securities will not have available to them any associated default remedies. During such periods of non-payment, such non-paid interest generally will be capitalized and added to the outstanding principal balance of the related security. Any such deferral will reduce the amount of current payments made on such Soma CRE CLO securities. Terms of a Soma CRE CLO may include interest coverage and overcollateralization coverage tests which, if breached, could divert cashflows otherwise intended

for Soma as the residual interest holder to reduce the principal balance of the senior debt, thereby reducing the leverage obtained by Soma from the Soma CRE CLO more quickly than expected.

*Loans are Illiquid* – There will be a limited trading market for the Soma Investments, and in certain instances there may be effectively no trading market therefor. The intercreditor agreement applicable to a Mezzanine Loan may prohibit the transfers of interests to persons other than certain institutional investors which may be required to have certain credit characteristics and/or capital resources. This will restrict Soma's ability to dispose of these investments to a limited universe of investors and may affect the price at which such investments can be sold. In addition, local, state or federal law may impose transfer taxes in connection with the foreclosure on the collateral. These and other limitations on realization on the collateral for a Mezzanine Loan or the practical limitations on the availability and effectiveness of such a remedy may affect the likelihood of repayment in the event of a default. The illiquidity of certain Investments may restrict Soma's ability to dispose of investments in a timely fashion and for an attractive price. Illiquid assets may trade at a discount from comparable, more liquid investments.

*Investments in Mezzanine Loans generally should be considered non-recourse* – In general, Mezzanine Loans are non-recourse and in the event of a default there will be recourse only against the specific assets that have been pledged to secure such Mezzanine Loans. In the event that the income generated by a real property were to decline as a result of the poor economic performance of that property, with the result that the property is not able to support debt service payments on the related mortgage loan, neither the related borrower nor any other person would be obligated to remedy the situation by making payments out of their own funds. In such a situation, the borrower could choose instead to surrender the related pledged assets to the lender or let it be foreclosed upon. Consequently, full and timely payment on Mezzanine Loans generally depends on one or more of the following: (i) the sufficiency of the net operating income of the applicable real property; (ii) the market value of the applicable real property at or prior to maturity; and (iii) the ability of the related borrower to refinance or sell the applicable real property. In general, the value of a multifamily or commercial property will depend on its ability to generate net operating income. The ability of an owner to finance a multifamily or commercial property will depend, in large part, on the property's value and ability to generate net operating income.

*Net Operating Income* – Net operating income is a key factor in determining the value of commercial real estate. The repayment of a Mezzanine Loan is typically dependent upon the ability of the applicable property to produce cash flow. Even the liquidation value of a multifamily, manufactured housing community or commercial property is determined, in substantial part, by the amount of the property's cash flow (or its potential to generate cash flow). However, net operating income and cash flow can be volatile and may be insufficient to cover debt service on the loan at any given time.

*Dependence on Successful Property Management* – The operation of commercial properties is dependent upon successful management and depends in part on who controls the borrower and mortgaged property. A property manager may not be in a financial condition to fulfill its management responsibilities throughout the terms of their respective management agreements. Further, certain individuals involved in the management or general business development at certain mortgaged properties may engage in unlawful activities or otherwise exhibit poor business judgment that adversely affect operations and ultimately cash flow at such properties. Additionally, Soma does not expect to control the management, investment decisions or operations of the entities to which it makes Mezzanine Loans, and may not have the financial

resources necessary to cure defaults on a mortgage loan secured by the property related to its Mezzanine Loan.

*Lack of Diversification* – Soma Holdings’ strategy and Soma’s business will be focused primarily, if not solely, on commercial real estate-related investments. Accordingly, Soma Holdings will not have the benefit of an investment portfolio that is diversified across multiple sectors. Concentration of strategies exposes an account to significant losses in the event of market disruptions or other factors that negatively affect the relevant strategies, while such losses may otherwise have been mitigated with a more diversified investment portfolio.

*Other.* Soma Holdings does not have counsel separate and independent from counsel to the Firm, and no independent counsel has been retained to act on behalf of all Soma Investors. A Soma Investor’s tax liability related to an investment in Soma Holdings could exceed the amount distributed to the Soma Investor by Soma Holdings in a particular year. Various transactions may require Soma or Soma Holdings to provide representations, warranties, covenants and indemnities, which provisions may be highly negotiated, may survive the termination of the relevant transaction, and, as a contingency, may not be reflected on the published financial statements or in the net asset value of Soma Holdings. Soma and Soma Holdings are dependent on the services of Soma Management, including in order to achieve their investment objectives, and Soma Management is dependent on the services of Axonic and Mr. DeGiacinto as well as other key personnel in order to perform its services to Soma and Soma Holdings.

*For a more complete discussion of the risks involved in investing in Soma Holdings please see the relevant offering documents and subscription materials.*

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**Item 9: Disciplinary Information**

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

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

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

As noted above, Soma Management is a wholly owned subsidiary of Axonic. Soma Management is registered with the SEC as an investment adviser together with Axonic and, accordingly, is subject to Axonic’s supervision and control, code of ethics and compliance policies and procedures. Soma Management is responsible for the investment decisions made on behalf of Soma Holdings, but relies on Axonic for certain administrative matters, such as office space, IT and telephone services and back-office support, pursuant to a services agreement. Clayton DeGiacinto is the Managing Member of Axonic and Axonic is the managing member of Soma Management.

There are no restrictions on the ability of Axonic and its affiliates to manage accounts of other clients following the same, similar or different investment objective, philosophy, and strategy as those used for Soma Holdings. In fact, Axonic currently manages and expects to continue to manage other portfolios consisting primarily of securities that may invest pursuant to the same or

different strategies as those employed by Soma Holdings. If a determination is made that Soma and a client of Axonic should trade in the same Investment at or about the same time, such investment will be allocated between Soma and other accounts in a manner that Soma Management and its affiliates determine in their discretion. Circumstances may occur in which an allocation could have adverse effects on Soma or the other client with respect to the price or size of positions obtainable or saleable.

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

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

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#### ***Code of Ethics***

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

Our Code of Ethics requires, among other things, that our employees, pre-clear certain personal securities transactions; report personal securities transactions on at least a quarterly basis; provide us with a detailed summary of certain securities holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest; and certify their compliance with the Code of Ethics on an annual basis. Our Code of ethics forbids employees from trading on inside information in violation of federal securities laws, and we have designed and implemented policies and controls to prevent trading on the basis of inside information in violation of federal securities laws.

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

Employees may have and make personal investments in the Funds and/or Soma Holdings. Subject to compliance with the Code of Ethics, employees also may have and make personal investments in real properties, private companies, other funds and public companies, any or all of which at any time may be in competition with the Funds or Soma.

#### ***Principal and Cross Trades***

A principal transaction occurs when an investment adviser, acting for its own account (or the account of an affiliate) buys a security from, or sells a security to, a client's account. We will conduct all principal transactions, if any, according to the disclosure and client consent requirements of Section 206(3) of the Advisers Act. The precise application of these disclosure and consent requirements may depend on the transaction.

Our policy and practice is to not engage in any principal transactions for the account of Axonic Capital LLC. However, the initial acquisitions by the ARA Funds were of properties acquired from affiliates of Axonic Capital LLC, as disclosed in and contemplated by the offering documents for the ARA Funds. With respect Soma Holdings, Soma Management may, to the extent permitted under applicable law, effect client cross-transactions or principal transactions where Soma Management causes a transaction to be effected between Soma and another account

advised by it or any of its affiliates. Further, the independent member(s) on the advisory board of Soma Holdings may consent on behalf of Soma Holdings to principal transactions and other related-party transactions as described in the offering documents for Soma Holdings.

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**Item 12: Brokerage Practices**

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

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

***Soft Dollar Benefits***

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

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

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

***Best Execution***

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

***Aggregated Trades***

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

We currently conduct all trading activity within the Master Funds, the ASO Fund, the ARA Funds and Soma. Our policy is to aggregate transactions where possible and when advantageous to clients. In these instances, clients participating in any aggregated transactions will receive an average execution price and transaction costs will be shared on a pro-rata basis.

***Allocations***

Our policy prohibits any allocation of trades in a manner that results in more favorable treatment being provided to proprietary accounts, affiliated accounts or any client account (including each of the Funds and Soma Holdings) over another.

We have adopted a policy intended to achieve the fair and equitable allocation of transactions. We generally analyse each trade, taking into consideration the specifics of each trade and the characteristics of each client account, as applicable. To the extent that multiple client accounts participate in a particular transaction, such transaction will generally be allocated pro-rata, unless we determine that facts specific to the transaction and the client warrant an alternative allocation methodology. In general, investments in a specific real property will not be allocated pro rata, but rather allocated to only one of the ARA Funds.

**Trade Errors****Axonic**

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

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

**Soma Management**

Soma Management is under no obligation to reimburse Soma or Soma Holdings for any errors or mistakes made by the adviser with respect to placing or executing trades for its respective client(s) or any other administrative errors made (“Trade or Administrative Errors”). Trade or Administrative Errors are considered by Soma Holdings to be a cost of doing business. However, pursuant to the exculpation of liability and indemnification provisions contained in the operating agreements for Soma and Soma Holdings, Soma Management will be obligated to reimburse Soma and Soma Holdings for any Trade or Administrative Error resulting from its willful misconduct or gross negligence. Soma Management, subject to its fiduciary obligations, will determine whether or not any Trade or Administrative Error is required to be reimbursed in accordance with such liability and exculpation provisions. Soma Management has an inherent conflict of interest with respect to the discovery and treatment of Trade or Administrative Errors. Any net gain resulting from Trade or Administrative Errors will be for the benefit of the pertinent client and will not be retained by Soma Management.

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**Item 13: Review of Accounts**

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***Review of Accounts***

The portfolio manager(s) and investment professionals of the Firm monitor and analyze the transactions, positions, and investment levels of the Funds and Soma, as pertinent, on an ongoing basis to ensure that they conform with the respective client's stated investment objectives and guidelines. In these reviews, we pay particular attention to any changes in the investment's fundamentals, overall risk management and changes in the markets that may affect price levels.

***Reporting***

Axonic distributes to Investors annual audited financial reports, monthly or quarterly performance reports and annual tax information for the pertinent Fund.

Soma Management distributes to Soma Investors annual audited financial reports, unaudited quarterly reports and annual tax information for Soma Holdings.

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

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Axonic has and may continue to enter into arrangements to compensate third parties for referring potential clients or Investors to Axonic. Axonic compensates third parties only if the client or Investor is aware of the fee arrangements (through disclosures or acknowledgments included in a Fund's subscription document) and the arrangement otherwise complies with applicable law, rules and regulations, including, if applicable, Rule 206(4)-3 under the Advisers Act. At present, Soma Management has no such arrangements.

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**Item 15: Custody**

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The Firm complies with the requirements of Rule 206(4)-2 under the Advisers Act with regard to its custody of the assets of the Funds, Soma Holdings and Soma ("**Custody Rule**").

The Master Funds', Feeder Funds' and ASO Fund's accounts are held in custody at qualified custodians including unaffiliated broker-dealers or banking institutions.

The ARA Funds' cash and liquid investments are held in custody at qualified custodians including unaffiliated broker-dealers or banking institutions. Title to real properties is generally taken in the name of a separate trust or limited liability company of which an ARA Fund is the beneficiary or owner and Axonic or an affiliate of Axonic is the trustee or non-member manager.

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

Soma Management is deemed to have custody of the assets of Soma Holdings and Soma. Soma Holdings is audited on an annual basis, and copies of the audited financial statements are distributed to the Soma Investors within 120 days of Soma Holdings' fiscal year end.

**Item 16: Investment Discretion**

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The Firm has full discretionary authority to manage the Funds, Soma Holdings and Soma, respectively, including authority to make decisions with respect to, as pertinent, which assets are bought and sold, the amount and price of those assets, the brokers or dealers or sellers or buyers to be used for a particular transaction, and the commissions paid, and any financing thereof. Our authority is limited by our internal policies and procedures and by the investment guidelines of each Fund, Soma Holdings and Soma, as pertinent. These terms are set out in the private placement memoranda and in the governing documents of each Fund and Soma Holdings.

**Item 17: Voting Client Securities**

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***Proxy Voting Policy***

Axonic accepts authority to vote proxies for clients' securities holdings. In accordance with Axonic's fiduciary duty to clients under Rule 206(4)-6 under the Advisers Act, we have adopted and implemented policies and procedures governing the voting of client securities. We will vote proxies and other issuer solicitations in the best interests of the Funds. All proxies that we receive will be treated in accordance with these policies and procedures. Investors may not direct proxy voting for particular solicitations.

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

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

Soma Management does not expect to receive any proxies. However, to the extent Soma Management accepts authority to vote proxies on behalf of its clients and has occasion to vote proxies, it will do so in accordance with these policies and procedures.

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

**Item 18: Financial Information**

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Neither Axonic nor Soma Management has ever filed for bankruptcy, and neither is aware of any financial condition which would negatively affect its ability to manage client accounts.