

**Axonic Capital LLC**

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This brochure provides information about the qualifications and business practices of Axonic Capital LLC, a Delaware limited liability company (“**Axonic**”, the “**Firm**”, “**we**”, “**us**” or “**our**”). If you have any questions about the contents of this brochure, please contact Joseph Grogan, the Firm’s Chief Compliance Officer (“**CCO**”), at (212) 259-0430.

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

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

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

## **Item 2: Material Changes**

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This brochure contains certain changes from the brochure which was filed with the SEC on March 29, 2018, as last amended January 24, 2019. The material changes are as follows:

Axonic is no longer acting as an investment adviser or a sub-investment adviser for

- Axonic Special Opportunities Fund 2015-1, LP
- Axonic PG Special Opportunities Fund 2016-1, LP, and its feeder fund: Axonic PG Special Opportunities Overseas Fund 2016-1, Ltd.

The regulatory assets under management have been updated.

Items 4, 5, 7, 8, 11, 12, and 13 have been updated.

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

**Item 3: Table of Contents**

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|   |    |
|---|----|
| Item 2: Material Changes .....  | 2  |
| Item 3: Table of Contents .....   | 3  |
| Item 4: Advisory Business .....   | 4  |
| Item 5: Fees and Compensation .....   | 5  |
| Item 6: Performance-Based Allocations and Side-By-Side Management.....                              | 8  |
| Item 7: Types of Clients .....  | 8  |
| Item 8: Methods of Analysis, Investment Strategies and Risk of Loss.....                            | 8  |
| Item 9: Disciplinary Information .....  | 30 |
| Item 10: Other Financial Industry Activities and Affiliations .....                                 | 31 |
| Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading..... | 31 |
| Item 12: Brokerage Practices.....   | 32 |
| Item 13: Review of Accounts .....   | 34 |
| Item 14: Client Referrals and Other Compensation .....  | 34 |
| Item 15: Custody .....  | 35 |
| Item 16: Investment Discretion.....   | 35 |
| Item 17: Voting Client Securities .....   | 35 |
| Item 18: Financial Information .....  | 36 |

**Item 4: Advisory Business**

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

Axonic manages the following structured credit funds (“**Structured Credit Funds**”):

- Axonic Credit Opportunities Holdings, LP and (i) its feeder funds: Axonic Credit Opportunities Overseas Fund, Ltd. and Axonic Credit Opportunities Fund, LP and (ii) its wholly owned subsidiary: Axonic Credit Opportunities Master Fund, LP
- OC 523 Master Fund, Ltd. and its feeder fund: OC 523 Offshore Fund, Ltd.
- Axonic High Conviction Series A, a segregated series of Axonic IDF LLC
- Axonic PG Structured Credit Fund, LP, and its feeder fund: Axonic PG Structured Credit Overseas Fund, Ltd.
- Axonic Special Opportunities SBL Master Fund, LP, and its feeder fund: Axonic Special Opportunities SBL Overseas Fund, Ltd.
- EP Axonic Yield Ltd.
- Axonic CRE Distressed Fund, LP
- NB 523 Offshore Fund, Ltd.
- Axonic Real Estate Debt Fund I LLC and its wholly owned subsidiary: Axonic Real Estate Debt Fund I Operating Company LLC

Axonic manages the following systematic arbitrage funds (“**Systematic Arbitrage Funds**”):

- Axonic Systematic Arbitrage Master Fund, LP, and its feeder funds: Axonic Systematic Arbitrage Overseas Fund, Ltd. and Axonic Systematic Arbitrage Fund, LP.

The Structured Credit Funds and the Systematic Arbitrage Funds are herein collectively referred to as the “**Funds**.”

Axonic is an advisor to the following fund registered as an investment company under the Investment Company Act of 1940, as amended (the “1940 Act”):

- Axonic Alternative Income Fund (the “1940 Act Fund”)

The Firm and the general partners of the Funds organized as limited partnerships are controlled, and, directly or indirectly, principally owned, by Clayton DeGiacinto. Accordingly, the Firm, these general partners and certain of the Funds may be deemed to be under common control.

Axonic acts as a discretionary sub-investment subadvisor for Permal Alternative Income Strategy of the Legg Mason Alternative Funds ICAV (the “**UCIT**”), and acts in a non-discretionary capacity for one

separate fund, managed by an investment manager unaffiliated with Axonic (the “**Non-Discretionary Account**”, and, together with the UCIT, collectively, the “**Structured Credit Accounts**” and, together with the Structured Credit Funds, the “**Structured Credit Clients**”).

Axonic’s clients consist of the Funds and the Structured Credit Accounts, and its investment advice is tailored to the principal investment objective for each client. See Item 8: Methods of Analysis, Investment Strategies and Risk of Loss. Investment restrictions (if any) for each client are set forth in the offering documents for the applicable Fund or the investment management agreement for the applicable Structured Credit Managed Account.

Investors in the Funds include limited partners in feeder Funds organized as limited partnerships and stockholders in feeder Funds formed as companies and are herein, together with the investors in the Structured Credit Accounts (unless the context otherwise requires), collectively referred to as the “**Investors.**”

As of December 31, 2018, Axonic managed \$7,469,379,793 in regulatory assets under management and \$2,388,089,793 in net assets on a discretionary basis on behalf of its clients and \$72,711 on a non-discretionary basis on behalf of its clients.

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

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

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

While specific to each client, as compensation for investment advisory services rendered, Axonic charges a management fee calculated at the annual rate of up to 2.00% of each Investor’s capital account, capital commitment, invested amount or the outstanding principal balance of the relevant underlying debt instrument, as applicable (the “**Management Fee**”). The Management Fee (if any) is generally paid monthly or quarterly, in advance or arrears, based on the value or amount of the capital account, capital commitment, invested amount or outstanding principal balance of the relevant underlying debt instrument, as applicable, as of the first or last day of the relevant calendar month or quarter (subject to adjustment, where required, for contributions or commitments made during the relevant period). The Management Fees are negotiable and we have and may continue to waive or reduce the Management Fees for Investors that are members, principals, employees or affiliates of Axonic, relatives of those persons, trusts formed by or for the benefit of those persons and their relatives, and for certain large or strategic Investors.

As adviser to Axonic Alternative Income Fund and a sub-advisor to an Undertaking for Collective Investments in Transferable Securities (“UCITS”) fund, Axonic is paid a management fee based on a percentage of the assets of the entity or a percentage of the net assets allocated to it as sub-adviser. These fees generally range between 1% and 1.25% per annum.

### ***Performance Fees and Allocations***

While specific to each client, Axonic or an affiliate may receive an annual performance fee or allocation of up to 20.0% of each Investor’s annual net profits (the “**Annual Performance Fee or Allocation**”), if

any, subject, in general, to a "loss carry forward" provision and, in certain cases, to Investor's receiving a return of and/or a certain return on, their invested capital (the "**Performance Fees or Allocations**"). Performance Fees or Allocations may also be required to be paid on a withdrawal or redemption by an Investor.

The Performance Fees or Allocations are negotiable for Investors and we have and may continue to waive or reduce the Performance Fees or Allocation for Investors that are members, principals, employees or affiliates of Axonic, relatives of those persons, trusts formed by or for the benefit of those persons and their relatives, and for certain large or strategic Investors. Any Performance Fee or Allocation arrangement could create a conflict of interest and/or an incentive for Axonic to make investments that are riskier or more speculative than would be the case in the absence of the arrangement.

The Axonic Alternative Income Fund nor any of its affiliates receives performance-based compensation.

### ***Withdrawal Fee***

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

### ***Expenses***

In addition to the Management Fees, Performance Fees and Allocations and withdrawal fees, in general, each client will be subject to expenses, including but not limited to (i) investment-related expenses (whether related to transactions that are consummated or unconsummated), such as brokerage commissions and fees, research, due diligence, acquisition and surveillance expenses (including data and software fees, conferences, related travel and lodging expenses, legal fees and expenses, and appraisal fees and expenses), interest on margin accounts and other indebtedness, clearing and settlement charges, custodial fees, bank service fees and other expenses related to the purchase, sale, financing or transmittal of such client's assets and (ii) other expenses related to the operation and administration of such client, including, where relevant, fund administrator fees and expenses, directors' and advisors' fees and expenses, fees and expenses for legal, client compliance (including expenses related to various filings (or portions thereof) that Axonic is required to make as a result of managing a client's portfolio, including Form PF and Annex IV under AIFMD, tax and withholding tax compliance that Axonic or a client undertakes, including under Common Reporting Standard (CRS), the Foreign Account Tax Compliance Act (FATCA), and anti-money laundering / know-your customer compliance that Axonic or a client undertakes), accounting, auditing, tax and other professionals, insurance premiums (including for E&O and D&O insurance and fidelity bonds), organizational and offering expenses (in certain cases), third-party valuation agent fees, licensing and filing fees, taxes and other governmental charges, and litigation and indemnification expenses. In general, the feeder Funds will indirectly share the administrative and other expenses of the related master Funds pro rata based upon their interests in the related master Fund. Axonic (or an affiliate) has formed and owns, and may in the future form and own, one or more affiliates to hold licenses to enable the clients to originate, hold, finance and/or securitize

loans. Each participating client will be responsible for its allocable portion of the expenses related to forming and maintaining these entities and obtaining and maintaining these licenses. The Structured Credit Funds that own interests in real property will also incur expenses related to its real estate investments (whether related to transactions that are consummated or unconsummated) and leasing and operating activities. Certain clients may also incur income, withholding, value added, property, sales, transfer and other taxes. Some expenses may be capitalized. Please refer to Item 12 of this brochure for a discussion of Axonic's brokerage practices. In connection with certain Structured Credit Funds' investment in securities backed by commercial real estate loans, Axonic may negotiate to appoint a servicer for the underlying loans and in connection with that appointment require the servicer to rebate to Axonic (on behalf of such Structured Credit Funds) a portion of the fees payable to the servicer by the trust or similar entity holding the loans. Any such amounts received by Axonic from these servicers will reduce on a dollar-for-dollar basis the management fee and/or expense reimbursement amounts payable to Axonic by such Structured Credit Funds (in proportion to each Structured Credit Fund's interest in such securities). In connection with certain Structured Credit Funds' investment in an Irish entity that will engage in certain lending activities, Axonic is entitled to receive loan origination fees from this Irish entity. Any such loan origination fees received by Axonic from this Irish entity will reduce on a dollar-for-dollar basis the management fee and/or expense reimbursement amounts payable to Axonic by such Structured Credit Funds that have invested in this Irish entity in proportion to their relative investment.

### ***Side Letters***

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

### ***Other Compensation***

The Funds may enter into transactions and conduct business with persons affiliated with Axonic, and such transactions may generate additional compensation for Axonic. While such transactions will be on terms no less favorable than those that Axonic believes would be available from an independent third party, such transactions may create a conflict of interest. The clients may enter into transactions and conduct business with third parties, and Axonic and its principals and employees may also conduct business with these same third parties and may receive discounts and accommodations (which may be material) from such third parties as a result of the business generated by the clients for such third parties.

### ***Payment Methods***

Fees and expenses may be deducted from client accounts or billed to the client, depending on the arrangement with the relevant client.

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

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As stated in Item 5: Fees and Compensation, Axonic or an affiliate receives a Performance Fee or Allocation in relation to certain clients.

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

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

No other hourly or flat fees are charged. Management Fees for certain clients may be calculated by reference to the outstanding principal balance of the underlying debt instruments.

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**Item 7: Types of Clients**

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Axonic provides investment advisory services directly to its clients. Investors in the clients may include high net worth individuals, pension plans and retirement accounts, endowments, foundations, trusts, estates or charitable organizations, other funds (including other Axonic-managed Funds), family offices, private banks, investment managers, 1940 Act funds, UCITS funds, and other individuals and corporate or business entities for which such investment is suitable.

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

Additionally, Investors in certain Funds that are regulated under Section 4.7 of the Commodity Futures Trading Commission (the **"CFTC"**) must meet the criteria for **"Qualified Eligible Persons"** under said Section 4.7.

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

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

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

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

#### ***Structured Credit Clients***

In general, the Structured Credit Clients' principal investment objective is to achieve a positive return on capital by primarily investing in structured credit products. Structured credit products include public and private U.S. and non-U.S. mortgage-backed securities ("MBS") and consumer-receivable-backed securities including residential mortgage-backed securities ("RMBS"), asset-backed securities ("ABS"), commercial mortgage securities ("CMBS"), commercial mortgage mezzanine loans and participations ("Mezzanine Loans"), collateralized debt obligations ("CDO"), collateralized loan obligations ("CLO"), whole residential and commercial mortgage loans and participations, corporate and bank-issued bonds, loans and participations, consumer loans and participations, real estate investment trust ("REIT") stock and other equity securities and indices, various single-name and index credit default swaps (cleared and uncleared), and any other instruments or investments we deem appropriate in order to achieve the relevant client's investment objective, including, without limitation, interest only ("IO") securities and inverse IO securities, loan acquisitions and other loan-related activities such as the acquisition of non-qualified mortgage loans and the acquisition and resolution of pools of U.S. and non-U.S. non-performing loans and/or real estate owned ("REO") following foreclosure. In addition, various cleared and uncleared over the counter and exchange traded derivatives, including various swaps, options, swaptions, futures and forward agreements (both listed and over-the-counter) on various financial instruments, equity securities and indices, debt instruments and indices, government securities, treasuries, currencies and commodities may be used for speculative or hedging purposes. Financial instruments traded by the Structured Credit Clients may be fixed, floating or inverse floating; interest-only or principal-only; of any maturity or no maturity; performing or distressed; senior or subordinate; or secured or unsecured. Positions may be leveraged, and may be financed by various sources of funding, including bank lines, margin trading, short positions, derivatives, including total return swaps, repurchase arrangements, participations and securitization transactions.

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

#### ***Systematic Arbitrage Funds***

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

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

### **Risk Factors**

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

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

*Commercial and Residential Mortgages and Mortgage-Backed Securities and Consumer Loans.* Investing in commercial and residential mortgage loans and mortgage-backed securities involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations (including the risk of principal prepayment and the risk of investing in real estate). Mortgage loans and mortgage-backed

securities generally provide for the payment of interest or principal (or both) on the instruments on a frequent basis and there also exists the possibility, particularly with respect to residential mortgage-backed instruments, that principal may be prepaid at any time. As a result of prepayments, the clients may be required to reinvest assets at an inopportune time, which may expose the clients to a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security, and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Further, different types of mortgage-backed securities are subject to varying degrees of prepayment risk. Finally, the risks of investing in such instruments reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments, and the ability to attract and retain tenants. Axonic may decide to dispose of a distressed loan rather than foreclose, which could result in less proceeds to the clients than would have been achieved upon a sale following foreclosure. In addition, Axonic may decide to hold any foreclosed property in a separate investment vehicle, which vehicle may be subject to entity-level taxation.

The clients may, directly or indirectly (including through a wholly- or partially-owned separate entity), purchase US residential mortgages that do not satisfy the US Consumer Financial Protection Bureau's ("CFPB") definition for a "**qualified mortgage**" (or similar definitions of other regulators) as well as qualified mortgages and secured or unsecured consumer loans. Purchasers of non-qualified mortgages may be subject to borrower defences and claims (whether or not the purchaser was at fault) that may not be available to qualified mortgage borrowers. In addition, purchasers and originators of residential mortgage loans or consumer loans may be subject to enforcement and other actions by the CFPB or other regulators, class action lawsuits by mortgagors or borrowers and actions by governmental authorities. The clients may directly or indirectly purchase residential or commercial mortgage loans and consumer or commercial loans from various originators (including so-called peer to peer platforms) and, in certain cases, may engage and rely on third party due diligence firms to determine whether these loans are originated to acceptable standards. Such third party due diligence firms generally will be exculpated from liability (except for their own fraud) and the clients may not discover any failures by such firms until many years following the acquisition of such loans. The clients may have lender liability under these loans, even if it did not act as the originator, and borrowers may have defenses to payment, including that the loans violate applicable usury law or that the clients do not have the proper licenses to originate, acquire or hold the loans. Usury and other violations of applicable law (which may be criminal law) may allow borrowers to recover amounts paid and additional amounts as a penalty, may void the enforceability of the loan, and may subject the clients to adverse regulatory actions, penalties and punitive damages. The clients may, directly or indirectly (including through a wholly- or partially-owned separate entity), participate in the securitization of these loans and, in connection therewith, the clients may be required to make or guarantee certain representations and warranties concerning the loans, including representations and warranties concerning their origination, even though the clients (or Axonic) did not control or oversee origination, and an express remedy for a breach thereof may include an obligation to repurchase the relevant loan (or, in certain cases, all loans) at par, which could adversely affect the investment returns to Investors. While the clients may have a claim against the relevant originator for a breach of a representation or warranty made or guaranteed by the clients for which the clients have liability, such claim may not be economically viable. The clients or a wholly- or partially-owned separate entity may be required to obtain licenses or qualify in those jurisdictions in which the borrowers under these loans or in which the properties secured by the loans are located, and the failure to obtain and maintain those licenses and qualifications may limit the ability of the clients to continue to

hold these loans or exercise remedies in respect thereof as well as subjecting the clients to sanctions and/or monetary penalties from relevant regulatory authorities.

*Commercial Mortgage-Backed Securities.* The clients may invest in tranches of CMBS transactions, ranging from the most senior tranches to the most subordinated tranches, which may be unrated. The collateral underlying CMBS generally consists of mortgage loans secured by income-producing property. Performance of a commercial mortgage loan and the market value of a commercial property both depend primarily on the net income generated by the underlying mortgaged property. As a result, income generation will affect both the likelihood of default and the severity of losses with respect to a commercial mortgage loan. Successful management and operation of the related business (including property management decisions, such as pricing, maintenance and capital improvements) will have a significant impact on performance of commercial mortgage loans. Issues such as tenant mix, success of tenant business, property location and condition, competition, increases in interest rates, real estate taxes and other operational expenses, general or local economic conditions and/or specific industry segments, declines in real estate values, declines in rental or occupancy rates and civil disturbances, changes in governmental rules, regulations and fiscal policies, acts of God, social unrest and insurance coverage are among the factors that may impact both performance and market value. The value of commercial real estate is also subject to limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity, and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and saleability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral except in the case of borrowers acting fraudulently or otherwise illegally. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the CMBS are likely to be adversely affected to some degree depending upon the seniority of the notes within a securitization's capital structure.

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

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

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

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

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

Delinquencies, defaults and foreclosures on residential mortgage loans may affect the performance of collateralized debt obligations, asset backed securities and other securities, in particular residential mortgage securities that are backed by mortgage loans. Mortgage loans are generally made to borrowers with lower credit scores and are generally made with higher loan-to-value ratios than mortgage loans made to more creditworthy home buyers. Accordingly, mortgage loans backing residential mortgage securities are more sensitive to economic factors that could affect the ability of borrowers to pay their

obligations under the mortgage loans backing these securities. A portion of CDO and asset backed securities' collateral may consist of residential mortgage securities. A deterioration in the assets collateralizing the CDO, asset backed or other securities held by the clients would negatively affect the cash flows of the collateral securities, and consequently the performance or market value of the client. Therefore, the clients will be sensitive to the same economic factors that affect residential mortgage securities. Further, a portion of the collateral securities may consist of securities which include or have significant exposure to residential mortgage securities which were originated or are serviced (or both) by mortgage companies which are currently in bankruptcy proceedings or which are experiencing financial difficulties or regulatory enforcement actions which have restricted the ability of the lender or its affiliates to originate mortgage loans and may affect its ability to service or subservice mortgage loans.

*CMOs and Mortgage Derivatives.* Collateralized mortgage obligations ("**CMOs**") reallocate the various risks inherent in mortgages across various tranches. A client's use of CMOs and other mortgage derivatives may magnify the prepayment risks and interest rate risks associated with mortgages and MBS.

*Corporate and Other Debt Obligations.* The clients may invest in debt obligations, which include interests in loans to entities or their affiliates undertaken to finance a capital restructuring or in connection with recapitalizations, acquisitions, leveraged buyouts, refinancings or other financially leveraged transactions and may include loans that are designed to provide temporary or bridge financing to a borrower pending the sale of identified assets, the arrangement of longer-term loans or the issuance and sale of debt obligations. The clients may also invest in financial instruments secured or backed by whole commercial, consumer and other loans and lease contracts. These loans may bear fixed or floating rates. Syndicated loans have generally been arranged through private negotiations between a corporate borrower and one or more financial institutions ("**Lenders**"), including banks. A client's investment may be in the form of participations in loans ("**Participations**") or of assignments of all or a portion of loans from third parties ("**Assignments**"). Borrowers may include corporations, partnerships, trusts and sovereigns (including Indian tribes) and their affiliates. Obligations of sovereigns and their affiliates may be difficult or impossible to enforce.

In certain cases, the rights and obligations acquired by the clients through the purchase of an assignment may differ from, and be more limited than, those held by the assigning selling institution. Assignments are sold strictly without recourse to the selling institutions, and the selling institutions will generally make no representations or warranties to the clients about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans.

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

Participations. In the event of the insolvency of the Lender, the clients may be treated as a general creditor of the Lender and may not benefit from any set-off between the Lender and the borrower.

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

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

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

Interests in loans are also subject to additional liquidity risks. Loans are generally subject to legal or contractual restrictions on resale. Loans are not currently listed on any securities exchange or automatic quotation system, but are traded by banks and other institutional investors engaged in loan syndication. As a result, no active market may exist for some loans, and to the extent a secondary market exists for other loans, such market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Consequently, the clients may have difficulty disposing of Assignments or Participations in response to a specific economic event such as deterioration in the creditworthiness of the borrower, which can result in a loss. In such market situations, it may be more difficult for the clients to assign a value to Assignments or Participations when valuing the client's securities and calculating its net asset value.

The loans acquired by the clients may be unsecured or undersecured. In addition, in the event of the insolvency of the selling institution, under the U.S. laws, the clients may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, a secured loan. Consequently, the clients may be subject to the credit risk of the selling institution as well as of the borrower. Certain of the secured loans or loan participations may be governed by the law of a jurisdiction other than the United States which may present additional risks as regards the characterization under such laws of such participation in the event of the insolvency of the selling institution or the borrower.

*Securitization.* To the extent the clients participate, directly or indirectly, in a securitization, the clients, Axonic or their affiliates (or any of them) may be deemed to be an issuer, obligor, underwriter, control person, willing participant or person liable under the U.S. Securities Exchange Act of 1934, and accordingly may have liability to investors in the securitization transaction for, among other reasons, a material misstatement or omission in the offering document or a failure to comply with private placement or resale limitations. The clients will indemnify Axonic and its affiliates from and against such liabilities. The clients also may make representations, covenants and warranties to and indemnify certain parties to the securitization transaction, including the investment banks structuring the transaction and the placement agents. The obligations under these representations, covenants, warranties, and indemnities may survive the clients' ownership of assets related to the transaction. In order to participate in certain securitization transactions, the clients may be required, including under applicable regulations, to retain an interest in the securities issued in these securitization transactions for a longer period than it otherwise would have had such retention obligation not existed.

*Credit Derivatives.* Credit derivatives are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. Such instruments may include one or more debtors. Payments under credit derivatives may be made during the exercise period of the contracts. Payments under many credit derivatives are triggered by credit events such as bankruptcy, default, restructuring, failure to pay, cross default or acceleration, etc. Such payments may be for notional amounts, actual losses or amounts determined by a formula.

The market for credit derivatives is somewhat illiquid and there are considerable risks that it may be difficult to either buy or sell the contracts as needed or at reasonable prices. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments covered by the derivative instruments. Buyers of credit derivatives carry the risk of non-performance by the seller due to inability to pay. There are also risks with respect to credit derivatives in determining whether an event will trigger payment under the derivative and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk. Credit derivatives may be cleared or uncleared. The clients are exposed to the risk of a counterparty default (in the case of an uncleared transaction) or futures commission merchant's or clearinghouse's default (in the case of a cleared transaction).

*Credit Default Swap Agreements.* The buyer of a credit default swap is obligated to pay the seller a periodic stream of payments over the term of the contract in return for one or more contingent payments upon the occurrence of a credit event with respect to one or more underlying reference obligations. Generally, a credit event means, (i) with respect to corporate reference obligations, bankruptcy, failure to pay and, in certain cases, restructuring, (ii) with respect to municipal or sovereign reference obligations, failure to pay, restructuring and, in certain cases, moratorium, and (iii) with respect to asset-backed security reference obligations, principal writedowns and interest shortfalls. If a credit event occurs under a swap referencing a corporate, sovereign or municipal reference obligation, the buyer typically receives the notional amount of the reference obligation subject to an obligation to physically deliver the notional amount of the reference obligation (or other permitted security) to the seller, which reference obligation (or other permitted security) may not be readily available to the buyer, in which case the buyer may forfeit its credit event payment. However, in many cases, the parties to the swap will agree to an industry-wide cash-settlement auction process. Following a credit event and the



physical delivery or cash settlement thereof, a swap referencing a corporate, sovereign or municipal reference obligation will terminate. If a credit event occurs under a swap referencing an asset backed security reference obligation, the buyer typically receives a payment calculated by reference to the principal writedowns and interest shortfalls under a notional amount of the reference obligation. In certain cases, the buyer may be required to make a payment calculated by reference to a write-up or recovery under a notional amount of the reference obligation, which may relate to a credit event that occurred prior to the time that the buyer entered into the swap. Swaps referencing asset-backed security reference obligations do not terminate following a credit event thereunder. Entering into a credit default swap may require an upfront payment be made by the buyer or seller thereunder. Credit default swaps may be cleared or uncleared and the clients may be either the buyer or seller of a cleared or uncleared credit default swap. If a client is a buyer and no credit event occurs, the client will have made payments under the swap and received nothing. The selling of credit default swaps involves additional risks to those posed by investing in the reference obligation directly, including the credit risk of the counterparty (or the credit risk of the relevant futures commission merchants and clearinghouses, in the case of cleared swaps). The clients are exposed to the risk of a counterparty's default (in the case of an uncleared transaction) or futures commission merchant's or clearinghouse's default (in the case of an cleared transaction). In addition to general market risks, credit default swaps are subject to liquidity risk, and may be more or less liquid than the underlying reference obligations.

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

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

which case that client may be required to maintain a position until exercise or expiration, which could result in losses, or have to unwind it at an unfavorable price.

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

*Futures.* The use of futures is a specialized activity that involves investment strategies and risks different from those associated with ordinary portfolio securities transactions, and there can be no guarantee that their use will increase a client's return or not cause a client to sustain large losses. While the use of these instruments by a client may reduce certain risks associated with portfolio positions, these techniques themselves entail certain other risks. A client could experience losses if the values of its futures positions were poorly correlated with its other investments, or if it could not close out its positions because of an illiquid market. In addition, a client will incur transaction costs, including trading commissions, in connection with its futures transactions and these transactions could significantly increase a client's investment turnover rate. There is no assurance that a liquid market will exist for futures contracts or options on futures purchased or sold, and a client may be required to maintain a position until exercise or expiration, which could result in losses. Many futures exchanges limit the amount of fluctuation permitted in contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit. Contract prices could move to the daily limit for several consecutive trading days permitting little or no trading, thereby preventing prompt liquidation of futures and options positions and potentially subjecting a client to substantial losses.

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

*Mezzanine Loans* -- Typically, the ownership interests pledged by a mezzanine borrower as security for a Mezzanine Loan represents all or a portion of the direct or indirect equity in an entity that itself is a borrower under a commercial mortgage loan pursuant to which such mortgage borrower has pledged commercial property as security for such mortgage loan and perhaps other indebtedness and obligations (including derivatives and future advances), all of which will be senior in priority to the Mezzanine Loan. Also, typically, distributions in respect of its equity interest in the mortgage borrower constitute the sole source of income of the mezzanine borrower (and, therefore, the sole source of debt service payments on the related Mezzanine Loan). As with commercial mortgage loans, repayment of a Mezzanine Loan is thus dependent on the successful operation of the underlying commercial properties

and, therefore, is subject to similar considerations and risks. Loans may be non-recourse and in the event of a default there will be recourse only against the specific assets that have been pledged to secure such Loans.

If Axonic forecloses on a loan, the relevant Fund may take ownership of the property or an entity owning the property subject to any mortgages on the property, and if Axonic does not or cannot sell the interests foreclosed upon, the Fund would then come to own and operate the property. Owning and operating real property involves risks that are different (and in many ways more significant) than the risks faced in owning a loan secured by the equity in an entity that owns and operates the property. In addition, a Fund may end up owning a property that Axonic would not otherwise have decided to acquire directly at the price of Fund's original investment or at all.

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

*Distressed Investments; Non-Performing Loans; REO.* Certain clients may invest in debt and equity securities, accounts and notes payable, loans, private claims and other financial instruments and obligations of troubled obligors that may result in significant returns to the clients, but which involve a substantial degree of risk. A client may lose its entire investment in a troubled obligor, may be required to accept cash or securities with a value less than the client's investment and may be prohibited from exercising certain rights with respect to such investment. Troubled obligor investments may not show any returns for a considerable period of time. Funding a plan of reorganization involves additional risks, including risks associated with equity ownership in the reorganized entity. Troubled obligor investments may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the Bankruptcy Court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled obligors made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation.

A client may have significant investments in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, take considerable time or result in a distribution of cash or a new security, the value of which will be less than the purchase price to the clients of the security, or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the clients may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled obligors in which the

clients may invest, there is a potential risk of loss by the clients of its entire investment in such companies.

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

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

Axonic may find it difficult to obtain leverage on acceptable terms. Since leveraging its assets is part of the investment strategy of certain clients, in such event, Axonic could find it difficult to fully implement its strategy. In addition, any leverage obtained, if terminated on short notice by the lender, could result in Axonic being forced to unwind positions quickly and at prices below what Axonic deems to be fair value for the positions.

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

*Short Sales.* Short selling, or the sale of securities not owned by a client, necessarily involves certain additional risks. Such transactions expose a client to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by a client in connection with a short sale would need to be returned to the securities

lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a “short squeeze” can occur, wherein a client might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

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

*Non-U.S. Investments.* Investing in instruments of non-U.S. governments and companies, and non-U.S. properties and loans, including non-performing loans, which may be denominated in currencies other than the U.S. dollar and may be governed by laws of a foreign jurisdiction, and utilization of foreign currency forward contracts and options on foreign currencies, involve certain considerations comprising both risks and opportunities not typically associated with investing in securities of United States issuers. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of non-U.S. taxes (including non-U.S. withholding taxes and transfer and stamp taxes), less liquid markets and less available information than are generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards greater price volatility, and reliance on non-U.S. servicers and service providers.

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

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

*Trading Curbs.* Certain exchanges or markets may impose trading restrictions, also referred to as circuit breakers, which limit or stop trading in certain instruments when certain thresholds have been crossed. When a trading restriction is imposed, a client may be unable to enter into or close out desired positions or effectively hedge its existing portfolio, including when a client trades paired positions in different markets and a trading restriction impacts only one leg of the paired position.

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

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

To the extent that swaps or repurchase, forwards or other transactions are cleared, a client will be exposed to the credit risk of its futures commission merchant or carrying broker, as applicable, and the related clearinghouse.

*Custody and Prime Brokerage Risk.* There are risks involved in dealing with the custodians or prime brokers who settle clients' trades. Under certain circumstances, including certain transactions where the client's assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of the prime broker, or where a client's assets are held at a non-U.S. prime broker, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of a client and hence the client could be exposed to a credit risk with regard to such parties. In addition, there may be practical or time problems associated with enforcing the client's rights to its assets in the case of an insolvency of any such party.

Certain clients maintain custody accounts with their prime broker, JP Morgan (the "**Prime Broker**") or, at any time, with an affiliate of the Prime Broker. Although Axonic monitors the Prime Broker and believes it or its affiliate is an appropriate custodian, there is no guarantee that the Prime Broker, or any other custodian that these clients may use from time to time, will not become insolvent. While both the Bankruptcy Code and the Securities Investor Protection Act of 1970 seek to protect customer property in the event of a failure, insolvency or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer, that these clients would not incur losses due to its assets being unavailable for a period of time, ultimately less than full recovery of its assets, or both.

A client and/or the Prime Broker may appoint sub-custodians in certain non-U.S. jurisdictions to hold the assets of the client. The Prime Broker may not be responsible for cash or assets which are held by sub-custodians in certain non-U.S. jurisdictions, nor for any losses suffered by a client as a result of the bankruptcy or insolvency of any such sub-custodian. A client may therefore have a potential exposure on the default of any sub-custodian and, as a result, many of the protections which would normally be

provided to a client by a custodian will not be available to the client. Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of regulations on custodial activities and bankruptcy in certain non-U.S. jurisdictions, the ability of a client to recover assets held by a sub-custodian in the event of the sub-custodian's bankruptcy would be in doubt.

*Frequent Trading.* To the extent that a client engages in frequent trading, such frequent trading can increase costs, including brokerage and other transaction costs and taxes, which can affect investment performance.

*Trading Curbs.* Certain exchanges or markets may impose trading restrictions, also referred to as circuit breakers, which limit or stop trading in certain instruments when certain thresholds have been crossed. When a trading restriction is imposed, a client may be unable to enter into or close out desired positions or effectively hedge its existing portfolio, including when the Partnership trades paired positions in different markets and a trading restriction impacts only one leg of the paired position

*Lack of Liquidity of Client Assets, Valuation.* A client's assets may, at any given time, include securities and other financial instruments or obligations that are thinly traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value accurately any such investments. Axonic has discretion over how to value the assets of the clients, particularly with respect to investments in real property. When Axonic is entitled to a greater management fee and an affiliate of Axonic is entitled to a greater incentive allocation when the assets of a client are valued at a higher amount, Axonic will have a conflict of interest in exercising discretion over the valuation of the assets of the client.

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

*U.S. Trade or Business Activities and Tax Considerations.* While certain clients intend to conduct their activities so that Axonic can conclude (in consultation with its tax advisors) that it is more likely than not that such clients' income from its activities is not considered to be effectively connected with the conduct of a U.S. trade or business or otherwise subject to regular United States federal income taxation on a net basis, there can be no assurances in this regard. Notwithstanding its intent, such clients may directly or indirectly engage in certain activities that may be considered by the United States Internal Revenue Service (the "IRS") to be a U.S. trade or business or otherwise subject to U.S. federal income tax, including securitizations, loan acquisitions and other loan-related activities, as well as transactions in real property. If such clients were engaged in or deemed to be engaged in a U.S. trade or business in any year, such clients could be subject to United States federal income tax and branch profits tax on some or all of its income and profits (which could include income and profits from trading activities unrelated to such trade or business). The clients may be subject to state and local taxation as well. Any such taxation could adversely affect the investment returns of Investors, possibly materially. While a client may instead conduct certain of these activities through U.S. or non-U.S. wholly- or partially-

owned entities (“**Blockers**”) that are themselves subject to taxation to attempt to insulate such client itself from direct taxation, the taxation of such Blockers would reduce the investment returns of Investors attributable to such activities, and effective control of those Blockers by Axonic personnel from within the U.S. may nonetheless subject non-US Blockers to federal, state and local taxation as well. In addition, dividends and certain other distributions and other payments by such Blockers or other investments to a client will or may be subject to withholding tax. A client also may take positions with respect to certain other tax issues that depend on legal conclusions not yet addressed by the courts or by Treasury regulations or other guidance. Should any such position be successfully challenged by the IRS or other taxing authority (which challenge may occur subsequent to a client’s ownership of the relevant asset), the investment returns of Investors may be adversely affected. Investors should consult their own tax advisors concerning the tax issues relevant to an investment in a client.

*Tax Structure.* A client may employ structures, including the formation of subsidiaries or partially-owned entities, to hold certain assets that may rely on treaties to reduce or eliminate withholding taxes in respect of payments on the relevant assets. There can be no assurance that the relevant taxing authorities will respect the use of these structures and therefore withholding and other taxes, and interest and penalties thereon, may be imposed on a client, which imposition may be subsequent to the client’s ownership of the relevant asset.

*Directors are also Service Providers.* Clayton DeGiacinto is a Director and Advisory Committee member of certain Funds as well as a principal of Axonic. Richard Ruffer is a Director and Advisory Committee member of certain Funds and is an employee of, and is to be regarded as interested in any contract or other arrangement with, Intertrust, a service provider to certain Funds and entities in which certain Funds invest. Scott Dakers is a Director and Advisory Committee member of certain Funds and is an employee of, and is to be regarded as interested in any contract or other arrangement with, Elian Fiduciary Services (Cayman) Limited (which was acquired by Intertrust in 2016), a service provider to certain Funds and entities in which certain Funds invest. The duties of the Directors and Advisory Committee members may compete with or be different from the interests of its employers.

*Conflicts of Interest.* Axonic serves as the investment manager to its clients. An affiliate of Axonic serves as the general partner to certain Funds, and Axonic affiliates, and their respective principals, members and employees (hereinafter referred to, together with Axonic, as the “**Axonic Persons**”) may serve as the investment adviser or the investment manager to the Structured Credit Accounts and other clients and conduct investment activities for their own accounts. Such activities may include making personal investments in real property, private companies, other private funds and public companies, in each case subject to Axonic’s compliance policies and procedures. Such activities may be in competition with the clients. In particular, Axonic Persons may invest in the same positions as certain clients. Axonic Persons are not restricted as to the timing of the acquisition or disposition of such investments. Furthermore, Axonic Persons may sell such investments to dealers, market makers and other third parties immediately after purchase. A client may have investment objectives or may implement investment strategies similar to those of another client, and any particular client may pay higher or lower management or performance fees or allocations than those paid by another client.

Axonic Persons may give advice or take action with respect to one or more clients that differs from the advice given with respect to other clients. If a determination is made that multiple clients should enter into or exit the same transaction (or group of transactions) at or about the same time, such transaction(s)



will generally be allocated among such clients based on such clients' relative target percentages (the "**Target Allocation**"), unless Axonic Persons determine in their discretion that the facts specific to the transaction(s) or the clients warrant an alternative methodology. Target Allocations are subject to change, with the approval of the Allocation Committee. In setting Target Allocations or determining that an alternative methodology is warranted, there is a potential conflict of interest for Axonic Persons to favor clients that pay higher fees or clients where Axonic Persons have invested. The allocation policy is subject to change from time to time in the discretion of Axonic.

Purchase and sale, repurchase, financing and derivative and other transactions may be effected between or among clients subject to the following guideline: such transactions will be fair to each client in the good faith belief of Axonic. Such transactions may include (i) the financing and subsequent purchase of a loan by one or more clients from other clients; (ii) transactions with an entity in which Axonic or an affiliate owns all of the voting securities; (iii) the sale of an investment from a client to another client in exchange for certain rights relating to such investment and (iv) investments in and contributions of assets by a client to other clients, certain of which other clients may permit periodic subscriptions and withdrawals at their net asset value, as determined by Axonic in accordance with its valuation policy as in effect from time to time. Because Axonic Persons may be entitled to a greater management fee and incentive allocation when the assets of the other client are valued at a higher amount, Axonic has a conflict of interest in exercising discretion over the valuation of the assets of the other client.

The clients may invest, directly or indirectly, in (including by contributing assets in exchange for) the debt or equity of another client or other entity, including a REIT, an insurer or reinsurer (which may be considered a so-called captive (a "**Captive Insurer**")) or other U.S. or non-U.S. entity. This may be done for regulatory, tax or other reasons. The clients or Axonic may or may not control such other entity, and clients may invest in the same or different tranches of the debt or equity of such other entity. An entity in which a client invests may also invest in such client or in another client (or both). Axonic's decision to invest in such entity will be made independently of any commitment by that entity to invest in a client, but such an investment by a client could create a potential conflict of interest for Axonic.

In connection with certain client's investment in securities backed by commercial real estate loans, Axonic may negotiate to appoint a servicer for the underlying loans and in connection with that appointment require the servicer to rebate to Axonic (on behalf of the client) a portion of the fees payable to the servicer by the trust or similar entity holding the loans. Any such amounts received by Axonic from these servicers will reduce on a dollar-for-dollar basis the Management Fee and/or expense reimbursement amounts payable to Axonic by such client (in proportion to such client's interest in such securities).

The clients may take such actions as Axonic determines are in accordance with their investment objectives, including securitizing loans. If one or more clients participates in a securitization transaction, in connection therewith the clients may indemnify certain parties to the securitization transaction, including the investment banks structuring the transaction and the placement agents, which indemnification may be provided on a joint and several basis, and without the clients entering into a formal contribution agreements. These transactions could create a potential conflict of interest for Axonic.

A client may purchase loans from, or otherwise participate in loans originated in the first instance by, other clients or other entities controlled by Axonic or its affiliates. To the extent that a client or any other entity controlled by Axonic or its affiliates originates loans or acquires investments with the expectation of subsequently making a sale, assignment or transfer to a client, such client will not participate in the profits and losses of such loans until sold, assigned or transferred to such client; however such client may finance the such other client's or other entity's origination or acquisition, through a repurchase agreement, preferred equity investment or otherwise. These transactions could create a potential conflict of interest for Axonic.

A client may invest (including indirectly through derivatives or otherwise) in the same positions as one or more other clients, or in instruments issued by the same obligor that are *pari passu* with, or senior or subordinate to, those in which one or more other clients are invested. In addition, a client and one or more other clients may contribute different assets to a securitization or participation and purchase the same or different tranches of the securitization or participation that includes risk to the assets contributed by the other. While Axonic will endeavor to ensure that the terms and pricing to clients are fair, such terms and pricing may not be the same, and these transactions could create a potential conflict of interest for Axonic.

A client may co-invest, directly or indirectly, in (including by contributing assets in exchange for) the debt or equity of special purpose entities ("**SPEs**") in order to more efficiently access certain investments or more efficiently finance such investments. A client may provide representations, warranties, covenants, guaranties, net worth keepwells, indemnities and other credit support ("**Credit Support Agreements**") to service or financing providers and counterparties to SPEs, which may survive the client's investment therein. A client may also enter into interest rate or other derivative transactions ("**Hedge Agreements**") with SPEs (or with third parties that are assigned or pledged to SPEs (or to counterparties to SPEs)) and such Hedge Agreements may be rehypothecated by SPEs to its financing providers and counterparties. A Credit Support Agreement provided by a client to a counterparty may be cross-defaulted to a default by another client, which means that the counterparty may enforce the providing client's Credit Support Agreement as a result of the other client's default. A cross default may cause an acceleration of the providing client's other financing arrangements and could materially adversely affect the providing client. Accordingly, this subjects the providing client to the credit and performance risk of such other client. To protect the providing client's position in the event of a default by such other client's, the providing client may seek to step into such other client's position or otherwise cure such other client's default, which could create a potential conflict of interest for Axonic and be on terms that the providing client otherwise would not enter into were it not for the cross default and the adverse effect thereof on the providing client's own position and other financing arrangements. In connection with any investment by a client in a SPE in which another client also invests, such client may provide a Credit Support Agreement or Hedge Agreement without the other client providing a Credit Support Agreement or Hedge Agreement. In certain cases, a counterparty may not be willing to accept a Credit Support Agreement from the other client because the other client is not as creditworthy as the client. While this may have the benefit of avoiding the cross default mentioned above, it would subject the providing client to disproportionately greater risk in comparison to its investment in the SPE. While the other client may not have been able to participate in the transaction or may have participated on less favorable terms had it not been for the providing client's provision of such Credit Support Agreement or Hedge Agreement, the applicable contribution agreement (if any) by such other client is not expected to provide for any fee or compensation to such client for providing such Credit Support Agreement or

Hedge Agreement and if the providing client is required to make payments under such Credit Support Agreement or Hedge Agreement, there can be no assurance that the other client will be solvent or otherwise capable of reimbursing the providing client to the extent required under the applicable contribution agreement (if any). Axonic has a potential conflict of interest in deciding whether or not to have providing client provide such a Credit Support Agreement or Hedge Agreement and whether or not to have the other client provide a contribution agreement as well as deciding on the terms thereof if any such a contribution agreement is provided.

Other funds or accounts managed by Axonic Persons and entities owned in whole or in part by Axonic Persons have sought and may in the future seek mortgage financing from mortgage lenders, the recourse for which may be limited to the property. Because of the relationships that Axonic Persons have with these mortgage lenders, the terms of the mortgage financing provided by the mortgage lenders is expected to be better than the terms that could have been obtained by Axonic Persons from other mortgage lenders where Axonic Persons have no prior relationship. Certain clients have committed and may in the future commit with these same mortgage lenders or others to purchase the economic residual certificates or other securities in securitizations in which these mortgages are pooled with other mortgages. As holder of the economic residual certificates, in certain cases, certain clients and therefore Axonic may effectively control the delinquency, default and foreclosure procedure for the mortgage loans in the securitization, and in connection therewith Axonic could grant waivers, amendments and other accommodations to Axonic Persons. While such waivers, amendments and accommodations will be no more favorable to Axonic Persons than those which Axonic believes in good faith at the time may be obtained from an independent third party, they may create a potential conflict of interest for Axonic.

The clients and entities in which it invests may enter into transactions and conduct business with any broker-dealer, real estate broker, loan originator, loan seller, loan servicer, special servicer, real estate manager, insurer or reinsurer, Captive Insurer or other person that is affiliated with Axonic, is a client of Axonic and/or in which an Axonic Persons has invested. An insurer, reinsurer or Captive Insurer in which a client is invested may insure or reinsure risks of the client, other clients and Axonic Persons. While all such transactions will be executed on terms and pricing no less favorable than those that Axonic believes in good faith would be available to the relevant clients from an independent third party, such transactions could create a potential conflict of interest for Axonic and should be considered as generating additional compensation to Axonic Persons.

Axonic (or an affiliate) has formed and owns, and may in the future form and own, one or more affiliates to obtain required licenses and authorizations to originate, hold, finance and/or securitize certain loans. Certain clients (or entities in which they invest) may purchase all or a portion of these loans from these Axonic affiliates and/or enter into full or partial participations in these loans with these Axonic affiliates. Axonic intends to operate this way because it believes it will be more efficient than having each client obtain its own required licenses and authorizations. While these purchase and participation transactions will be at cost, and will not generate additional compensation to Axonic (or an affiliate), each participating client will be responsible for their allocable portion of Axonic affiliates' expenses in connection with the origination or purchase of the loans. In effect, Axonic (or an affiliate) will be serving as a conduit to enable each participating client to participate in these types of transactions.

Clayton DeGiacinto controls Axonic and is a Director and Advisory Committee member of various Funds, and may have a conflict of interest with regard to his fiduciary duties to these Funds and other clients. Other directors and advisory committee members of a Fund may also serve as a director or advisory committee member of another Fund. Accordingly, to the extent that the interests of a Fund and such other Fund are inconsistent, such directors may have a conflict of interest.

Axonic Persons may have conflicts of interest in allocating their time and activities among clients, and in effecting transactions among clients, including ones in which Axonic Persons may have a greater financial interest. Axonic may, but shall not be required to, take into consideration the tax consequences to certain clients, certain Investors and Axonic Persons in structuring and/or deciding on the timing of transactions to be undertaken by the clients, and the consideration of such tax consequences may create a potential conflict of interest for Axonic.

Axonic Persons may conduct any other business, including any business within the securities industry, whether or not such business is in competition with the clients. Without limiting the generality of the foregoing, Axonic Persons may act as the investment adviser or investment manager for others, may manage funds or capital for others, may have, make and maintain investments in their own name or through other entities, and may serve as officers, directors, consultants, partners or stockholders of one or more investment funds, partnerships, securities firms or advisory firms. It may not always be possible or consistent with the investment objectives of the various persons or entities described above and of the clients for the same investment positions to be taken or liquidated at the same time or at the same price.

Axonic may cause one Fund to invest in another Fund and that investment may be significant. Any withdrawal by the investor Fund could therefore have an adverse effect on the investee Fund both in terms of decreasing the asset base of the investee Fund (and therefore increasing the expense ratio) as well as having a disruptive effect on the portfolio of the investee Fund by compelling the investee Fund to liquidate securities at what may be a disadvantageous time. Axonic is a fiduciary to the investee Fund regarding portfolio management decisions such as when and how much leverage to use, when to liquidate investments, when to recommend suspending redemptions and similar decisions. As a result, the interests of the investor Fund and investee Fund, and therefore the fiduciary obligations of the Axonic to the investor Fund and the investee Fund, may be in conflict. Potential conflicts of interest for the Axonic, include, but are not limited to, (i) in making a decision to withdraw assets of the investee Fund, Axonic will have more, and a more thorough understanding of, portfolio data on which to base such decision than do other investors in the in the investee Fund, (ii) while the investor Fund will generally be required to follow all redemption policies and procedures of the investee Fund, Axonic or an affiliate will have the power to waive that requirement, and (iii) Axonic, as a fiduciary to the investor Fund, will make each decision regarding the allocation of assets of the investor Fund to or away from an investee Fund based solely on what it perceives to be the best interests of the investor Fund. While the investor Fund generally is not subject to a management fee or incentive allocation as a result of its investment in the investee Fund, the investor Fund pays its pro rata share of the investee Fund's expenses, which may be significant.

*Proprietary Models.* Axonic carries out its investment process and risk control procedures, in part, by applying various trading models (including proprietary models) developed by it. These models are used to evaluate prospective investments, as well as to monitor and value existing holdings. The accuracy and effectiveness of these models cannot be guaranteed.

*Use of Quantitative Methodologies.* The quantitative methodologies used by Axonic to make investments for the Systematic Arbitrage Funds and for certain Structured Credit Funds in relation to certain quantitative strategies or transactions (collectively, the “**Quantitative Strategy Funds**”) utilize historical data. Financial and economic patterns, trends and relationships are not immutable, however, and there is no guarantee that the patterns, trends and relationships that appear to Axonic to govern any investments or markets will continue to govern such investment or market in the future. While Axonic will make efforts to control the risks associated with market changes, and will attempt to identify changes as they occur, market environment changes can be sudden and extreme. When these changes occur, certain market dynamics can make the changes more severe and can cause their adverse effects to spread to other markets not affected by the initial changes. In particular, events can cause other market participants to liquidate large positions in a short period of time in order to raise capital, reduce risk or meet margin calls. To the extent that these market participants hold positions in a portfolio of strategies similar to that of the Quantitative Strategy Funds, all of these strategies may begin to exhibit adverse returns and correlations not seen under normal market conditions, even if the initial changes were in markets in which the Quantitative Strategy Fund was not involved. Positions that would typically serve as hedges may actually move in tandem with the instruments they were initially attempting to hedge, adding further risk to the Quantitative Strategy Funds.

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

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

*Complexity.* Certain Funds use various blockers, trusts and special purposes entities to access certain assets and implement their investment objectives. These entities may be used for tax, regulatory, liability insulation or other purposes. While Axonic believes the benefits to using these entities outweighs the costs and risks associated therewith, their use adds cost and complexity to managing the business of the relevant Funds, and they may not be effective in achieving their desired purposes.

*Additional Risks Relating to Axonic*

**Cybersecurity Risk.** The information and technology systems of Axonic and of key service providers to Axonic and its clients may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although Axonic has implemented various measures designed to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, it may be necessary for Axonic to make a significant investment to fix or replace them and to seek to remedy the effect of these issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of Axonic or its client accounts and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information.

**Risk Management Failures.** Although Axonic attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Moreover, many risk management techniques, including those employed by Axonic, are based on historical market behavior, but future market behavior may be entirely different and, accordingly, the risk management techniques employed on behalf of clients may be incomplete or altogether ineffective. Similarly, Axonic may be ineffective in implementing or applying risk management techniques. Any inadequacy or failure in risk management efforts could result in material losses to clients.

**Systems and Operational Risk.** Axonic relies on certain financial, accounting, data processing and other operational systems and services that are employed by Axonic and/or by third party service providers, including prime brokers, the third party administrator, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, Axonic and its clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the clients' operations. In addition, despite certain measures established by Axonic and third party service providers to safeguard information in these systems, Axonic, clients and their third party service providers are subject to risks associated with a breach in cybersecurity which may result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Any such errors and/or disruptions may lead to financial losses, the disruption of the client trading activities, liability under applicable law, regulatory intervention or reputational damage.

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

**Item 9: Disciplinary Information**

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

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

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

GreyArc Global Investors LLC, a wholly owned subsidiary of Axonic, is a relying adviser registered with the SEC as an investment adviser together with Axonic. While unlikely, if conflicts of interest arise between Axonic Capital (or its clients) and GreyArc Global Investors LLC (or the funds or entities it manages), Mr. DeGiacinto will seek to resolve such conflicts in a fair and equitable manner.

A company controlled by Mr. DeGiacinto, which shares office space and certain overhead services with Axonic Capital, manages various funds and entities that invest in real property. While unlikely, if conflicts of interest arise between Axonic Capital (or its clients) and this company (or the funds or entities it manages), Mr. DeGiacinto will seek to resolve such conflicts in a fair and equitable manner. The Firm and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

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***Code of Ethics***

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

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

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

Employees may have and make personal investments in certain Funds. Subject to compliance with the Code of Ethics, employees also may have and make personal investments in real properties, private

companies, other funds and public companies, any or all of which at any time may be in competition with the clients.

***Principal and Cross Trades***

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

Axonic may, to the extent permitted under applicable law, effect client cross-transactions or principal transactions where a transaction is effected between a Fund, on the one hand, and Axonic (or any of its affiliates) or another account advised by Axonic or an affiliate, on the other hand. The independent member(s) on the advisory board or advisory committee of a Fund may consent on behalf of such Fund to principal transactions and other related-party transactions as described in the offering documents for such Fund.

Certain "cross-trades" were completed among various Funds during 2018 in accordance with Axonic's compliance policies and procedures.

**Item 12: Brokerage Practices**

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

In selecting brokers for execution, we assess the overall quality and cost of services, including factors other than solely the level of compensation and commissions, including execution quality and reliability, depth of coverage, block positioning capability, firm reputation, responsiveness and financial strength, trading expertise, accuracy and timeliness, commission rates, research, market intelligence, availability of other market makers, operational efficiencies, fairness in resolving disputes, financial responsibility and responsiveness.

***Soft Dollar Benefits***

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

Generally, research services provided by broker dealers may include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues. Such research services are received primarily in



the form of written reports, telephone contacts, industry conferences, and personal meetings with security analysts. In addition, such research services may be provided in the form of access to various computer-generated data, software, and meetings arranged with corporate and industry spokespersons, economists, academicians, and government representatives.

Presently, Axonic has not entered into any soft dollar arrangements with broker-dealers. However, Axonic receives unsolicited research or other products or services other than execution (collectively the “Free Services”) at no apparent additional charge and not pursuant to any written “soft dollar” arrangement from a broker-dealer in connection with Client securities transactions. Axonic limits the Free Services to items that constitute research and brokerage within the meaning of section 28(e) of the securities exchange act of 1934 (“Section 28(e”). Research services within Section 28(e) may include, but are not limited to, market research reports; financial newsletters; software providing analysis of securities portfolios; corporate governance research and attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants’ advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); and advice from broker-dealers on order execution. Should Axonic decide to enter into soft dollar arrangements with broker-dealers, we intend to limit the usage of soft dollars for obtaining research and brokerage services so as to remain within the guidance set forth in Section 28(e).

### ***Best Execution***

As a matter of policy and practice, we seek to obtain best execution for client transactions, *i.e.*, seeking to obtain not necessarily the lowest commission but the best overall qualitative execution in the particular circumstances. We assess the overall quality, along with the cost of execution, including execution quality and reliability, depth of coverage, block positioning capability, firm reputation, responsiveness and financial strength, trading expertise, accuracy and timeliness, commission rates, research, market intelligence, availability of other market makers, operational efficiencies, fairness in resolving disputes, financial responsibility and responsiveness.

### ***Aggregated Trades***

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

Our policy is to aggregate transactions where possible and when advantageous to clients. In these instances, clients participating in any aggregated transactions will receive an average execution price and transaction costs will be shared on a pro-rata basis.

### ***Allocations***

Our policy prohibits any allocation of trades based solely on the fees that may be earned by Axonic.

If a determination is made that multiple clients should enter into or exit the same transaction (or group of transactions) at or about the same time, such transaction(s) will generally be allocated among such clients based on such clients’ relative target percentages (the “Target Allocation”), unless Axonic and its affiliates determine in their discretion that the facts specific to the transaction(s) or the clients warrant an alternative methodology. Factors considered in respect of a targeted allocation include, without limitation, the relevant clients’ strategy, objectives, risk profile, time horizon, tax status, imbalances or

restrictions, investable cash, market liquidity, minimum transaction size, financing terms, holding period and type of asset, among other factors. Target Allocations are subject to change, with the approval of the Allocation Committee. In setting Target Allocations or determining that an alternative methodology is warranted, there is a potential conflict of interest for Axonic and its affiliates to favor clients that pay higher fees or clients where Axonic, its affiliates and its personnel have invested. The allocation policy is subject to change from time to time in the discretion of Axonic.

## **Trade Errors**

### **Axonic**

As a fiduciary, we have the responsibility to effect orders correctly, promptly and in the best interests of the clients. In the event that any error occurs in the handling of any client transactions, due to our actions, or inaction, or actions of others, our policy is to assess each trade error on a case-by-case basis, and to correct the error promptly and in the best interests of the Funds and so as to avoid incurring a loss to the Fund. We are personally responsible to reimburse the applicable client for trade errors caused by our gross negligence or willful misconduct.

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

## **Item 13: Review of Accounts**

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### ***Review of Accounts***

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

### ***Reporting***

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

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

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

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**Item 15: Custody**

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The Firm complies with the requirements of Rule 206(4)-2 under the Advisers Act with regard to its custody of the assets of the Funds (“**Custody Rule**”).

The accounts of the Funds are held in custody at qualified custodians including unaffiliated broker-dealers or banking institutions.

Both Axonic and the general partners of the Funds organized as limited partnerships may be deemed to have custody of client assets. In accordance with the SEC’s custody rule, each of such Funds is audited on an annual basis. Copies of these audited financial statements are distributed to Investors in such Fund within 120 days of such Fund’s fiscal year end.

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**Item 16: Investment Discretion**

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

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**Item 17: Voting Client Securities**

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***Proxy Voting Policy***

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

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

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

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

**Item 18: Financial Information**

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Axonic has not ever filed for bankruptcy, and is not aware of any financial condition which would negatively affect its ability to manage client accounts.