

Invictus Capital Management, LP

Form ADV Part 2A – Firm Brochure

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This Brochure provides information about the qualifications and business practices of Invictus Capital Management, LP and affiliated entities (“Invictus” or the “Company”).

If you have any questions about the content of this Brochure, please contact Robert Konigsberg at (202) 534-1819. 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 Invictus also is available on the SEC’s website at www.adviserinfo.sec.gov.

While Invictus may refer to itself as a registered investment adviser, registration does not imply a certain level of skill or training.

Item 2 Material Changes

On March 29, 2019, with the consent of the investors in Invictus Opportunity Fund, L.P., Invictus Opportunity Offshore Fund, L.P. and a partnership designed for the benefit of a single investor (the “Managed Account Fund”, and collectively, “Fund I”), Fund I sold Verus Residential Loanco, LLC (“Verus”), a portfolio company of Fund I, to the parent company of Invictus. Invictus prepared an analysis of the transaction, reflecting the methodology used to determine the purchase price of Verus. The valuation analysis was independently verified by Houlihan Lokey, Inc. (“Houlihan”), and the members of Fund I’s investor advisory committee were consulted with respect to the analysis and given the opportunity to review the report prepared by Houlihan. Verus will continue to provide the same services to Fund I that it provided prior to the closing of this transaction throughout the remainder of Fund I’s term. Verus will also provide similar services to Invictus Opportunity Fund II, L.P. and Invictus Opportunity Offshore Fund II, L.P. (“Fund II”) and potentially to future investment vehicles sponsored by Invictus. In addition, Fund II anticipates acquiring loans, at fair value, from Verus. See Item 5 – Common Types of Fees of this Brochure for further detail. A description of the services provided by, and related fees paid to, Verus and the related conflicts of interest is included in the offering documents for Fund II.

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Item 4 Advisory Business

Invictus, a Delaware limited partnership formed in 2008, is registered with the SEC as an investment adviser. It provides discretionary advice to the Invictus Opportunity Fund, L.P. and Invictus Opportunity Fund II, L.P. (the “Opportunity Onshore Funds”), Invictus Opportunity Offshore Fund, L.P., and Invictus Opportunity Offshore Fund II, L.P. (the “Opportunity Offshore Funds”; and collectively with the Opportunity Onshore Funds, the “Opportunity Funds”), and the Managed Account Fund (collectively with the Opportunity Funds, the “Funds”).

Each Opportunity Offshore Fund and the Managed Account Fund has a separate feeder fund that invests all of its capital in such fund. In turn, each Opportunity Offshore Fund invests all of its committed capital alongside the related Opportunity Onshore Fund, and the Managed Account Fund invests all of its committed capital alongside Invictus Opportunity Fund, L.P. and Invictus Opportunity Offshore Fund, L.P.

Invictus causes vehicles owned the Funds to invest primarily in recently-originated non-agency residential loans to capitalize on what Invictus believes to be an opportunity to earn premium spreads from creditworthy borrowers who are not adequately served by traditional lending sources. The primary focus of the Funds is to achieve attractive rates of return primarily through investments in residential loans (each an “Investment”). Investments may include: (i) retention of securities issued as a result of a securitization of loans acquired by the Fund vehicles, (ii) first-lien and second-lien mortgages and (iii) any other participation or interest in mortgage related opportunities regardless of the legal form, transaction structure or when originated, including investments in loan originators and mortgages related to properties used for commercial purposes.

The Company may also opportunistically invest in other investments in the housing sector and other real estate lending markets and asset classes that share similar investment return characteristics, including business purpose loans.

The Opportunity Funds are not tailored to the individualized investment needs of any particular investor, and while the Managed Account Fund is reasonably tailored based on the individual needs of the investor in the Managed Account Fund, as agreed with Invictus and consistent with the limited nature of our advisory services, an investment in the Opportunity Funds or the Managed Account Fund does not create a Client-adviser relationship between an investor and Invictus.

The offering materials for the Funds (the “Offering Materials”) contain more detailed information, including a description of the investment objective and strategy or strategies employed and related restrictions that serve as a limitation on Invictus’ advice or management. Each investor is strongly encouraged to undertake appropriate due diligence, including but not limited to a review of relevant Offering Materials and the additional details about Invictus’ investment strategies, methods of analysis and related risks in Item 8 of this Brochure in considering whether Invictus’ advisory services or an investment in a Fund are appropriate to its own circumstances based on all relevant factors including, but

not limited to, the investor's own investment objectives, liquidity requirements, tax situation and risk tolerance before making an investment decision.

Michael Warden is the Chief Executive Officer (CEO) of Invictus. Invictus is primarily owned Invictus Capital Partners, LP, which is managed by Mr. Warden and certain other principals of Invictus.

Michael Warden, Managing Director and Chief Executive Officer. Michael Warden has over 28 years of capital markets experience with extensive focus in the mortgage sector. He is the managing principal and CEO of Invictus Capital Partners. Prior to forming Invictus, Mr. Warden was Senior Managing Director and head of Fixed Income at Friedman, Billings, Ramsey & Co. ("FBR"). At FBR, he was responsible for the establishment and build out of the fixed income business where he developed an origination, banking, sales and trading platform. Previously, Mr. Warden was also a Managing Director and head of Asset Backed Securities ("ABS") and Commercial Mortgage Backed Securities ("CMBS") at Banc of America Securities ("BOA") where he was responsible for the origination and securitization of all mortgage products. At BOA, he was instrumental in the establishment of both the ABS and CMBS businesses, and in his tenure, achieved top five underwriter rankings in both businesses. Mr. Warden holds a BBA from Texas A&M University.

As of December 31, 2018, Invictus had assets under management of approximately \$950,675,000 all managed on a discretionary basis.

Item 5 Fees and Compensation

Invictus receives management fees and/or carried interest or similar profit allocations from the Funds. The Funds may also indirectly incur or generate other fees payable to Invictus, depending on the nature of their portfolio activities. Certain fees will reduce management fees otherwise payable to Invictus as described below.

The Funds may also bear certain out-of-pocket expenses incurred by Invictus in connection with the services provided. The following sections discuss the most common fees and expenses, which are described in more detail in relevant Offering Materials for the Funds.

Common Types of Fees

Management Fees

The Funds generally pay a quarterly flat rate management fee, in advance, at a negotiated rate documented in their advisory agreement. General rates for the Funds are set forth in the Offering Materials. Additionally, Invictus may waive or reduce management fees for certain investors in its discretion. When fees are paid in advance, and the Client or investor relationship is terminated prior to the end of the period for which such fees relate, Invictus will, within a reasonable time following such termination, refund a prorated portion of the management fee.

Performance-Based Arrangements

Invictus' compensation generally includes a performance-based component. Invictus expects that performance-based arrangements will vary as to the rate, manner of calculation and conditions precedent to receipt (e.g., hurdles). Performance-based arrangements for each of the Funds are described in the relevant Offering Materials for that account. All performance fees may be subject to modification (e.g., higher hurdle rates), waiver or reduction. As discussed in more detail in Item 6, below, performance-based compensation arrangements are appropriate only for sophisticated Clients and investors as they may create certain risks and conflicts of interest.

Performance allocations for the Funds generally represent a share of distributions made by a Client in excess of the relevant investors' invested capital, its allocable share of fees and expenses and a preferred return hurdle.

Performance fees or carried interest profit allocations are subject to regulation under Section 205 of the Investment Advisers Act of 1940 ("Advisers Act") and Rule 205-3 thereunder. Therefore, Invictus seeks to ensure that any Client or investors in a Client that are directly or indirectly assessed performance fees or are subject to carried interest profit allocations satisfy the qualifications of Rule 205-3 under the Advisers Act and have been advised of such fees or allocations and their risks.

For any Client, performance fees or carried interest allocations generally do not exceed 20% of profits, and may be subject to certain preferred return hurdles, catch-up allocations and clawback provisions. The manner of calculation and application of performance fees or carried interest profit allocations are disclosed in the offering documents for, and detailed in the governing agreements of, each Client. As described in the governing documents, under certain circumstances where termination occurs on other than the end date for a performance measurement period, performance fees will be calculated and assessed through the date of termination.

Other Fees

To the extent Invictus is entitled to receive transaction fees directly or indirectly from a Client, 100% of such fees paid to Invictus reduces the management fees otherwise payable to Invictus. The governing agreement of each Client sets forth the basis on which such fees reduce management fees.

Prior to March 2019, Fund I held an indirect interest in, and were responsible for the operating expenses of, Verus, a portfolio company of Fund I that provides certain oversight and processing services with respect to loan underwriting, settlement, trust administration and servicing activities that are needed to effectively participate in the market for acquiring mortgage loans.

On March 29, 2019, Invictus acquired 100% ownership of Verus from Fund I. Going forward, investors in Fund I will indirectly incur an expense for fees paid to Verus in Verus's capacity as servicing administrator of securitization trusts sponsored indirectly by

Fund I. Fund II has engaged Verus to provide mortgage loan sourcing, processing, settlement, trust administration and servicing oversight services on a fee-for-service basis, as disclosed in the offering documents of Fund II. In addition, Fund II anticipates acquiring loans, at fair value, from Verus.

The fees paid by the Funds to Verus for the acquisition and servicing of loans going forward have been established in good faith by Invictus to reflect similar market rates assessed by unaffiliated third parties providing similar services. Please review the offering documents for Fund II for more information related to the services by, and related fees paid to, Verus.

Soft Dollars

In light of the Funds' investment strategy, Invictus does not engage with broker-dealers and therefore does not currently receive research reports or other benefits from broker-dealers.

Please see Item 12 of this Brochure for further details on Invictus' brokerage practices.

Fees and Expenses Applicable to the Funds

The Funds may bear ordinary organizational, offering, administrative, and operating expenses, including but not limited to (i) all fees, costs, expenses and liabilities related to any audits or agreed upon procedures, tax forms and return preparation and filings, custodian fees and expenses, any required regulatory filings, legal fees, fund accounting, administrator services, transfer agent services, financial statement preparation and reporting, including costs associated with reporting and providing information to existing and prospective limited partners and web services for the benefit of limited partners, delivery costs and expenses in connection with reporting obligations and communications and compliance services; (ii) all fees, costs, expenses and liabilities of the administration of a Fund, including but not limited to, accounting and audit expenses (including accounting systems and certification fees), consultants, tax advisers, valuation experts, agents and other advisers and professionals and expenses relating to audit, legal and regulatory services, expenses relating to the maintenance of registered offices of a Fund; (iii) all fees, costs, expenses and liabilities directly related to the locating, sourcing, developing, bidding on, structuring, evaluating, negotiating, purchasing, obtaining regulatory approvals for, originating, trading, settling, monitoring, maintaining custody of, holding, securitizing, financing, managing and disposing of investments and potential investments, securities, or other instruments (whether or not the acquisition is consummated), including but not limited to financing, legal, regulatory, accounting and other professional or third party costs or disbursements incurred in connection therewith, due diligence costs, all fees, costs, expenses and liabilities of information technology, research and other information services and data providers (including systems and services from such data providers and data management software) relating to the ongoing management of investments, and all other investment-related fees and other operating fees, costs, expenses and liabilities; (iv) travel-related fees, costs, expense and liabilities, including, rent, lodging, meals and out-of-pocket expenses; (v) broken deal expenses

(including any legal, accounting, advisory, consulting or other third-party expenses and any travel and accommodation expenses in connection therewith, all fees (including commitment fees), costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing for a proposed investment that is not ultimately made, any deposits or down payments of cash or other property which are forfeited in connection with a proposed Investment that is not ultimately made and costs and expenses incurred with respect to investment or origination guidelines developed with a third-party loan originator) to the extent not reimbursed by an entity in which a Fund has invested or proposes to invest or other third parties; (vi) all fees, costs, expenses and liabilities of brokers, transaction finders and other intermediaries, including brokerage commissions and spreads, clearing and settlement charges and other transaction costs, custody fees, interest expenses, financing charges, initial and variation margin, fees of pricing, valuation and appraisal, compensation (which may include fees or performance-based compensation) of advisors, consultants and finders, and all other transaction-related fees, costs, expenses and liabilities, including reverse break-up fees and registration fees and other expenses in connection with acquisitions and dispositions of investments, and all expenses relating to the ownership and operation of investments, including taxes, interest, insurance, and other fees and expenses; (vii) all principal amounts of, and interest expense on, on and fees and expenses in connection with or arising out of all indebtedness and other borrowings and guarantees made by a Fund, including, but not limited to, the arranging and maintenance thereof; (viii) all fees, costs, expenses and liabilities of any litigation or other dispute resolution (including all fees, costs and expenses of a Fund's legal counsel and regulatory-related legal expenses) and all indemnification and contribution obligations (including any indemnification expenses of any finders and/or placement agents of a Fund, any parallel vehicle or feeder fund) and any extraordinary expense or liability relating to the affairs of a Fund or any investment and all fees, costs, expenses and liabilities relating to insurance policies, including directors and officers, liability or other insurance (including, a Fund's share of any premiums for insurances maintained by Invictus) maintained by or for a Fund, its general partner, Invictus and their affiliates, including in respect of investments and/or personnel of Invictus or its affiliates; (ix) all fees, costs, expenses and liabilities of winding up and liquidating a Fund; (x) all taxes, fees, penalties and other governmental charges levied against, assessed on or payable by a Fund (including any District of Columbia unincorporated business franchise tax and any other entity-level taxes), fees or other governmental charges levied against a Fund, any transfer or recording taxes, and all fees, costs, expenses, penalties and liabilities related to tax compliance, including those of a Fund's "Partnership Representative", tax return preparation and reporting and any tax audit, investigation, settlement or review (including any costs associated with FATCA compliance); (xi) all fees, costs, expenses and liabilities relating to derivatives and hedging transactions; (xii) all fees, costs, expenses and liabilities related to distributions (if any) made by a Fund; (xiii) all fees, costs, expenses and liabilities of annual and other Fund meetings; (xiv) the expenses of any Fund's investor advisory committee and the expenses of non-voting observers to such investor advisory committee attending meetings thereof; (xv) to the extent not otherwise paid by Invictus, the placement fees due to any finder and/or placement agents (whether independent or employed by Invictus) engaged by Invictus in connection with the offer and sale of interests in a Fund any parallel vehicle or any feeder fund; provided that any such placement fees borne by a

Fund shall reduce the management fees payable to Invictus by such Fund; (xvi) all fees, costs, expenses and liabilities, if any, incurred in connection with legal and regulatory compliance with U.S. federal, state, local, non-U.S. or other law or regulation arising out of the activities of a Fund (including filings with U.S. and non-U.S. regulators, such as Form PF in accordance with the Advisers Act and compliance obligations arising from the European Union's Alternative Investment Fund Managers Directive); (xvii) fees, costs, expenses and liabilities related to the organization, operation or maintenance of any entities through which investments are made or held directly or indirectly by a Fund, any parallel funds and any alternative investment vehicles thereof; (xviii) to the extent not paid by a feeder fund or its investors, the expenses of any feeder fund (which expenses shall be specially allocated to the investors with an interest in such feeder fund); and (xix) solely with respect to Fund II, the expenses of a feeder fund formed by an independent third-party sponsor for the sole purpose of facilitating an investment in Fund II on behalf of clients of such sponsor, but only to the extent such expenses constitute expenses of Fund II, up to per annum cap.

Each prospective investor should review the relevant Offering Materials for complete information on the expenses that may be allocated to the Funds managed by Invictus.

Item 6 Performance-Based Fees

All Funds pay both management fees and performance-based fees or allocations. However, the fee rates, the manner in which such fees are calculated and conditions precedent to receipt may vary from account to account and Invictus or its related persons may have other pecuniary interests in one or more Client accounts, including the Funds.

As a result of these arrangements, Invictus faces various potential conflicts of interest, including an incentive to favor certain accounts based on pecuniary or compensatory interests; an incentive to take excessive risks in order to earn a performance fee or allocation; and where Invictus is involved in the valuation of investment holdings or to accelerate or defer realizations. Invictus maintains policies and procedures, including its Code of Ethics, reasonably designed to mitigate these conflicts. Among other things, these policies prohibit the recommendation of any particular investment based on anticipated compensation or profits to Invictus or its professionals.

Item 7 Types of Clients

Currently Invictus provides investment advice to the Funds and will accept as investors in the Funds, in its discretion, institutional accredited investors, trusts, pension funds, investment pools and qualified high net worth individuals.

The Funds are privately placed pooled investment vehicles excepted from the definition of "investment company" under the Investment Company Act of 1940 by Section 3(c)(7) of that Act. Investors generally are limited to persons who are qualified purchasers and such investors may include proprietary investment by Invictus or its affiliates, current or former personnel who are "knowledgeable employees" or otherwise meet the relevant Fund's investment criteria, funds of funds, high net worth individuals and related entities,

sovereign entities, pension funds, general corporate or business entities, financial institutions, endowments and foundations. Investors in the Managed Account Fund may also include institutions such as banks, financial institutions, investment banks and asset management firms.

Invictus generally imposes an initial investment minimum to establish a Client relationship or to invest in the Funds, but may waive or change any such minimums in its discretion. Investors or Clients may also be subject to additional qualifications based on, among other things, legal or regulatory requirements associated with the vehicle or investment strategy. Account opening and maintenance requirements are described in more detail in the relevant Offering Materials.

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

The general investment strategy and methods of analysis that Invictus employs in managing accounts, as well as the primary associated risks, are described below. The discussion below is a summary and is not intended to be a complete description of our methods, strategies or risks; a more complete discussion is available in relevant Offering Materials.

Investors should note that it is not possible to identify all of the risks associated with the loans acquired on behalf of the Funds. The Funds' investment strategy is predicated upon rigorous credit analysis and a research-based approach to financing and asset management designed to reduce risk while maximizing returns to investors. Invictus will seek to structure the Funds' investments with downside protection and risk management through a high level of borrower equity and strict, research-based underwriting criteria.

Currently, Invictus is primarily focused on identifying investment opportunities in newly originated non-agency residential loans to capitalize on what Invictus believes to be an opportunity to earn premium spreads from creditworthy borrowers who are not adequately served by traditional lending sources subject to account-specific investment objectives, guidelines and restrictions (*i.e.*, the account's mandate) and seeks to manage each account so that risks are appropriate to the mandate. However, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved.

Because we limit our advice to particular types of investments, a Fund's mandate may be limited (*e.g.*, based on security type or capitalization levels), accounts are not diversified and are not intended as a complete investment program.

Investors are responsible for appropriately diversifying assets to guard against the risk of loss. Invictus does not offer any products or services that guarantee rates of return on investments for any period to any investor. Investors assume the risk that investment returns may be negative or below the rates of return provided by other investment advisers or products and should be prepared to bear the risk of loss.

Methods of Analysis and Investment Strategies

Invictus uses a range of methods to identify, analyze and assess potential and existing investment opportunities. This may include arrangements with or unaffiliated advisors for purposes of obtaining analyses that would assist the company in its investment decision-making recommendation process. More specific descriptions are provided below regarding the investment strategies and investment processes. As a general matter, analytical methods used by the company can include gain/loss forecast models, cash-flow models, other financial modeling and simulation, risk sensitivity analyses, charting, and fundamental, technical and cyclical analysis.

Invictus generally focuses on identifying domestic non-agency residential loan opportunities using a top-down relative value approach to allocate capital to various asset classes within the non-agency residential mortgage market. Our analysis involves a variety of factors, such as cash yield, risk-adjusted returns, macro-economic environment, market concentration limits, credit concentration limits, liquidity, costs and availability of financing and hedging activities.

Invictus seeks investments that we believe will generate both current income and provide capital protection. However, as noted below, not every investment will perform as anticipated and investments may lose value, fail to produce current income and/or produce insufficient gains or income to offset expenses or other losses.

Risks Associated with the Investment Strategy

Market Conditions and Financial Market Fluctuations

A lack of liquidity in the capital markets may make it significantly more difficult for investment advisers like Invictus to obtain favorable financing for investments, and the financing that is available may be on much less favorable terms than had been prevailing in the past. General fluctuations in the market prices of securities may affect the value of the investments held. Instability in the capital and housing markets may also increase the risks inherent in mortgage loan investments.

Highly Competitive Market for Investment Opportunities

The activity of identifying, completing and realizing attractive investments is highly competitive, and involves a high degree of uncertainty. Some competitors may have a lower cost of funds and access to financing sources that are not available to Invictus. There can be no assurance that the Funds will be able to locate, consummate and exit investments that satisfy its rate of return objectives or realize upon their values or that it will be able to invest fully its committed capital.

Illiquid and Long-Term Investments

Mortgage loans may be illiquid, and there can be no assurance that Invictus will be able to realize on such investments in a timely manner. Therefore, investment through Invictus may involve a long-term commitment with no certainty of return. Although investments may occasionally generate some current income, the return of capital and the realization of

gains, if any, from an investment generally will occur only upon the partial or complete disposition or refinancing of such investment.

Risks Associated with Residential Mortgage Loans

Invictus expects to cause the Funds to invest, directly or indirectly, in the residential mortgage market, with a focus on (a) non-agency mortgage loans that do not qualify for the enhanced liability protections under the federal Truth-in-Lending Act's ability to repay rules and (b) non-agency mortgage loans that are secured by properties that will not be occupied by the mortgagor. Mortgage loans expected to be acquired by the Funds will likely be provided to mortgagors with housing or significant credit events in the more recent past, higher debt-to-income ratios, qualifying income documented through non-traditional methods (e.g., bank statements) or those seeking financing for multiple rental properties. Focused investments on mortgage loans with the above-referenced characteristics are illiquid and complex, and as a result such investments could experience losses could result if the Funds are unable to finance, sell or liquidate such investments.

Geographic Concentration of Mortgage Loans

The mortgage loans in which the Funds invests may be concentrated in a specific state or states. Weak economic conditions in these locations or any other location (which may or may not affect real property values), may affect the ability of borrowers to repay their mortgage loans on time. Mortgaged properties in certain jurisdictions may be more susceptible than properties located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, floods, hurricanes, wildfires, mudslides and other natural disasters, which may result in reduced value of such properties as collateral of prepayments of mortgage loans.

Lack of Information Regarding Underwriting Standards

Fund vehicles may acquire mortgage loans from various unaffiliated savings institutions, finance companies and other sellers pursuant to guidelines developed by such entities (or guidelines developed by Verus or one or more affiliates of the Funds). In selecting mortgage loans for investment, the Company expects to obtain information as to the underwriting standards that were applied in originating the mortgage loans, but may not be able to obtain all relevant underwriting information for such mortgage loans. Additionally, such mortgage loans will likely have been originated in accordance with standards less strict than those of the Federal National Mortgage Association ("Fannie") and the Federal Home Loan Mortgage Corporation ("Freddie"). Certain of the mortgage loans may have had faulty appraisals, leading to inaccurate original loan-to-value ratios. Other mortgage loans may have been or may still be subject to second liens that are not included in the asset pool. Borrowers on the mortgage loans may have had limited access to traditional mortgage financing for a variety of reasons, including impaired past credit experience, limited credit history, limited documentation of income, insufficient home equity value or high debt-to-income ratios. Accordingly, the mortgage loans may be extremely sensitive to economic factors that could affect the ability of borrowers to pay their obligations or the value of the mortgaged property. As a result, certain Fund investments may experience

rates of delinquency, default and foreclosures that are higher than those experienced by mortgage loans that were underwritten in accordance with higher standards.

Residential Mortgage-Backed Securities ("RMBS")

RMBS represent an interest in a pool of residential mortgage loans. Investing in RMBS 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). When market interest rates decline, more mortgages are refinanced and the securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. When market interest rates increase, the market values of mortgage-backed securities decline. At the same time, however, mortgage refinancings and prepayments slow, which lengthens the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of RMBS is usually more pronounced than it is for other types of fixed-income securities. Further, different types of RMBS are subject to varying degrees of prepayment risk.

The risks of investing in RMBS 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. Many if not all of the RMBS with respect to which the Funds intend to sponsor and/or invest, are expected to be backed by non-conforming mortgage loans, which are mortgage loans that do not qualify for purchase by government-sponsored agencies, such as Fannie and Freddie because of credit characteristics. Accordingly, such mortgage loans are likely to experience higher rates of delinquency, foreclosure and loss than mortgage loans originated in accordance with Fannie Mae or Freddie underwriting guidelines.

RMBS include tranches of securities that are subordinated to one or more other senior classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. The Funds expect to hold such subordinated tranches of RMBS. In addition, in the case of certain securities, no distributions of principal would generally be made with respect to any class until the aggregate principal balances of the corresponding senior classes of securities have been reduced to zero. As a result, the subordinate classes are more sensitive to risk of loss and write-downs than senior classes of such securities.

RMBS may not be structured with significant or any overcollateralization, so their performance will be sensitive to delays or reductions in payments, particularly in the case of subordinated tranches of such securities. To the extent that RMBS provide for write-downs of principal, interest will cease to accrue on the portion of principal of a security that has been written down.

Securitization Risk

The ability to securitize the loans which the Funds acquire or invest in, and/or the attractiveness thereof may lessen with changes in the capital markets, including any disruption in the proper functioning of the securitization market. The Funds may have to hold more loans in whole loan form than was initially expected by Invictus, and the period for holding loans in such form could last until the applicable maturity date.

Risks of Using Loan Servicers

The value of the Funds' investments is dependent on the satisfactory performance of servicing obligations by third party mortgage servicers (including sub-servicers hired such servicers). If a servicer is unable to perform all of its obligations, it could result in reductions or delays in the payments on certain investments. It is possible that the resignation or termination of a servicer and the transfer of the rights, duties and obligations of such servicer to a new servicer could adversely affect the servicing of mortgage loans held by the Funds. For example, transfers of servicing involve the risk of disruption in collections due to data input errors, misapplied or misdirected payments, system incompatibilities and other reasons. If such a transfer were to take place, the rate of delinquencies and defaults on the mortgage loans could increase, resulting in reductions or delays in the payments on the Funds' investments. In addition, there has been a recent increase in litigation against sponsors, originators, depositors, servicers and trustees of mortgage-backed securities. If such an entity which is providing services to the loans held by the Funds become subject to litigation relating to mortgage loans, this may increase the costs of using such servicer as well as affect the ability of such servicer to perform its obligations. No assurance can be made as to the effect that such a litigation may have on the Funds.

Legal, Tax and Regulatory Risks

Legal, tax and regulatory changes could occur that may adversely affect the value of investments or the ability to fulfill a mandate. There is a material risk that regulatory agencies may adopt burdensome laws (including tax laws) or regulations, or changes in law or regulation, or in the interpretation or enforcement thereof, which are specifically targeted at the real estate industry, or other changes that could adversely affect Invictus and the Funds.

Violations of Federal, State and Local Laws May Adversely Affect the Funds' Ability to Collect on Mortgage Loans

Mortgage loans are subject to federal, state and local laws, including: the Federal Truth-in-Lending Act and Regulation Z promulgated under that act, which both require certain disclosures to the mortgagors regarding the terms of the residential loans; the Equal Credit Opportunity Act and Regulation B promulgated under that act, which both prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit; the Real Estate Settlement Procedures Act and its regulations, which (among other things) prohibit the payment of referral fees for real

estate settlement services (including mortgage lending and brokerage services) and regulate escrow accounts for taxes and insurance and billing inquiries made by mortgagors; the Fair Credit Reporting Act, which regulates the use and reporting of information related to the mortgagor's credit experience; and the Home Equity Loan Consumer Protection Act of 1988, which requires additional disclosures and limits changes that may be made to the loan documents without the mortgagor's consent. This act also restricts a mortgagee's ability to declare a default or to suspend or reduce a mortgagor's credit limit to certain enumerated events.

Additionally, investors should note that state and local governments may also require originators, servicers and holders of mortgage loans to obtain certain licenses and permits. Although Invictus expects the Funds' investment vehicles and their counterparties to either obtain or be exempt from any applicable licensing requirements, no assurance can be given that the licensure status of these entities will not be challenged by a governmental entity or a borrower.

Violations or alleged violations of federal, state or local laws could result in a reduction in the amount available from mortgage loans held by the Funds. Since the 2008 financial crisis, a number of legislative proposals have been introduced at the federal, state and local level that are designed to discourage certain lending practices, including those now deemed abusive or predatory. Some states have enacted, or may enact, laws or regulations that prohibit inclusion of some provisions in mortgage loans that have mortgage interest rates or origination costs in excess of prescribed levels, and require that mortgagors be given certain additional disclosures prior to the consummation of such mortgage loans. In some cases, state law imposes requirements and restrictions greater than those in the Home Ownership and Equity Protection Act of 1994, as amended. Some of these state laws, such as those in Texas, are extremely rigorous and a violation could lead to statutory, punitive, consequential, and actual damages and/or administrative enforcement. A mortgage loan may also be rescinded or voided in certain instances. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of mortgage loans. Lawsuits have been brought in various states making claims against assignees of high cost loans for alleged violations of both federal and state law. Named defendants in these cases include numerous participants within the secondary mortgage market.

Litigation

In the ordinary course of business, Invictus or an account may become a party to litigation, disputes and other potential claims. There are no known current or pending litigation, disputes and other potential claims.

Below Investment-Grade Assets Involve Particular Risks

Fund investments may include mortgage loans originally rated non-investment grade. Non-investment grade securities are subject to liquidity, market value, credit, interest rate,

reinvestment and certain other risks and generally will be subject to greater risks than investment grade securities, including greater risk of failure of timely payment of principal and interest.

Interest Rate Fluctuations

General interest rate fluctuations may have a substantial negative impact on investments and investment opportunities and accordingly may have a material adverse effect on investment objectives and the rate of return on invested capital. Valuations of non-agency residential loans are based on numerous factors, including specific loan characteristics. Such securities are also susceptible to fluctuations in interest rates.

Real Estate Risks Generally

Many of the risks of holding non-agency residential loans, which represent interests in mortgage loans, relate to the risks of investing directly in the real estate securing those mortgage loans. The value of non-agency residential loans may fall in periods of economic slowdown or recession, which may be accompanied by declining real estate values. Any material decline in real estate values reduces the ability of borrowers to use real estate equity to support their borrowings and increases the loan-to-loan value ratios of mortgage loans previously made, thereby weakening collateral coverage and increasing the possibility of a loss in the event of default. In addition, delinquencies, foreclosures and losses generally increase during economic slowdowns and recessions.

Non-conforming Loans

Non-agency residential loans may include non-conforming mortgage loans. Credit risks associated with non-conforming mortgage loans may be greater than those associated with conventional mortgage loans that conform to Fannie Mae and Freddie Mac guidelines. The principal difference between non-conforming mortgage loans and conforming mortgage loans include the applicable loan-to-value ratios, the credit and income histories of the mortgagors, the documentation required for approval of the mortgagors, the types of properties securing the mortgage loans, loan sizes and the mortgagors' occupancy status with respect to the mortgaged property. As a result of these and other factors, the interest rates charged on non-conforming mortgage loans are often higher than those charged for conforming mortgage loans. The combination of different underwriting criteria and higher rates of interest may lead to higher delinquency rates and/or credit losses for non-conforming as compared to conforming mortgage loans and any failure by us to adequately address these issues could harm our business to the extent that we invest in such mortgage loans.

Valuations of Investments

Invictus values investments at their market price if market quotations are readily available. Where there is no readily available market quotation, investments are valued based on observable market inputs, including analyses of similar securities and recent comparable transactions. To the extent there are no observable market inputs, Invictus will value investments based on significant management input. Invictus may alter its valuation based on market events, unreliability of pricing sources, or macro-economic events.

Mortgage Loans Secured Properties Used for Investment or Commercial Purposes

Invictus expects some of the mortgage loans in which the Funds will invest will be secured by properties that will be used for investment or commercial purposes. Investors should note that mortgage loans secured by such properties may have a greater likelihood of delinquency and foreclosure, and a greater likelihood of loss in the event thereof, than mortgage loans secured by owner occupied single-family residential properties. The ability of a related borrower with respect to a mortgage loan to repay an owner-occupied single-family loan typically depends primarily on such borrower's household income rather than on the capacity of the mortgaged property to appreciate in value or produce income. Accordingly, the ability of a borrower to repay a loan secured by an investment or commercial property typically depends primarily on (i) the successful operation and management of such mortgaged property, rather than on any independent income or assets of the mortgagor or (ii) the borrower's ability to realize the value of such mortgaged property (e.g. via refinancing or profitable disposition). A borrower's inability to successfully manage a mortgaged property or realize on its value could result in additional expenses or losses with respect to an investment.

Other Risks of Investing in Mortgage Loans

The residential property underlying a mortgage loan may not appreciate in value and, in fact, may decline in value. Additionally, mortgage loans may default on interest and/or principal payments. Accordingly, a Fund may not realize gains or income from an investment or gains and income realized may be insufficient to offset any expenses or other losses experienced in the Fund's account.

Mortgage loans are also exposed to the credit risks of mortgage lending, which may harm results. Credit losses on residential mortgage loans can occur for many reasons, including: poor origination practices – leading to losses from fraud, faulty appraisals, documentation errors, poor underwriting and legal errors; poor servicing practices; weak economic conditions; declines in the values of homes; special hazards; earthquakes and other natural events; over-leveraging by the borrower; changes in legal protections for lenders; reduction in personal incomes; job loss; and personal events such as divorce or health problems. Despite reasonable efforts to manage credit risk in both recommending mortgage loans, there are many aspects of credit risk that cannot be controlled, and there can be no assurance that quality control and loss mitigation practices will be successful in limiting delinquencies, defaults and losses. Additional credit-related risks include the following:

Default and Foreclosure

In the event of a borrower's default on a mortgage loan, the ultimate extent of the loss, if any, may only be determined after a foreclosure of the mortgage encumbering the property and, if the lender takes title to the property, upon liquidation of the property. Factors such as the title to the property or its physical condition (including environmental considerations) may make a third-party unwilling to purchase the property at a foreclosure sale or for a price sufficient to satisfy the obligations with respect to the related mortgage loan. Foreclosure laws may protract the foreclosure process. In addition, the condition of a property may deteriorate during the pendency of foreclosure proceedings.

Environmental Liabilities

Some properties securing mortgage loans may be contaminated by hazardous substances. As a result, the value of the real property may be diminished. In the event that there is a forced foreclosure on a defaulted mortgage loan on that property, that property may be subject to environmental liabilities regardless of whether the lien holder was responsible for the contamination. While we intend to exercise due diligence to discover potential environmental liabilities prior to the recommendation of the acquisition of any property through foreclosure, hazardous substances or waste, contaminants, pollutants or sources thereof, as defined by state and federal laws and regulations, may be discovered on properties. If such hazardous substances are discovered on a property, there may be a requirement to remove those substances or sources and clean up the property. The lien holder may also be liable to tenants and other users of neighboring properties. In addition, it may be difficult or impossible to sell the property prior to or following any such clean up.

Hedging and Leverage

Invictus employs various techniques to hedge exposures in Client portfolios. These may include options, interest rate swaps, and other derivatives. The use of certain derivatives and other hedging instruments may involve leverage, which introduces additional risks, as described below. Additionally, Invictus may employ leverage in managing accounts for purposes other than hedging. Such use of leverage by the Funds has the potential to enhance the Funds' returns; however, they will further diminish returns (or increase losses on capital) to the extent overall returns are less than the Funds' cost of funds. To the extent that the Funds use leverage, this leverage may have consequences to the investors, including, but not limited to: (i) greater fluctuations in the net asset value of the Funds' assets; (ii) use of cash flow (including capital contributions) for debt service, distributions, or other purposes; (iii) to the extent that Fund revenues are required to meet principal payments, the investors may be allocated income (and therefore tax liability) in excess of cash distributed; and (iv) in certain circumstances, the Funds may be required to dispose of investments at a loss or otherwise on unattractive terms in order to service its debt obligations or meet its debt covenants. There can be no assurance that the Funds will have sufficient cash flow to meet their debt service obligations. As a result, the Funds' exposure to foreclosure and other losses may be increased due to the illiquidity of its investments.

Risks Associated with Derivatives

Invictus may use derivative instruments or enter into derivative transactions, including for hedging purposes. Derivatives permit Invictus to increase or decrease the level of risk of a fund or account, or change the character of the risk. Derivatives may entail investment exposures (including leverage and resulting collateral requirements) that are greater than their cost. Small investments in derivatives could have a material impact on the performance of the vehicle. Derivatives are often purchased on margin, subjecting accounts to leverage risk as described above.

Risks Associated with Swaps

Invictus may use swaps, including for hedging purposes. The use of interest rate, credit, currency, equity, commodity and total return swaps, “swaptions”, interest rate caps and floors and collars is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary securities transactions. Swap agreements are principal-to-principal transactions in which performance is the responsibility of the individual counterparty and not an organized exchange or clearing house. As such, Invictus is exposed to the risk of counterparty default. Moreover, Invictus forecasts of market values, interest rates and currency exchange rates may be inaccurate and may result in overall performance results that are worse than the results that would have been achieved if the account did not engage in swap transactions.

Cybersecurity Risk

Investment advisers, including Invictus, must rely in part on digital and network technologies (“cyber networks”) to maintain substantial computerized data about activities for client accounts and otherwise conduct their businesses. Such cyber networks might in some circumstances be subject to a variety of possible cybersecurity incidents or similar events that could potentially result in the inadvertent disclosure of confidential computerized data or client data to unintended parties, or the intentional misappropriation or destruction of data by malicious hackers seeking to compromise sensitive information, corrupt data, or cause operational disruption. Cyber-attacks might potentially be carried out by persons using techniques that could range from efforts to electronically circumvent network security or overwhelm websites to intelligence gathering and social engineering functions aimed at obtaining information necessary to gain access. Invictus maintains policies and procedures on information technology security, has implemented certain technical and physical safeguards intended to protect the confidentiality of its internal data, and takes other reasonable precautions to limit the potential for cybersecurity incidents and to protect data from inadvertent disclosure or wrongful misappropriation or destruction. Nevertheless, despite reasonable precautions, the risk remains that cybersecurity incidents could potentially occur, and such incidents, in some circumstances, might result in unauthorized access to sensitive information about Invictus or its clients or their investors, and/or cause damage to client accounts or Invictus’ activities for clients or their investors. Invictus will seek to notify affected clients and investors of any known cybersecurity

incident that may pose a substantial risk of exposing confidential personal data about such clients or investors to unintended parties.

For a complete list of risks associated with an investment in the Funds, please review the risks as set forth in the relevant Offering Materials for applicable Fund.

Item 9 Disciplinary Information

Neither Invictus nor any member of Invictus' management has been involved in legal or disciplinary events that are material to an investor's evaluation of our advisory business.

Item 10 Other Financial Industry Activities and Affiliations

Invictus is affiliated and under common control with the general partners of the Funds managed by Invictus, including Invictus Opportunity GP, LLC, Invictus Opportunity GP II, LLC, and Invictus Managed Account–P GP1, L.P.

Invictus does not recommend or select other investment advisers for its Clients.

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

To avoid any potential conflicts of interest involving personal trades, Invictus has adopted a Code of Ethics ("COE"), which includes policies and procedures for personal trading as well as insider trading. Invictus' COE requires, among other things, that employees:

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

Invictus' COE also requires employees to: 1) report personal securities transactions on at least a quarterly basis, and 2) provide Invictus with a detailed summary of certain holdings

and securities accounts (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

Invictus does not invest in the same securities that Invictus or its related persons recommends to clients. However, Invictus may purchase, through Verus, equity interests in loan originators to the extent (i) the Funds do not have the capacity to make or are otherwise constrained from making such investments, for example, due to the aggregate amount of capital required for such investment (or other applicable investment restrictions set forth in the governing documents of the Funds) or (ii) such investments are rejected by the investment committee of the general partner of the related Fund.

A copy of Invictus' COE is available to any client or prospective client upon request.

Item 12 Brokerage Practices

Invictus has been granted discretion to select brokers and dealers to execute securities transactions and may recommend such brokers or dealers to the Funds. However, to date, Invictus has only caused the Funds to invest in individual mortgage loans, RMBS (including securities required to be retained by applicable law), debt and equity interests in originators (including joint venture vehicles with originators) and purchased interest rates hedging instruments associated with such investments and does not currently receive research, soft dollars or other products associated with the purchase and sale of securities from broker-dealers.

Invictus trades in mortgage loans that make up a specialized market, and it is often the case that relatively few counterparties are available to execute a transaction. In many cases, Invictus recommends or selects mortgage sellers based on their sourcing capabilities, characteristics and prices, with such sellers being compensated through spreads (i.e., the difference between the price at which a seller originates loans and the price at which such seller sells, or will sell, such loans), with transactions being time-sensitive and there often being little, if any, opportunity to survey the market for better terms.

As such, Invictus' mortgage recommendation and selection practices are inherently tied to its investment advisory and mortgage loan analysis process. In making recommendations or decisions, Invictus takes into account quantitative and qualitative factors affecting the execution quality of loan transactions.

Item 13 Review of Accounts

Oversight and Monitoring

The Funds are expected to be monitored on an ongoing basis. Accounts are reviewed by a team consisting of Invictus' principal executives and other Invictus investment professionals. These professionals monitor operations, overall performance, financial performance, strategic direction and compliance with the trading guidelines of each of the Funds. Reviews also consider, and may be triggered by, events in the capital markets.

Investors in the Funds typically will receive written quarterly financial reports and annual financial statements (audited in accordance with GAAP). Additionally, investors may receive quarterly reports or letters, quarterly financial and capital account statements, or any other information as requested by an investor.

Item 14 Client Referrals and Other Compensation

Invictus currently utilizes placement agents for Fund II and has entered into placement or “finders” arrangements for soliciting investors into Fund II. Fund II discloses in their offering documents that they may enter into these arrangements.

Generally, fees for solicitation services for investors in Fund II will ultimately be paid by Invictus or borne by Invictus through a corresponding reduction in the management fee that Invictus receives and not by investors in Fund II themselves. Third-party solicitors in the United States will be registered as broker-dealers with the SEC, and third-party solicitors outside of the United States will be registered with a non-U.S. regulatory body to the extent such registration is required in the applicable non-U.S. jurisdiction.

Invictus may also retain consultants to assist Invictus in the solicitation of investors. These consultants may be compensated differently than Invictus employees based on individual agreements with such consultants.

Item 15 Custody

Invictus is deemed to have “custody” over each Fund’s assets for purposes of Rule 206(4)-2 under the Advisers Act (the “Custody Rule”). To comply with the Custody Rule, each investor in the Funds receives audited financial statements, prepared in accordance with GAAP, within 120 days following the applicable Fund’s fiscal year end. Investors who have not received audited financial statements timely should contact Invictus immediately.

Item 16 Investment Discretion

Invictus maintains discretionary authority over the Funds as set forth in the relevant Offering Materials. The Company’s investment decisions may be limited, subject to reasonable investment objectives, policies and restrictions implemented on behalf of the Managed Account Fund and the Funds, and in addition to the foregoing, side letters providing specific investment terms for investors in the Funds.

Item 17 Voting Client Securities

Unlike equity securities, mortgage loans and RMBS do not typically solicit proxies or require holders to vote on proxy matters. From time to time, however, issuers may seek consents for various actions. Invictus, as a matter of policy and as a fiduciary to our Clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the Clients. Our firm maintains written policies and procedures as to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our firm’s proxy policies and practices. Our policy and practice includes

the responsibility to monitor corporate actions, receive and vote Client proxies and disclose any potential conflicts of interest as well as making information available to Clients about the voting of proxies for their portfolio securities and maintaining relevant and required records. Clients may request information regarding how Invictus voted a Client's proxies, and Clients may request a copy of the firm's proxy policies and procedures.

Item 18 Financial Information

Not applicable.