

## Sona Asset Management (UK) LLP

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June 2019

This brochure (the “**Brochure**”) provides information about the qualifications and business practices of Sona Asset Management (UK) LLP (the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer, Mr. Iain Colquhoun by email at [icolquhoun@sona-am.com](mailto:icolquhoun@sona-am.com) or (+44) 203 872 4572. The Firm is registered as an investment adviser with the United States Securities and Exchange Commission (“**SEC**”) pursuant to the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). Registration with the SEC does not imply a certain level of skill or training and the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

This Brochure is not: (i) an offer or agreement to provide advisory services to any person; (ii) an offer to sell interests (or a solicitation of an offer to purchase interests) in any private fund; (iii) a complete discussion of the strategies, risks, or conflicts of interest associated with any private fund; or (iv) to be relied on in determining whether to invest in a private fund or establish an advisory relationship with the Firm. The information provided in this Brochure about any private fund is qualified in its entirety by reference to the relevant fund documentation. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

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This Brochure is our initial Form ADV Part 2A, which has been submitted with our application for registration with the SEC; therefore, there are no material changes to report.

**Item 3: Table of Contents**

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#### **Item 4: Advisory Business**

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Sona Asset Management (UK) LLP (the “**Firm**”, “**we**”, “**us**”, or “**our**”) is a limited liability partnership formed in the UK with its principal place of business in London.

The Firm is a subsidiary of Sona Asset Management Limited, which is itself a wholly-owned subsidiary of Sona Asset Management Cayman Limited (the “**Cayman Manager**”). John Brian Aylward is the ultimate beneficial owner of the Cayman Manager.

The Firm provides investment advisory services to a managed account (the “**Managed Account**”) which is a portfolio in a private investment fund (the “**Paloma Fund**”), under an Investment Management Agreement (the “**Agreement**”) between the Cayman Manager, the Firm, and Paloma Partners Management Company (“**Paloma**”).

The Firm, the Cayman Manager, and the US LLC are herein referred to as “**Sona Asset Management**”.

Sona Asset Management conducts trading for the Managed Account in a manner that observes the strategy and risk parameters provided by Paloma and agreed with Sona Asset Management from time to time.

As of December 31, 2018, the Firm had regulatory assets under management of approximately \$1.7 billion, managed on a discretionary basis, with responsibility to make recommendations as to specific securities and arranging or effecting their purchase and sale pursuant to the Agreement.

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

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Pursuant to the Agreement, Paloma will pay Sona Asset Management a monthly management fee (the “**Management Fee**”).

We are also entitled to receive an annual performance fee (subject to a hurdle rate and high water mark) calculated based on net trading profits (after the deduction of losses carried forward from the previous year, if any) as of the end of each calendar year. The performance fee is calculated by the Paloma Fund’s administrator and approved by the Paloma Fund general partner – we neither calculate the performance fee, nor authorize its payment.

Other fees and expenses borne by the Managed Account include a pro rata share of the Paloma Fund’s administration fees and expenses as well as any transaction or investment fees or expenses related to the Managed Account’s activities.

The Firm and its employees do not accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

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

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Pursuant to the Agreement, Paloma will pay Sona Asset Management, an annual performance fee (the “**Performance-Based Fee**”) with respect to the Managed Account.

Performance-Based Fees can provide an incentive to take excessive risks. However, the Paloma Fund’s general partner (who is not affiliated with Sona Asset Management and does not receive a performance-based fee) is the Paloma Fund’s risk manager and monitors the Managed Account’s trading and investment activity daily. Per the Agreement, the trading discretion granted to Sona Asset Management is subject to the general

partner's general direction concerning matters of risk and Sona Asset Management therefore cannot act independently with respect to decisions on the amount of investment risk taken in the Managed Account.

Performance-Based Fees can also create an incentive to overvalue assets, thereby inflating net trading profits through unrealized appreciation. However, Sona Asset Management has no authority to value the Managed Account's assets; it is the general partner (who is not affiliated with Sona Asset Management and does not receive a performance-based fee) that is responsible for the final determinations on the valuation of the Managed Account's positions.

Our investment advisory services are provided exclusively to the Paloma Fund through the Managed Account, therefore we do not have any conflicts related to the receipt of performance-based fees among clients.

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**Item 7: Types of Client**

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The Firm provides investment advisory services to a managed account (the "Managed Account") which is a portfolio in a private investment fund (the "Paloma Fund"), under an Investment Management Agreement (the "Agreement") between the Cayman Manager, the Firm, and Paloma Partners Management Company ("Paloma").

Interests in the Paloma Fund, and the Paloma Fund itself, are not registered under the U.S. Securities Act of 1933, as amended and are excepted from the definition of an "investment company" under Section 3(c)(7) of the Investment Company Act of 1940, as amended. Accordingly, interests in the Paloma Fund are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions. Investors in the Paloma Funds are also Qualified Eligible Persons as defined in the Commodity Exchange Act.

In the future, Sona Asset Management may provide investment advice to other clients, including other private funds or separately managed accounts.

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

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The Firm's principal investment objective is to seek attractive risk-adjusted returns while preserving capital through all market environments. This objective is sought primarily through long/short credit, event-driven, and capital arbitrage strategies within the European and U.S. markets. The Firm seeks to identify and invest in debt instruments of companies that we believe exhibit significant valuation discrepancies between current trading prices and intrinsic business (or net asset) value, often with a catalyst for value recognition. Investments meeting the Firm's investment objectives may be found in companies undergoing significant changes in strategy, capital structure, corporate governance, management, legal exposure, corporate form, shareholder composition and control, liquidity and financial condition, and in companies that are affected by external changes in the economic and political environment, including changes in the relevant tax code.

Instruments traded may include but are not limited to: stocks, bonds, debt instruments (investment and non-investment grade), high yield bonds, equity instruments (including listed and unlisted securities), private investments in public equity, exchange-traded funds, futures, derivatives, convertible and preferred securities, and warrants and other rights to purchase shares, bank debt, floating rate notes, government bonds or any other types of financial instruments unless otherwise prohibited in the Agreement. Derivative instruments may include: credit derivatives, options, exchange-traded or over-the-counter derivatives, swaps (including basket swaps, equity swaps, credit default swaps, contracts for difference and total return swaps) as well as deliverable and non-deliverable forward contracts.

If we cannot identify attractive investment opportunities because they are either not available or because we are wrong in our value assessment, the Managed Account's performance may be adversely impacted.

Alternative investment strategies are speculative and involve a high degree of risk, including, without limitation, risks associated with limited diversification, leverage, interest rates, currencies, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, operational risks, counterparty risk and other risks inherent in the Managed Account's investment activities and financial instruments traded. The use of leverage can magnify the impact of adverse market moves to which the Managed Account may be subject. Investments may be materially affected by conditions in the financial markets and overall economic conditions occurring globally or in particular countries or markets in which the Managed Account invests. There may be risks that are not monitored or controlled by us and risks that may be greater than forecasted, especially in unusual market conditions. Information used to manage risks may not be accurate, complete or current, or misinterpreted by us.

**Investment Risk:** Inherent in any alternative investment strategy is the risk of total loss of capital. We cannot predict, measure or hedge all market, or other risks inherent in our investment strategies. We may choose, or may determine that it is economically appropriate to not hedge certain risks. The profitability of our investment strategies depends to a great extent on our ability to correctly assess the future course of price movements of securities and other investments. There can be no assurance that we will be able to accurately predict price movements. The performance of any investment is subject to numerous factors which we cannot predict or control. These factors include a wide range of economic, political, competitive and other conditions (including acts of terrorism and war) that may affect investments in general or in specific industries or companies. Market volatility may cause performance to fluctuate substantially over time.

We may not accurately predict what the exit strategy will ultimately be for any given position. Exit strategies which appear to be viable when an investment is initiated may be precluded due to economic, legal, political or other factors.

**Competition:** There is currently, and will likely be, competition for investment opportunities with other investors having investment objectives and strategies like those of the Managed Account. Performance may be adversely impacted if competition prevents or hinders the Managed Account's ability to participate in certain investment opportunities.

**Execution, Market and Liquidity Risk:** We may trade in markets that are volatile and which may become illiquid. Closing positions may be difficult if there is a significant decrease in trading volume or increase in price volatility. Orders may not be executed timely or efficiently in periods of market distress due to various circumstances including liquidity and market restrictions.

At times, the fixed income markets have experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During periods of market illiquidity, we may not be able to close out positions or may only be able to do so at unfavourable prices. This liquidity risk could adversely impact the performance of the Managed Account and may be difficult or impossible to hedge against. We may also invest in financial instruments that are not publicly traded and may not be able to readily dispose of such instruments and, in some cases, may be contractually prohibited from disposing of such securities for a specified period of time.

The prices of securities can be highly volatile. Price movements 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. Although market volatility can create trading opportunities, too much volatility may create additional risks that may impact our ability to put on and maintain effective hedges. It can cause the correlation between long positions and hedges

to diverge, with the hedge having the opposite effect of that intended.

**Special Situations, Event-Driven Investing and Merger Arbitrage:** Event-driven strategies often involve the purchase of a company's securities after the announcement or disclosure of a significant event, including but not limited to: a spin-off, auction of the company or subsidiary, merger, bankruptcy, recapitalizations, litigation or other liability impairments, turnarounds, management changes, consolidations, tender offer and other catalyst-oriented situations.

Merger or "risk" arbitrage strategies seek to exploit merger activity to capture or sell short the spread between current market values of securities and their values after successful completion of a merger, restructuring or similar corporate transaction. Merger arbitrage investments typically incur significant losses when the anticipated merger or acquisition transactions are not consummated.

Merger arbitrage and event driven strategies also depend on the overall volume of merger activity, which historically has been cyclical in nature.

The success of these strategies is dependent on our ability to make predictions about the likelihood that an event will occur and the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including, but not limited to: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a federal or state regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable federal or state securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event driven investing, performance results can be expected to fluctuate from period to period.

**Securities of Non-U.S. Companies:** Investments in securities of non-U.S. issuers have a range of risks which may include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. issuers. There may also be less government supervision and regulation of exchanges, brokers and issuers than there is in the U.S., and we may have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, creating substantial delays and settlement failures that could adversely affect the Managed Account's performance. Transaction costs of investing in non-U.S. securities markets may be higher than in the U.S., and securities denominated or whose prices are quoted in non-U.S. currencies also pose currency exchange risks (including blockage, devaluation and non-exchangeability).

**Developing or Emerging Markets:** Any of our investment strategies may be executed in developing or emerging markets. In addition to the risks for securities of non-U.S. companies, developing or emerging markets may be more likely than developed markets to experience periods of illiquidity, market disruptions, political instability, economic distress, social instability, rule changes, restrictions on capital movement, etc.

**Material Non-public Information:** We may come into possession of material non-public information that would limit our ability to buy and sell investments for the Managed Account. The Managed Account's investment flexibility may be constrained as a consequence of our inability to take certain actions because of such information. The Managed Account may experience losses if we are unable to sell an investment because we

are in possession of material non-public information about the investment.

**Short Selling:** Short selling involves selling securities that are not owned and borrowing them for delivery to the purchaser with an obligation to replace borrowed securities at a later date. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could increase without limit, thus increasing the cost to the Managed Account of buying those securities to cover the short position. There is no assurance that a borrowed security will not be recalled and that the Managed Account will not be “bought in” (i.e. forced to repurchase securities in the open market to return them to the lender). Furthermore, the securities necessary to cover a short position may not be available for purchase, and purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. The securities borrowed to effect the short sale may be recalled by the lender of those securities at any time, thus forcing the Managed Account to purchase the securities and close out the short position at a loss.

Short sale transactions have been subject to increased regulatory scrutiny including the imposition of restriction on short selling certain securities and reporting requirements. Our ability to execute a short sale may be materially adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions and restrictions adopted in response to these adverse events. Temporary restrictions and/or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior, current and future trading activities.

Regulatory authorities may also impose restrictions that adversely affect our ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, we may not be able to effectively pursue a short selling strategy due to the limited supply of securities available for borrowing.

**Debt Securities:** The Managed Account may invest in debt securities, bonds, or other fixed income securities and loan instruments of U.S. and non-U.S. sovereign and corporate issuers that pay fixed, variable, or floating rates of interest. The value of fixed income securities and loans in which the Managed Account may invest can change in response to fluctuations in interest rates and/or to perceptions of creditworthiness, political stability or soundness of economic policies. These fluctuations may be more acute with respect to high yield and distressed issuers. The value of fixed income securities can also be impacted by dealer and market liquidity, particularly in periods of significant financial market stress.

**Distressed and High Yield Securities:** We may invest in “below investment grade” securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Among the risks inherent in investments in troubled companies is the fact that it may be difficult to obtain information as to the true condition of the issuers. These investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court’s power to disallow, reduce, subordinate or disenfranchise particular claims. Debt securities of troubled companies may not pay interest or dividends, whether inherently or by reason of default, whereas healthier issuers typically will pay interest or dividends on their debt securities.

We may also invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

**Derivatives:** Derivatives include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to one or more underlying securities, financial indexes, currencies or other underlying asset. Derivatives allow an investor to hedge or speculate upon the price movements of the underlying asset at a fraction of the cost of investing directly in the underlying asset. The



value of a derivative therefore depends largely on the price movements in the underlying asset and many of the risks applicable to the underlying asset are also applicable to the derivatives of that asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are inherently leveraged and create significantly more market exposure than the money paid or deposited when the transaction is entered into, therefore a relatively small adverse market movement can cause a loss greater than the original amount invested. Derivatives also have liquidity risk because there may not be a liquid market in which to close or dispose of outstanding derivatives contracts. Derivatives also carry counterparty risk. In the event of default by a derivatives counterparty the Managed Account may lose all or a portion of the amount it is contractually entitled to receive.

The prices of derivatives can be highly volatile. Price movements of derivative contracts in which we may invest 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. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Such intervention often is intended to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of among other things, interest rate fluctuations.

**Options:** We may buy or sell (write) call and put options. The purchase or sale of an option involves the payment or receipt of a premium and the corresponding right or obligation, as applicable, to either purchase or sell the underlying asset for at a specified price at, or by, a specified date or during a particular period. Purchasing options involves the risk that the underlying instrument will not change in price in the manner expected and the premium will be lost. Selling options involves greater risk because of the seller's exposure to the actual price movement in the underlying asset rather than only the premium payment which could result in potentially unlimited loss.

**Swap Agreements:** Swap agreements are privately negotiated over-the-counter derivative products in which two parties agree to exchange actual or contingent payments that may be calculated in relation to a rate, index, instrument or certain securities and a particular "notional amount". Swaps may be subject to risks including market risk, liquidity risk, structuring risk, tax risk and counterparty risk.

**Exchange Rate Fluctuations; Currency Considerations:** Changes in currency exchange rates (to the extent unhedged) will affect the value of the Managed Account and the unrealized appreciation or depreciation of investments.

**Securities of Non-U.S. Companies:** Investments in securities of non-U.S. issuers have a range of other risks which may include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. issuers. There may also be less government supervision and regulation of exchanges, brokers and issuers than there is in the U.S., and we may have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Managed Account's performance.

Transaction costs of investing in non-U.S. securities markets are generally higher than in the U.S., and securities denominated or whose prices are quoted in non-U.S. currencies also pose currency exchange risks (including blockage, devaluation and non-exchangeability).

**Securities of Non-U.S. Companies:** Investments in securities of non-U.S. issuers have a range of other risks which

may include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. issuers. There may also be less government supervision and regulation of exchanges, brokers and issuers than there is in the U.S., and we may have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Managed Account's performance.

Transaction costs of investing in non-U.S. securities markets are generally higher than in the U.S., and securities denominated or whose prices are quoted in non-U.S. currencies also pose currency exchange risks (including blockage, devaluation and non-exchangeability).

**Hedging Transactions:** The success of hedging transactions strategy depend, in part, upon our ability to correctly assess the degree of correlation between the performance of the instruments used to hedge risks and the performance of the securities or risks being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a hedge will also be subject to our ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While hedging transactions may be entered into with the intent to reduce risk, such transactions may result in poorer overall performance for the Managed Account than if such hedging transactions were not entered into. For a variety of reasons, we may not seek to establish a perfect correlation between the hedging instruments utilized and the securities being hedged. Such an imperfect correlation may prevent the Managed Account from achieving the intended hedge or expose the Managed Account to risk of loss.

**Highly Volatile Markets:** The prices of securities can be highly volatile. Price movements 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. Although market volatility can create trading opportunities, too much volatility may create additional risks that affect our ability to put on and maintain effective hedges. It can cause the correlation between long positions and hedges to diverge, with the hedge having the opposite effect of that intended.

**Leverage and Financing Risk:** All leverage used by the Managed Account is controlled by the Paloma Fund's general partner. The Managed Account, however, could experience losses due to its, or the Paloma Fund's, use of leverage. While leverage presents opportunities for increasing the Managed Account's total return, it has the effect of potentially increasing losses as well. Further, if the securities pledged to brokers to secure margin accounts decline in value, the Managed Account of Paloma Fund could be subject to a "margin call," pursuant to which the Managed Account or Paloma Fund must either deposit additional funds or securities with the brokers, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Managed Account's (or the Paloma Fund's) assets, we may be forced to liquidate the Managed Account to raise money to satisfy margin requirements. The forced liquidation of all or a portion of the Managed Account at distressed prices could result in significant losses to the Managed Account.

**Change in Margin Terms:** In the absence of specific agreements, securities margin arrangements are generally subject to change or revocation by the lender upon very limited notice and for any or no reason. The lender may demand an increase in the collateral, including requiring collateral equal to the full amount of the borrowings, and, if the Paloma Fund is unable to provide additional collateral, the lender could liquidate assets held by the lender to satisfy the Paloma Fund's obligations. The assets of the Managed Account could be part of such a liquidation. Liquidation in that manner could have extremely adverse consequences, which may be exacerbated in the event that these changes or revocations are imposed suddenly or by multiple lenders.

**Margin in Periods of Stress:** In periods of market stress, and particularly in periods of stress specific to the Paloma Fund, lenders or counterparties may attempt to increase margin levels. Additionally, a simultaneous, broad-based increase in margin among hedge funds generally would likely adversely impact the investments held in the Managed Account by decreasing demand and increasing supply of those or similar investments.

**Counterparty Risk:** We may enter into transactions, including derivative and other over-the-counter transactions, with or through third parties in which the failure of the third party to perform its obligations could have a material adverse effect on the Managed Account. The counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement. The Managed Account's assets are generally not segregated bankruptcy-remote accounts titled in the owner's name and therefore, a failure of any broker or market participant is likely to have a greater adverse impact than if the assets, or the accounts in which they are held, were registered in the name of the Paloma Fund. In addition, because the Managed Account's securities may be held in margin accounts, and the prime brokers have the ability to loan those securities to other persons, the Paloma Fund's ability to recover assets in the context of a bankruptcy or other failure of a prime broker may be further limited.

We may transact with counterparties (including prime brokers) located in various jurisdictions outside the United States. The local counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Managed Account's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible scenarios involving the insolvency of any counterparty, it is impossible to generalize about the effect of their insolvency on the Managed Account's assets. It should be assumed that the insolvency of any significant counterparty would result in a loss to the Managed Account, which could be material.

**Limited Diversification:** The Managed Account may become concentrated in a single issuer, industry, market or sector. The concentration of risk may increase losses suffered by the Managed Account. Limited diversification may cause greater volatility than would otherwise be the case, and could expose the Managed Account to losses disproportionate to market movements in general. Even if we attempt to control risks through diversification, risks associated with different assets may become correlated in unexpected ways, with the result that the Managed Account becomes exposed to unforeseen risks.

**Market Restrictions:** Restrictions on investment size or investment activities imposed by various regulators or self-regulatory organizations and exchanges may limit the Managed Account's ability to effect transactions. Position limits (e.g., the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular financial instrument) and other market restrictions (e.g., prohibitions on short sales) may require aggregation across the Paloma Fund (as opposed to the Managed Account), for purposes of determining whether the applicable position limits have been exceeded, or short sales may be executed and may restrict the Managed Account's investment activities. As a result of these restrictions, we may be prevented from executing a desired transaction and the Managed Account may therefore incur losses which may be material.

**Trade Error Risk:** Occasionally, transactions may be executed erroneously on terms other than those intended. For example, a transaction may be executed in the wrong asset, for the wrong quantity or price, to buy when we intend to sell, to sell when we intend to buy, or by reason of a technology or administrative error. Except to the extent otherwise required by law, the Managed Account will generally bear the losses or costs of any such errors, unless it is determined that the error was caused by gross negligence.

**General Political, Economic, Legal, Tax, and other Regulatory Risks:** The Managed Account's investments may be adversely affected by changes in economic conditions or political events, such as a stock market break, acts of terrorism, the outbreak of hostilities involving the United States, the death of a major political figure, a serious

pandemic, or a natural disaster, among many others. Additional factors, such as changes in federal or state tax laws, federal or state securities laws, bank regulatory policies or accounting standards, may make certain investments less desirable or may make certain investment strategies less effective. Similarly, legislative acts, rulemaking, adjudicatory, or other activities of governmental or quasi-governmental bodies, agencies, and regulatory organizations may make the business of the Paloma Fund less attractive. Laws and regulations, particularly those involving taxation, investment and trade, applicable to the Paloma Fund's or Managed Account's activities can change quickly and unpredictably, and may at any time be amended, modified, repealed or replaced in a manner adverse to the interests of the Managed Account. In particular, in response to significant recent events in international financial markets, governmental intervention, and certain regulatory measures have been or may be adopted in certain jurisdictions, including restrictions on short selling of certain securities in certain jurisdictions. The extent to which the underlying causes of these recent events are pervasive throughout global financial markets and have the potential to cause further instability is not yet clear. These recent events, and their underlying causes, are likely to be the catalyst for changes in global financial regulation for some time, and may result in major and unavoidable losses to the Paloma Fund.

With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

#### **DISCLAIMER**

The information included in this Item 8 does not include every potential risk associated with our investment strategies. Investing in securities involves risk of loss, possibly a total loss of invested capital, that investors should be prepared to bear.

There is no guarantee that the Managed Account's investment program, including, without limitation, its investment objectives, strategies, or risk monitoring goals will be successful. Investment results may vary substantially over time. The Managed Account's investments are speculative and involve a high degree of risk. There may be risks which cannot be monitored or controlled, and risks that may be greater than forecasted, especially in unusual market conditions. Sona Asset Management cannot guarantee that any assumptions relied on herein will be true for all future events or that all assumptions have been considered or stated.

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

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This Item is not applicable.

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

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The Firm is a subsidiary of Sona Asset Management Limited, a UK-based private limited company which is itself a wholly-owned subsidiary of Sona Asset Management Cayman Limited, a corporation organized under the laws of the Cayman Islands. The Firm has a sub-advisory relationship with Sona Asset Management (US) LLC, a SEC registered investment adviser.

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

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Pursuant to Rule 204A-1 of the Advisers Act, Sona Asset Management has adopted a Code of Ethics (the “**Code of Ethics**”) and an employee personal trading policy (the “**Personal Trading Policy**”) that establishes various procedures with respect to investment transactions in accounts in which Sona Asset Management employees or related persons have a beneficial interest or accounts over which an employee has investment discretion. Sona Asset Management and/or its officers or employees are generally not permitted to trade in the same securities that may be purchased or sold for the Managed Account. Sales of existing positions may be permitted as long as the employee has received prior approval from the Firm’s Chief Compliance Officer (the “**CCO**”). Certain transactions involving government securities, open-end mutual funds, broad based exchange traded funds (ETFs) or other instruments, while not requiring pre-approval, are covered by the Firm’s holdings disclosure requirements under the Code of Ethics.

The spirit of the Code of Ethics and the Personal Trading Policy is to prohibit personal trading that violates the law, interferes with employees’ duties, or otherwise violates the Code and, generally, to discourage frequent trading in employee personal accounts. In addition, employees may not acquire securities for their own account in an initial public offering, and must obtain pre-approval from the CCO before participating in any private placements.

All of Sona Asset Management’s employees must direct their brokers to send duplicate brokerage statements to the CCO, or make similar alternative arrangements. These records are used to monitor compliance with the foregoing policies.

Sona Asset Management prohibits the misuse or inappropriate communication of inside information in connection with its securities transactions with respect to the Managed Account. Sona Asset Management, as well as federal and state securities laws, also prohibit the practice of market manipulation, which comprises conduct intended to deceive or defraud investors by controlling or artificially affecting the price of securities.

Sona Asset Management has also adopted communications guidelines designed to assist personnel in understanding their duties and responsibilities regarding the receipt and the communication of financial and other sensitive information.

Any outside business activities employees wish to engage in must be disclosed to, and approved by, Sona Asset Management’s Compliance department.

Sona Asset Management has adopted a policy regarding the giving and receiving of business gifts and entertainment.

Sona Asset Management has also adopted a policy governing political contributions, the holding of public office and impermissible payments. This policy is designed, among other things, to address the requirements of Rule 206(4)-5 under the Advisers Act.

Sona Asset Management’s Code of Ethics, including the Personal Accounts Dealing Policy, are available upon request.

## **Item 12: Brokerage Practices**

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As an adviser and a fiduciary to the Managed Account, Sona Asset Management requires that the Managed Account’s interests must always be placed first and foremost, and our trading practices and procedures prohibit unfair trading practices. Sona Asset Management seeks to disclose and avoid any actual or potential conflicts of interests or resolve such conflicts in the Managed Account’s favor. Sona Asset Management has adopted the following policies and practices to meet its fiduciary responsibilities and to ensure its trading practices are fair.

### ***Aggregation***

When appropriate, we may, but are not required to, aggregate orders with respect to the Managed Account, to achieve more efficient execution.

### ***Allocation***

Allocation is currently not an issue, because the only client is the Managed Account.

### ***Cross and Principal Transactions***

Cross trades and principal transactions are not applicable with respect to the Managed Account.

### ***Best Execution***

The Paloma Fund's general partner reviews, approves and monitors the prime brokers, executing brokers-dealers and counterparties used by Sona Asset Management. Executing broker-dealers and counterparties are chosen from those that have been reviewed and approved by the Paloma Fund's general partner.

As per Sona Asset Management's Best Execution Policy (the "**Best Execution Policy**"), the Firm is required to act in accordance with the best interests of its client, the Managed Account, when placing orders with intermediaries (such as brokers) for execution of deals on behalf of the Managed Account.

Best execution applies to all financial instrument types, although "execution factors" should be considered and applied as appropriate to different instruments, depending on their relative importance.

Sona Asset Management has implemented the Best Execution Policy taking into account the relevance and importance of the execution factors against the characteristics of the relevant financial instrument, and the execution venues or intermediaries to which an order can be directed.

Sona Asset Management periodically monitors the effectiveness of the policies and ability to achieve best execution. Annually (or more frequently as required) Sona Asset Management reviews the policies and order execution arrangements.

When requested, Sona Asset Management will demonstrate that orders have been executed in accordance with the Best Execution Policy (or request such information from intermediaries where they are used).

### ***Soft Dollars***

Sona Asset Management does not have in place any soft dollar arrangements.

### ***Trade Errors***

The Paloma Fund (and not Sona Asset Management) will bear the cost of any losses (and reap the benefits of any gains) resulting from trading errors and similar human errors, absent gross negligence or intentional misconduct. Trade errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system or typographical or drafting errors related to derivatives contracts or similar agreements.

**Item 13: Review of Accounts**

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The Managed Account's transactions and positions are reviewed on a daily basis by Sona Asset Management and the Paloma Fund's general partner.

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

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We are currently seeking new clients to raise capital.

**Item 15: Custody**

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We do not exercise custody (and are prohibited under the Agreement from exercising custody) over the Managed Account's assets.

**Item 16: Investment Discretion**

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The Agreement sets forth certain guidelines or restrictions related to our investment activities, which may be modified from time-to-time in consultation with the Paloma Fund's general partner. In addition, the Paloma Fund general partner may impose restrictions on our ability to invest in certain securities or types of securities.

**Item 17: Voting Client Securities**

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As per the Agreement, Sona Asset Management has the right to vote on behalf of the Managed Account any proxies relating to securities held in the Managed Account, provided that any proxy voting instructions given on a timely basis by Paloma will be observed. Sona Asset Management will provide a periodic report to Paloma of how all proxies were voted.

Proxies are voted in the best interest of the Managed Account. There may be circumstances in which Sona Asset Management is advised in writing by the Paloma Fund's general partner not to vote and in such circumstances, Sona Asset Management will refrain from voting.

**Item 18: Financial Information**

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This item is not applicable.