

# Invictus Capital Management, LP

Form ADV Part 2A – Firm Brochure

March 29, 2024

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

If you have any questions about the content of this Brochure, please contact Duane Beasley at (202) 780-1024. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

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

## **Item 2 Material Changes**

This Brochure, dated March 29, 2024, is updated from the previous other than annual updating amendment of this Brochure, which was filed on May 25, 2023, to reflect the addition of the Gladiator Fund and IBV (each as defined in Item 4 – Advisory Business), each an investment fund launched in 2023 and sponsored by Invictus. Invictus has also made certain additional updates to the previously filed Brochure. None of these updates constitute a material change to Invictus’s Advisory Business. All recipients are encouraged to read this Brochure in its entirety.

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#### Item 4 Advisory Business

Invictus, a Delaware limited partnership formed in 2008, is registered with the SEC as an investment adviser. As of December 31, 2023, it provides discretionary advice to (i) Invictus Opportunity Fund, L.P., Invictus Opportunity Fund II, L.P. and Invictus Opportunity Fund III, L.P. (the “Opportunity Onshore Funds”), Invictus Opportunity Offshore Fund, L.P., Invictus Opportunity Offshore Fund II, L.P. and Invictus Opportunity Offshore Fund III, L.P. (the “Opportunity Offshore Funds”) and Invictus Opportunity Fund III-R, L.P. (the “Rated Note Fund”, and collectively with the Opportunity Onshore Funds and the Opportunity Offshore Funds, the “Opportunity Funds”), (ii) Invictus Gladiator Fund, L.P. (the “Gladiator Fund”), (iii) Invictus Managed Account-P, L.P., a partnership designed for the benefit of a single investor (“Managed Account-P”), (iv) Invictus Alternative Credit Fund, L.P., a partnership designed for the benefit of a single investor (“IACF”), (v) Invictus Recovery Opportunity Master Fund, L.P. (“IROF”), (vi) Invictus Opportunity Fund III Co-Invest, L.P. (the “Fund III Co-Invest”), (vii) Invictus Sol Venture, LLC, a limited liability company designed for the benefit of a single investor (“ISV”), (viii) MVP1 Pooler, LLC, a limited liability company designed for the benefit of a single investor (“MVP”), (ix) Invictus Atalaya Ventures, L.P., a limited partnership designed for the benefit of a single investor (“IAV”), (x) Invictus Rex Ventures, L.P., a limited partnership designed for the benefit of a single investor (“IRV”), (xi) Invictus Bellator Ventures, LLC, a limited liability company designed for the benefit of a single investor (“IBV”), and (xii) NQM Purchaser, LLC, a limited liability company designed for the benefit of a single controlling third-party investor for which Invictus acts as advisor (“NQM” and collectively with the Opportunity Funds, the Gladiator Fund, Managed Account-P, IACF, IROF, Fund III Co-Invest, ISV, MVP, IAV, IRV and IBV, the “Funds” or the “Clients”).

Each Opportunity Offshore Fund, the Rated Note Fund, Managed Account-P, IACF, IROF and the Fund III Co-Invest has one or more separate feeder funds that invests all of its capital in such fund. In turn, each Opportunity Offshore Fund and the Rated Note Fund invests all of its committed capital alongside the related Opportunity Onshore Fund. Managed Account-P invests all of its committed capital alongside Invictus Opportunity Fund, L.P. and Invictus Opportunity Offshore Fund, L.P. IACF invests all of its capital contributions in investments in accordance with its investment strategy. IROF invests all of its capital contributions, through a co-investment vehicle jointly owned by Invictus Opportunity Fund II, L.P. and Invictus Opportunity Offshore Fund II, L.P., in accordance with its investment strategy. Each of the Fund III Co-Invest and IAV invests all of its committed capital alongside Invictus Opportunity Fund III, L.P. and Invictus Opportunity Offshore Fund III, L.P.

The primary focus of the Funds is to achieve attractive rates of return primarily through investments that represent interests in recently originated mortgage loans secured by residential properties and Persons (including portfolio companies or other vehicles) that originate, hold or expect to originate or hold such loans (each, an “Investment”).

Investments by each of the Clients other than IACF may include (i) securities that are issued and retained in connection with a securitization of mortgage loans acquired for the benefit of the applicable Fund vehicles, (ii) interests in first-lien and second-lien mortgage

loans and (iii) any other participation or interest in mortgage related opportunities regardless of the legal form, transaction structure or when originated, including investments in loan originators and mortgage loans related to properties used for commercial purposes.

Investments by IACF may include interests in recently-originated residential and commercial mortgage loans, including (i) residential transitional loans, (ii) higher yielding “jumbo loans”, (iii) non-QM loans targeted for contribution to a non-agency securitization and (iv) commercial bridge loans.

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

Invictus does not participate in any wrap fee program.

The Opportunity Funds, the Gladiator Fund, IROF and the Fund III Co-Invest are not tailored to the individualized investment needs of any particular investor, and while Managed Account-P, IACF, ISV, IAV, MVP, IRV, IBV and NQM are each reasonably tailored based on the individual needs of the investor in such Fund, as agreed with Invictus and consistent with the limited nature of our advisory services, an investment in a Fund does not create a Client-adviser relationship between an investor and Invictus.

The single investor in each of ISV, MVP, IRV and IBV has certain negative consent rights over investment opportunities that meet prescribed investment guidelines, and absent exercise of those rights Invictus has discretionary authority to manage the assets of such Fund. The single investor in NQM has consent rights over investment opportunities that meet prescribed investment guidelines, and Invictus does not have discretionary authority to cause such Fund to acquire assets without such investor’s consent.

The offering materials for each Fund other than NQM (the “Offering Materials”) contain more detailed information, including a description of the investment objective and strategy or strategies employed and related restrictions that serve as a limitation on Invictus’s advice or management. Each investor is strongly encouraged to undertake appropriate due diligence, including but not limited to a review of relevant Offering Materials and the additional details about Invictus’s investment strategies, methods of analysis and related risks in Item 8 of this Brochure in considering whether Invictus’s advisory services or an investment in a Fund are appropriate to its own circumstances based on all relevant factors including, but not limited to, the investor’s own investment objectives, liquidity requirements, tax situation and risk tolerance before making an investment decision. Because of its role as advisor to NQM, which is itself a limited liability company controlled by a third-party investor, Invictus did not prepare offering materials for such investor; the investor has been provided with, and encouraged to review, a copy of this Brochure. With respect to NQM, references to “Offering Materials” used herein shall refer to the organizational documents of the entity.

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

As of December 31, 2023, Invictus had regulatory assets under management of approximately \$5,524,846,662 all managed on a discretionary basis, subject to the consent rights of the sole investors in each of ISV, MVP, IRV, IBV and NQM as further described herein.

## **Item 5 Fees and Compensation**

Invictus receives management fees and/or carried interest, a performance allocation or similar profit allocations from the Funds. Management fees are generally billed to clients via capital calls issued by Invictus to investors; carried interest, performance allocations or similar profit allocations, as applicable, are typically deducted from an investor's capital account. The Funds will also indirectly incur or generate other fees payable to Invictus, depending on the nature of their portfolio activities. Certain fees generally will reduce management fees otherwise payable to Invictus as described below.

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

### Common Types of Fees

#### Management Fees

The Funds generally pay a quarterly flat rate management fee, in advance, at a negotiated rate documented in their advisory agreement. General rates for the Funds are set forth in the Offering Materials. Additionally, Invictus has waived or reduced management fees for certain investors, and such waiver or reduction is typically memorialized in a side letter with the applicable investors. Invictus may also choose to waive or reduce management fees for future investors. When fees are paid in advance, and the Client or investor relationship is terminated prior to the end of the period for which such fees relate, Invictus will, within a reasonable time following such termination, refund a prorated portion of the management fee.

#### Performance-Based Arrangements

Invictus's compensation in connection with each Fund includes a performance-based component. Invictus expects that performance-based arrangements will vary as to the rate, manner of calculation and conditions precedent to receipt (*e.g.*, hurdles). Performance-based arrangements for each of the Funds are described in the relevant Offering Materials for that account. All performance fees are subject to modification (*e.g.*, higher hurdle rates), waiver or reduction, and such waiver or reduction is typically memorialized in a side letter with the applicable investors. As discussed in more detail in Item 6, below,

performance-based compensation arrangements are appropriate only for sophisticated Clients and investors as they may create certain risks and conflicts of interest.

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

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

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

#### Other Fees

Unless otherwise disclosed in the Offering Materials, to the extent Invictus is entitled to receive transaction fees directly or indirectly from a Client, 100% of such fees paid to Invictus reduces the management fees otherwise payable to Invictus by each of the Funds except IACF (as disclosed in the Offering Materials of IACF). The governing agreement of each Client sets forth the basis on which such fees reduce management fees. Management fees payable to Invictus by a Fund will not be reduced by the Loan Service Fee, Trust Administrator Fee, Commercial Loan Administration Fee and Commercial Loan Workout Fee, each as defined below, paid by such Fund.

On March 29, 2019, Invictus acquired, from Invictus Opportunity Fund, L.P., Invictus Opportunity Offshore Fund, L.P. and Managed Account-P (collectively, "Fund I"), 100% ownership of Verus Residential Loanco, LLC d/b/a/ Verus Mortgage Capital ("Verus Residential"), a company that provides certain proprietary mortgage loan sourcing (including sourcing via origination), processing, trust administration (which includes servicing oversight duties), and settlement services, and through an affiliate (Verus Season Co, LLC, a vehicle that is controlled by the same principals that control Verus Residential, "Season Co") Invictus provides seasoning services, and collectively such services are needed to effectively participate in the market for acquiring mortgage loans. After March 29, 2019, and going forward, investors in the Funds will indirectly incur an expense for fees paid to Verus (as defined below) in Verus's capacity as trust administrator of securitization trusts that acquire loans from the Funds. Invictus Opportunity Fund II, L.P. and Invictus Opportunity Offshore Fund II, L.P. ("Fund II"), Invictus Opportunity Fund

III, L.P., Invictus Opportunity Offshore Fund III, L.P. and the Rated Note Fund (“Fund III”), the Gladiator Fund, IACF, IROF, the Fund III Co-Invest, IAV, ISV, MVP, IRV, IBV and NQM have each engaged Verus to provide certain proprietary mortgage loan sourcing (including sourcing via origination), processing, seasoning, servicing oversight and settlement services on a fee-for-service basis, as disclosed in the Offering Materials of such Funds. In addition, each such Client anticipates acquiring loans from Verus, and any such sale will be valued in accordance with Invictus’s valuation policies and procedures.

In addition to engaging Verus Residential, certain Clients will also engage an affiliate of Verus Residential, Verus Commercial Real Estate Finance, LLC (“VCREF” and, together with Verus Residential, Season Co and any other affiliate controlled directly or indirectly by Verus Residential or Season Co, “Verus”) to perform similar services with respect to certain investments backed by commercial properties.

In connection with the acquisition by the Clients of loans from Verus, there is a potential conflict of interest due to the affiliated relationship between Invictus and Verus through the common ownership by Invictus’s parent. Verus is incentivized to sell loans to the Clients on terms that are favorable to Verus, or at a minimum, on terms pursuant to which Verus avoids a loss.

The fees paid by the Funds to Verus for the proprietary mortgage loan sourcing (including sourcing via origination), processing, trust administration (which includes servicing oversight duties), settlement and seasoning of loans, as disclosed to investors in the applicable Funds’ Offering Materials, have been established in good faith by Invictus when Invictus believes that it would be advantageous to the Funds to have Verus providing such services as compared to engaging a third party, whether due to Invictus’s belief that (i) fees paid to Verus are more favorable than those that could be obtained from unaffiliated third parties or (ii) services would be provided on a more responsive, targeted or efficient basis than Invictus believes would be available from unaffiliated third parties. With respect to Verus being retained for the reasons in (ii) above, there can be no assurance that the rates charged for Verus would be the same or lower than those that would have been charged by a third-party service provider. The fees paid by the Funds to Verus for the acquisition, servicing, oversight and seasoning of loans will not reduce the management fees otherwise payable to Invictus by such Funds. Please review such Offering Materials for more information related to the services by, and related fees paid to, Verus.

#### Soft Dollars

In light of the investment strategies of the Funds, Invictus does not currently receive research reports or other benefits from broker-dealers with respect to such Funds.

Invictus may use “soft dollars” generated by IACF. IACF, however, currently does not engage with broker-dealers and therefore does not currently receive research reports or other benefits from broker-dealers, but may do so in the future to the extent disclosed to investors in IACF.

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



### *Fees and Expenses Applicable to the Funds*

The Funds generally bear ordinary organizational, offering, administrative, and operating expenses, including but not limited to (i) all fees, costs, expenses and liabilities related to any audits or agreed upon procedures, tax forms and return preparation and filings, custodian fees and expenses, any required regulatory filings, legal fees, fund accounting, administrator services, transfer agent services, financial statement preparation and reporting, including costs associated with reporting and providing information to existing and prospective limited partners and web services for the benefit of limited partners, delivery costs and expenses in connection with reporting obligations and communications and compliance services; (ii) all fees, costs, expenses and liabilities of the administration of a Fund, including but not limited to, accounting and audit expenses (including accounting systems and certification fees), consultants, tax advisers, valuation experts, agents and other advisers and professionals and expenses relating to audit, legal and regulatory services related to the Funds, expenses relating to the maintenance of registered offices of a Fund; (iii) all fees, costs, expenses and liabilities directly related to the locating, sourcing, developing, bidding on, structuring, evaluating, negotiating, purchasing, obtaining regulatory approvals for, originating, trading, settling, monitoring, maintaining custody of, holding, securitizing, financing, managing and disposing of investments and potential investments, securities, or other instruments (whether or not the acquisition is consummated), including but not limited to financing, legal, regulatory, accounting and other professional or third party costs or disbursements incurred in connection therewith, due diligence costs, all fees, costs, expenses and liabilities of information technology, research and other information services and data providers (including systems and services from such data providers and data management software) relating to the ongoing management of investments, and all other investment-related fees and other operating fees, costs, expenses and liabilities, including, but not limited to, any Loan Service Fees, Trust Administrator Fees, Commercial Loan Administration Fees or Commercial Loan Workout Fees; (iv) travel-related fees, costs, expenses and liabilities, including, rent, lodging, meals and out-of-pocket expenses; (v) broken deal expenses (including any legal, accounting, advisory, consulting or other third-party expenses and any travel and accommodation expenses in connection therewith, all fees (including commitment fees), costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing for a proposed investment that is not ultimately made, any deposits or down payments of cash or other property which are forfeited in connection with a proposed Investment that is not ultimately made and costs and expenses incurred with respect to investment or origination guidelines developed with a third-party loan originator) to the extent not reimbursed by an entity in which a Fund has invested or proposes to invest or other third parties; (vi) all fees, costs, expenses and liabilities of brokers, transaction finders and other intermediaries, including brokerage commissions and spreads, clearing and settlement charges and other transaction costs, custody fees, interest expenses, financing charges, initial and variation margin, fees of pricing, valuation and appraisal, compensation (which may include fees or performance-based compensation) of advisors, consultants and finders, and all other transaction-related fees, costs, expenses and liabilities, including reverse break-up fees and registration fees and other expenses in connection with acquisitions and dispositions of investments, and all expenses relating to the ownership and operation of investments, including taxes, interest, insurance (including premiums related

to mortgage loans), and other fees and expenses; (vii) all principal amounts of, and interest expense on, fees and expenses in connection with or arising out of, any indebtedness and other borrowings and guarantees made by a Fund, including, but not limited to, the arranging and maintenance thereof; (viii) all fees, costs, expenses and liabilities of any litigation or other dispute resolution (including all fees, costs and expenses of a Fund's legal counsel and regulatory-related legal expenses) and all permitted indemnification and contribution obligations (including any indemnification expenses of any finders and/or placement agents of a Fund, any parallel vehicle or feeder fund, as applicable) and any extraordinary expense or liability relating to the affairs of a Fund or any investment and all fees, costs, expenses and liabilities relating to insurance policies, including directors and officers, liability or other insurance (including, a Fund's share of any premiums for insurances maintained by Invictus) maintained by or for a Fund, its general partner, Invictus and their affiliates, including in respect of investments and/or personnel of Invictus or its affiliates; (ix) all fees, costs, expenses and liabilities of winding up and liquidating a Fund; (x) all taxes, fees, penalties and other governmental charges levied against, assessed on or payable by a Fund (including any District of Columbia unincorporated business franchise tax and any other entity-level taxes), fees or other governmental charges levied against a Fund, any transfer or recording taxes, and all fees, costs, expenses, penalties and liabilities related to tax compliance, including those of a Fund's "Partnership Representative", tax return preparation and reporting and any tax audit, investigation, settlement or review (including any costs associated with FATCA compliance); (xi) all fees, costs, expenses and liabilities relating to derivatives and hedging transactions; (xii) all fees, costs, expenses and liabilities related to distributions (if any) made by a Fund; (xiii) all fees, costs, expenses and liabilities of annual and other Fund meetings; (xiv) the expenses of any Fund's investor advisory committee and the expenses of non-voting observers to such investor advisory committee attending meetings thereof; (xv) to the extent not otherwise paid by Invictus, the placement fees due to any finder and/or placement agents (whether independent or employed by Invictus) engaged by Invictus in connection with the offer and sale of interests in a Fund, any parallel vehicle or any feeder fund, as applicable; provided that any such placement fees borne by a Fund shall reduce the management fees payable to Invictus by such Fund on a dollar-for-dollar basis; (xvi) all fees, costs, expenses and liabilities, if any, incurred in connection with legal and regulatory compliance with U.S. federal, state, local, non-U.S. or other law or regulation arising out of the activities of a Fund (including filings with U.S. and non-U.S. regulators, such as Form PF in accordance with the Advisers Act and compliance obligations arising from the European Union's Alternative Investment Fund Managers Directive); (xvii) fees, costs, expenses and liabilities related to the organization, operation or maintenance of any entities through which investments are made or held directly or indirectly by a Fund, any parallel funds and any alternative investment vehicles thereof; (xviii) to the extent not paid by a feeder fund or its investors, the expenses of any feeder fund (which expenses shall be specially allocated to the investors with an interest in such feeder fund); and (xix) solely with respect to Fund II, the expenses of a feeder fund formed by an independent third-party sponsor for the sole purpose of facilitating an investment in Fund II on behalf of clients of such sponsor, but only to the extent such expenses constitute expenses of Fund II, up to per annum cap.

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

### **Item 6 Performance-Based Fees**

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

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

### **Item 7 Types of Clients**

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

The Funds are privately placed pooled investment vehicles excepted from the definition of “investment company” under the Investment Company Act of 1940 by Section 3(c)(7) of that Act. Investors generally are limited to persons who are qualified purchasers and such investors may include proprietary investment by Invictus or its affiliates, current or former personnel who are “knowledgeable employees” or otherwise meet the relevant Fund’s investment criteria, funds of funds, high net worth individuals and related entities, sovereign entities, pension funds, general corporate or business entities, financial institutions, endowments and foundations. Investors in Managed Account-P may also include institutions such as banks, financial institutions, investment banks and asset management firms.

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

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

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

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

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

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

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

### **Methods of Analysis and Investment Strategies**

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

Invictus generally focuses on identifying domestic non-agency residential loan opportunities using a top-down relative value approach to allocate capital to various asset classes within the non-agency residential mortgage market. Our analysis involves a variety

of factors, such as cash yield, risk-adjusted returns, macro-economic environment, market concentration limits, credit concentration limits, liquidity, costs and availability of financing and hedging activities.

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

### Risks Associated with the Investment Strategy

#### *Market Conditions and Financial Market Fluctuations*

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

#### *Epidemics, Pandemics and COVID-19*

The spread of infectious disease, together with any resulting travel restrictions or quarantines, could have a significant negative impact on the economy and the Funds' business activities. In turn, this would adversely affect the Funds' performance. Examples include the outbreaks of Severe Acute Respiratory Syndrome in Asia in 2003, avian influenza, or "bird flu," in Asia in 2004 and 2005 and Influenza A. There can be no assurance that any precautionary measures taken against infectious disease would be effective. Most recently, the COVID-19 pandemic along with the oil price shocks resulting from volatility in the current economic environment and disputes among members of the Organization of Petroleum Exporting Countries, together with, among other events, the ensuing global market turmoil, unprecedented global travel restrictions and regional and nationwide quarantines that had been implemented by governments around the world and the slowing and/or complete idling of certain significant U.S. and global businesses and sectors, led to a market correction in the United States and elsewhere, and led to economic downturns in North America, Europe and elsewhere. Political and economic leaders in the United States and abroad implemented, and in some cases, continue to implement, measures to attempt to address the uncertainty in global markets and the global economy. Such measures included travel bans impacting the movement of people and goods between the United States and other major economic centers and material monetary and/or fiscal policy programs and changes. In particular, the COVID-19 pandemic resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity, debt, derivatives and commodities markets. The global impact of the outbreak rapidly evolved, and many countries reacted by instituting (or strongly encouraging) quarantines, prohibitions on travel, the closure of offices, businesses, schools, retail stores, restaurants, hotels, courts and other public venues and other

restrictive measures designed to help slow the spread of COVID-19. Businesses also implemented similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, created significant disruption in supply chains and economic activity. For this reason, among others, future outbreaks of infectious disease or any other serious public health concern may have impacts, including sustained economic disruption, that are uncertain and difficult to assess.

To the extent that similar conditions arise in the future, Invictus expects that there may be adverse impacts on (i) the ability of mortgagors to make timely payments on their mortgage loans and (ii) the mortgage and financial markets in general, which, in each case, could impact the Funds' ability to implement its investment objectives, consummate transactions and/or adequately assess and react to actual and potential downside risks to the Funds' existing investments. In addition, the full impacts of another pandemic and energy price shocks on markets, business activity and the U.S. and global economy, as well as potential changes in U.S. economic and fiscal policies that may be adopted to address the pandemic, price shocks and related externalities, may not be fully identified or understood. Accordingly, future outbreaks of infectious disease or any other serious public health concern (as well as other market shocks) could have a negative impact on the performance, liquidity and market value of the assignments or sales of loans or interests therein acquired by the Funds.

#### *Highly Competitive Market for Investment Opportunities*

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

#### *Illiquid and Long-Term Investments*

Mortgage loans may be illiquid, and there can be no assurance that Invictus will be able to realize on such investments in a timely manner. Therefore, investment through Invictus may involve a long-term commitment (in the case of IACF, until the expiration of the withdrawal lock-up period) with no certainty of return. Although investments may occasionally generate some current income, the return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition or refinancing of such investment.

#### *Risks Associated with Residential Mortgage Loans*

Invictus expects to cause the Funds to invest, directly or indirectly, in the residential mortgage market, with a focus on (i) non-agency mortgage loans that may not qualify for the enhanced liability protections under the federal Truth-in-Lending Act's ability to repay rules and (ii) non-agency mortgage loans that are secured by properties that will not be occupied by the mortgagor. Mortgage loans expected to be acquired by the Funds will

likely be provided to mortgagors that are self-employed or are business owners, in each case, with qualifying income established through evaluation of profit and loss, and bank statements or other forms of alternative documentation, have higher debt-to-income ratios, or are those who are seeking financing for multiple rental properties. Focused investments on mortgage loans with the above-referenced characteristics are illiquid and complex, and as a result such investments could experience losses if the Funds are unable to finance, sell or liquidate such investments.

#### *Geographic Concentration of Mortgage Loans*

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

#### *Lack of Information Regarding Underwriting Standards*

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

#### *Services Provided by Verus*

Verus, which is controlled by the same principals that control Invictus Capital Partners, LP, provides certain proprietary mortgage loan sourcing (including sourcing via origination), processing, trust administration (which includes servicing oversight duties), settlement and seasoning services for certain Clients. It is intended that Verus and the

Verus personnel will continue to provide these services and functions to those Clients, and it is likely that Verus will provide similar services for other Clients and, potentially, third party service recipients. Certain members of the Invictus team also support the trust administration, loan origination and loan processing activities of Verus and may provide services to third parties through Verus. While employees involved in the management of the Clients will devote the necessary time required to conduct the business affairs of such Clients in an appropriate manner, such obligations to Verus, whether individually or in the aggregate, may require a material amount of time and attention from certain employees of Invictus, including those involved in the management of such Clients. Invictus may wind down and eventually eliminate this employee-sharing arrangement in the future, but until such time, it is possible that the time spent by such employees managing the business affairs of the Clients may be reduced.

#### *Acquisition by Clients of Loans from Verus*

In connection with the acquisition by a Client of a mortgage loan sourced by Verus, there will be various conflicts of interest due to the affiliated relationship between Invictus and Verus. Verus is incentivized to sell loans to certain Clients on terms that are favorable to Verus (or its affiliate), or at a minimum, on terms pursuant to which Verus (or its affiliate) avoids a loss. The Clients may acquire loans sourced by Verus in a manner that provides considerable benefit to Verus, and Invictus may be incentivized to consummate such transactions due to its status as an affiliate of Verus. It may be difficult to value such loans being sourced by Verus for a Client, and although Invictus takes considerable measures to ensure the accuracy and fairness of such valuations, there is an inherent conflict of interest in establishing the value of such mortgage loans due to the affiliated relationship between the Clients and Verus, and Verus does not employ the use of a third-party service provider to independently ensure the accuracy of such valuations.

#### *Fees Paid by Clients to Verus*

Verus will be entitled to receive various fees from the Clients in exchange for the services provided by Verus. In each case, Invictus believes that such fee is at a rate no less favorable to any such Fund than the fee rate an unaffiliated third party would likely require, but there can be no assurance or guarantee that such rates are lower than those that would have been charged by a third-party service provider.

In connection with any investments represented by interests in mortgage loans sourced through Verus for a Fund, including, but not limited to, any such interests purchased from Verus, such Fund will be required to pay a fee (the “Loan Service Fee”) to Verus for bona fide mortgage loan sourcing (including sourcing via origination), processing, seasoning, servicing oversight and settlement services provided by Verus in respect of such interests. Any Loan Service Fee paid to Verus with respect to a loan purchased by a given Fund will not exceed an amount equal to 100 basis points on the unpaid principal balance of such loan. Subject to the foregoing cap, and solely with respect to any Loan Service Fee payable to Verus, the Loan Service Fee may vary depending on whether the loan is acquired by an investment vehicle of a given Fund, directly or indirectly through Verus, individually or in a bulk acquisition. Invictus expects that, generally, loans acquired by a Fund investment



vehicle will be (i) originated (directly or indirectly) by Verus, (ii) purchased from a third-party loan seller by Verus, (iii) sourced through Verus and purchased directly by a given Fund from a third-party loan seller on an individual basis, or (iv) originated (directly or indirectly) by a given Fund, utilizing Verus; and, in each case, such acquisition will be subject to a Loan Service Fee payable to Verus generally equal to 100 basis points on the unpaid principal balance of such loan. For loans acquired in a bulk acquisition, the Loan Service Fee required to be paid by the Fund in most instances will be less than 100 basis points on the aggregate unpaid principal balance of such loans. Notwithstanding the foregoing, with respect to each loan acquisition by the Fund investment vehicle, any Loan Service Fee paid by a given Fund will be agreed upon with Verus or any other service provider at the time of such acquisition, subject to the cap described above solely with respect to any Loan Service Fee payable to Verus.

Verus may also receive a separate fee (the “Trust Administrator Fee”) for acting as trust administrator in connection with any securitization of mortgage loans related to interests owned by a given Fund, in an amount determined at the time of securitization not to exceed five (5) basis points per annum on the aggregate unpaid principal balance of the mortgage loans included in such securitization, and the Trust Administrator Fee shall be payable from the monthly distributions from such securitizations (in each case prior to any distributions payable to such Fund).

With respect to loan interests related to commercial mortgage loans purchased by a given Fund, including, but not limited to, loan interests purchased from a Verus entity, such as VCREF, such Fund will be required to pay fees in connection with the servicing oversight activities performed with respect to such loan interests. In connection with any such loan interests related to a short-term bridge loan, each such Fund will be required to pay an annual service fee to VCREF equal to fifty (50) basis points on the unpaid principal balance of the applicable loan interest (the “Commercial Loan Administration Fee”); provided, that such Fund shall not pay a Loan Service Fee with respect to short-term bridge loans subject to Commercial Loan Administration Fees. With respect to any such loan interests related to commercial mortgage loans that are not short-term bridge loans (including, but not limited to, intermediate-term bridge loans or single family rental loans) and on which the underlying borrower has defaulted, a given Fund will be required to pay a market rate to VCREF for asset management and/or workout activities with respect to such loan interests that will be determined by Invictus in its good faith discretion depending on the type of commercial loan being serviced (the “Commercial Loan Workout Fee”). VCREF will perform services with respect to such loan interests including, but not limited to, coordinating with loan servicers, monitoring borrowers and loan performance, preparing loan updates and portfolio reviews, supervising third-party administrative tasks, and performing loss mitigation tasks as applicable, and all of such services would otherwise be performed by, and subject to a separate fee owed to, a third party. Certain third-party service providers may charge variable rates on services related to loss mitigation, and Invictus believes the flat fee payment construct is in the best interest of each such Fund paying such fee. Verus may also receive loan origination fees from the underlying borrowers (including borrowers related to a loan sourced by Verus but originated by a subsidiary of a given Fund) (“Origination Fees”), the benefit of which would not be shared by Verus with the applicable Fund; provided, that to the extent Origination Fees exceed

one hundred (100) basis points with respect to a given loan interest, the benefit of any such excess would generally be shared by Verus with the applicable Fund through a management fee offset (such amounts, the “Excess Origination Fees”). However, any exit or extension fees owed and paid by the underlying borrower of a commercial mortgage loan generally attach to the asset itself, and would therefore inure to the benefit of the applicable Fund in its capacity as owner of the loan.

The Loan Service Fee, Trust Administrator Fee, Commercial Loan Administration Fee and Commercial Loan Workout Fee will not reduce the management fees otherwise payable to Invictus by the applicable Funds.

Because of the affiliate relationship between Invictus and Verus, a potential conflict is created by the incentive to cause Verus to sell loans to or perform services for the Funds, and to cause the Funds to buy loans from Verus and engage Verus to perform certain services. While Invictus intends that any affiliate services, including services provided by Verus as described above, be provided at competitive market rates, such compensation will not be determined through arm’s-length negotiations similar to the negotiations that would have occurred between unaffiliated parties. Invictus will not guarantee the performance by its affiliates of any services provided to the Funds.

#### *Residential Mortgage-Backed Securities (“RMBS”)*

RMBS represent an interest in a pool of residential mortgage loans. Residential mortgage loans are secured by single-family residential property, and are subject to risks of delinquency and foreclosure and risks of loss. In addition, investing in RMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations (including the risk of principal prepayment and the risk of investing in real estate). When market interest rates decline, more mortgages are refinanced and the securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. When market interest rates increase, the market values of mortgage-backed securities decline. At the same time, however, mortgage refinancings and prepayments slow, which lengthens the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of RMBS is usually more pronounced than it is for other types of fixed-income securities. Further, different types of RMBS are subject to varying degrees of prepayment risk.

The risks of investing in RMBS reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of borrowers (and, if applicable, their tenants) to make payments, and the ability of borrowers to attract and retain tenants. Many if not all of the RMBS with respect to which the Funds intend to sponsor and/or invest, are expected to be backed by non-conforming mortgage loans, which are mortgage loans that do not qualify for purchase by government-sponsored agencies, such as Fannie and Freddie, because of the credit characteristics of the relevant borrowers. Accordingly, such mortgage loans are likely to experience higher rates of delinquency, foreclosure and loss than mortgage loans originated in accordance with Fannie or Freddie underwriting guidelines.

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

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

#### *Securitization Risk*

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

#### *Joint Securitizations*

The Funds will participate in special purpose vehicles that are also beneficially owned by one or more other Funds, which special purpose vehicles are established to facilitate the securitization of loans acquired by certain Funds. Invictus believes that it is in the best interest of the Funds to utilize pre-existing securitization special purpose vehicles originally established for other Funds, as no Fund will have to bear the fees and expenses of establishing and organizing its own securitization special purpose vehicle and can achieve economies of scale by participating via existing vehicles. The special purpose vehicles may have certain tax attributes that are attributable to its operations undertaken on behalf of other Funds that may negatively affect the taxation of the special purpose vehicles during the period that a given Fund owns such special purpose vehicles. In addition, certain Funds are expected not to benefit from a special purpose vehicle's tax attributes (for example, net operating losses) generated as a result of securitizations undertaken by the special purpose vehicle on behalf of such Fund or any other Fund. No compensation or reimbursement will be exchanged among the Funds for the use of any such special purpose vehicle described in this paragraph.

#### *Risks of Using Loan Servicers*

The value of the Funds' investments is dependent on the satisfactory performance of servicing obligations by third party mortgage servicers (including sub-servicers hired such

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

### *Risks Involving Mortgage Specialists*

In connection with the acquisition of mortgage loans by a Fund, a third-party mortgage specialist is generally engaged to perform a re-underwrite of a reasonable portion or subset of such loans. In certain circumstances, Invictus may determine that it is in the best interest of the Fund for Invictus or one of its affiliates (including, for example, Verus) to make a minority equity or debt investment in a third-party mortgage specialist, which would be expected to assist in ensuring that such firm has the capacity to timely perform a re-underwrite of certain loans acquired by such Fund. As of the date of this Brochure, Verus has made one such minority equity investment in a mortgage specialist. Any fees paid by a Fund to any such firm in which Invictus or one of its affiliates has made an investment will be paid at then-market rates for such services in connection with the applicable loans. Due to such minority investment by Invictus or one of its affiliates, Invictus may be incentivized to engage the services of such mortgage specialist instead of a different third-party mortgage specialist in which Invictus or one of its affiliates has not made a minority investment. Invictus may, to the extent it determines it is in the best interest of a Fund, take a similar approach in the future with respect to minority investments in other types of third-party service providers.

### Legal, Tax and Regulatory Risks

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

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

Mortgage loans are subject to federal, state and local laws, including: the Federal Truth-in-Lending Act and Regulation Z promulgated under that act, which both require certain disclosures to the mortgagors regarding the terms of the residential loans; the Equal Credit Opportunity Act and Regulation B promulgated under that act, which both prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit; the Real Estate Settlement Procedures Act and its regulations, which (among other things) prohibit the payment of referral fees for real estate settlement services (including mortgage lending and brokerage services) and regulate escrow accounts for taxes and insurance and billing inquiries made by mortgagors; the Fair Credit Reporting Act, which regulates the use and reporting of information related to the mortgagor's credit experience; and the Home Equity Loan Consumer Protection Act of 1988, which requires additional disclosures and limits changes that may be made to the loan documents without the mortgagor's consent. This act also restricts a mortgagee's ability to declare a default or to suspend or reduce a mortgagor's credit limit to certain enumerated events.

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

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

### *Litigation*

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

### *Below Investment-Grade Assets Involve Particular Risks*

Fund investments may include mortgage loans originally rated non-investment grade. Non-investment grade securities are subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks and generally will be subject to greater risks than investment grade securities, including greater risk of failure of timely payment of principal and interest.

### *Interest Rate Fluctuations*

General interest rate fluctuations may have a substantial negative impact on investments and investment opportunities and accordingly may have a material adverse effect on investment objectives and the rate of return on invested capital. Valuations of non-agency residential loans are based on numerous factors, including specific loan characteristics. Such securities are also susceptible to fluctuations in interest rates. As a result of rising interest rates and the steep level of inflation, it is possible that certain mortgagors may have difficulty making mortgage loan payments. These risks may be more pronounced as a result of the current interest rate environment and the steep level of inflation.

### *Inflation Risk*

In response to recent economic events, including the global financial crisis and the COVID-19 global pandemic, countries around the world have significantly loosened monetary policy and injected trillions of dollars into the economy in an effort to prevent more severe economic turbulence. This unprecedented amount of government funding and support may give rise to significant increases in government spending and (in many instances) significant increases to the amount of debt issued by governments in the international bond markets. There can be no assurance that governments will be able to repay all of this debt in a timely way, or at all. Government default on debt would have negative consequences for the Funds, disrupting financial markets generally and undermining credit markets. In addition, the United States and other countries have experienced, and may in the future experience, supply chain disruptions for a number of goods in the marketplace. This potential disruption in supply of goods, combined with unprecedented levels of such government spending and monetary policy, may continue to materially increase inflation in the U.S. and other countries in the coming years, which could have an adverse impact on the Funds.

### *Real Estate Risks Generally*

Many of the risks of holding non-agency residential loans, which represent interests in mortgage loans, relate to the risks of investing directly in the real estate securing those mortgage loans. The value of non-agency residential loans may fall in periods of economic

slowdown or recession, which may be accompanied by declining real estate values. Any material decline in real estate values reduces the ability of borrowers to use real estate equity to support their borrowings and increases the loan-to-value ratios of mortgage loans previously made, thereby weakening collateral coverage and increasing the possibility of a loss in the event of default. In addition, delinquencies, foreclosures and losses generally increase during economic slowdowns and recessions.

#### *Non-conforming Loans*

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

#### *Valuations of Investments*

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

#### *Mortgage Loans Secured Properties Used for Investment or Commercial Purposes*

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

property (e.g., via refinancing or profitable disposition). A borrower's inability to successfully manage a mortgaged property or realize on its value could result in additional expenses or losses with respect to an investment.

#### *Other Risks of Investing in Mortgage Loans*

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

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

#### *Default and Foreclosure*

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

#### *Environmental Liabilities*

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



holder may also be liable to tenants and other users of neighboring properties. In addition, it may be difficult or impossible to sell the property prior to or following any such clean up.

### *Hedging and Leverage*

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

### *Risks Associated with Subscription Lines*

With respect to a given Client, Invictus may elect to fund the consummation of investments with proceeds from drawdowns under one or more revolving credit facilities prior to calling capital commitments. The collateral for such credit facilities is often capital commitments of investors in the Client entering into the subscription line. The relevant Client will bear the interest expense and any other costs associated with any such borrowing, and the incurrence of such expenses and costs will reduce net returns of such Client. Invictus generally expects that interest on such subscription lines will accrue at a rate less than the rate of preferred return for a given Client, which begins accruing only once capital contributions to fund investments, or repay borrowings, have been made by the investors in such Client. As a result, a conflict of interest is created by the general partner of a Client's incentive to cause such Client to borrow capital by utilizing subscription lines prior to drawing down capital commitments, and such borrowing generally tends to augment positive or negative returns to investors.

### *Risks Associated with Derivatives*

Invictus may use derivative instruments or enter into derivative transactions, including for hedging purposes. Derivatives permit Invictus to increase or decrease the level of risk of a fund or account, or change the character of the risk. The use of derivatives involves the risk that their value might not move as expected relative to the value of the relevant underlying assets, rates, or indices. Derivatives can be volatile and illiquid and may entail

investment exposures (including leverage and resulting collateral requirements) that are greater than their cost. Small investments in derivatives could have a material impact on the performance of the vehicle. Derivatives are often purchased on margin, subjecting accounts to leverage risk as described above.

### *Risks Associated with Swaps*

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

### *Cybersecurity Risk*

As part of its business, Invictus processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Clients and personally identifiable information of the investors. Similarly, service providers of Invictus and the Clients, especially each Client’s administrator, may process, store and transmit such information. Invictus has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to Invictus may be susceptible to compromise, leading to a breach of Invictus’s network. Invictus’s systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. Online services provided by Invictus to the Clients and the underlying investors may also be susceptible to compromise. Breach of Invictus’s information systems may cause information relating to the transactions of the Clients and personally identifiable information of the investors to be lost or improperly accessed, used or disclosed.

The service providers of Invictus and the Clients are subject to the same electronic information security threats as Invictus. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Clients and personally identifiable information of the investors may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of Invictus's or any Client's proprietary information may cause Invictus or such Client to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Clients and the investors' investments therein.

#### *Investments in Different Parts of the Capital Structure*

The holders of classes of securities that differ from the class of securities owned by a given Fund may control the exercise of remedies in connection with such securities. Such exercise of remedies by a holder of a different class of securities may be in conflict with the interests of such Fund. Invictus or its affiliates may own classes of securities which are more senior or more subordinate than certain of the securities owned by a given Fund which may result in certain conflicts of interest, which are addressed by adhering to the Firm's compliance policies and procedures.

#### *Risks Related to Early Prepayment and Default*

In connection with overseeing the sourcing of loan interests for the Clients, Invictus generally intends to negotiate a provision into the mortgage loan purchase agreement pursuant to which a specified loan interest is acquired, which requires the seller of such loan interest to repurchase the loan where the borrower prepays the principal balance on the loan in a specified period of time, misses a monthly payment on such loan during a specified period of time, or is deemed to be in default with respect to such loan. Many of the loan originators from whom the Clients will acquire loan interests may not be well capitalized and may not have the immediate ability to repurchase a loan interest from a given Client. If any loan interest acquired by a Client is subject to a repurchase, this may increase the costs associated with holding such loan interest (including in connection with dispute resolution) and may limit the Client's ability to realize an attractive return with respect to such loan interest. There may be some circumstances in which a Client seeks indemnification relief, or agrees to receiving settlement proceeds, in lieu of enforcing repurchase remedies against a seller of an applicable loan interest. Furthermore, there can be no assurances with respect to the resolution of any dispute between a given Client and a loan interest seller with respect to the repurchase of a loan interest. In addition to the foregoing, there may be laws in place related to forbearance which impair such Client's ability to enforce the rights it otherwise has under such mortgage loan purchase agreements.

#### *Representation and Warranty Gap Risk*

In addition to sourcing loans from third-party originators, the Clients will acquire loan interests from Verus that Verus originated. Invictus expects the Funds to benefit from certain operational efficiencies and reduced costs that result from acquiring such loans from Verus instead of loans originated by a third-party originator. Loans originated directly by Verus and later acquired by the Funds will not be originated for Verus's own account and will be originated solely for the purpose of allocating such loans to such Fund. In connection with the acquisition of interests in Verus-originated loans by the Clients, Verus

will make representations and warranties to the applicable Fund with respect to such loans that are generally commensurate with the representations and warranties that such Fund will be required to make to effect the securitization of such loans. However, investors should note that the scope of the risks covered by such representations and warranties will likely be more narrow than the scope of the representations and warranties that such Fund will generally receive from third-party originators (especially any originator that has less capital than Verus). As a result, when a given Client acquires such directly-originated loan interests from Verus, such Client may be exposed to a greater degree of risk than with respect to loans sourced by Verus from a third-party originator, which could result in more limited remedies being available to such Client in the event of a defect in a directly-originated loan interest that is uncovered by the applicable representations, thereby resulting in reduced returns for such Client. In light of the overall expected operational and cost benefits to the Clients of the Verus relationship, Invictus and Verus believe it is in the best interest of the Clients for each such Client to bear this representation and warranty risk with respect to such loan interests.

#### *Collateral Risk*

The collateral and security arrangements in relation to such secured obligations as the Clients may invest in will be subject to such security or collateral having been correctly created and perfected and any applicable legal or regulatory requirements which may restrict the giving of collateral or security by an obligor, such as, for example, thin capitalization, over-indebtedness, financial assistance and corporate benefit requirements. If a Client's investments do not benefit from the expected collateral or security arrangements, this may adversely affect the value of or, in the event of default, the recovery of principal or interest from such investments made by the applicable Client. Accordingly, any such a failure to properly create or perfect collateral and security interests attaching to the investments could have a material adverse effect on the performance of the Funds, and, by extension, each such Fund's business, financial condition, results of operations and the value of the interests in each such Fund.

A component of Invictus's analysis of the desirability of making a given investment relates to the estimated residual or recovery value of such investments in the event of the insolvency of the obligor. This residual or recovery value will be driven primarily by the value of the anticipated future cash flows of the obligor's business and by the value of any underlying assets constituting the collateral for such investment. The anticipated future cash flows of the obligor's business and the value of collateral can, however, be extremely difficult to predict as in certain circumstances market quotations and third-party pricing information may not be available. If the recovery value of the collateral associated with the investments in which a Client invests decreases or is materially worse than expected by such Client, such a decrease or deficiency may affect the value of the investments. Accordingly, there may be a material adverse effect on the performance of such Client.

#### *Ability to Lend on Advantageous Terms*

The Clients intend to purchase loans originated by Verus and may also invest in loans originated by other parties (including, without limitation, debt that trades on the secondary

market). Success in this area will depend in part on the ability of Verus to originate and obtain loans, and Verus or such other parties' ability to originate or source loans, on advantageous terms. In originating or purchasing loans, Verus will compete with a broad spectrum of lenders, some of which may be willing to lend money on terms more favorable to borrowers. Such competing lenders may include private investment funds, public funds, commercial and investment banks, commercial financing companies and other entities. Some competitors may have a lower cost of funds and/or access to funding sources that are not available to Verus. In addition, some competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than Verus. Verus may also choose not to compete for investment opportunities based on interest rates. Ultimately, increased competition for, or a diminution in the available supply of, qualifying borrowers may result in lower yields on loans to such borrowers, which could reduce returns to the Clients.

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

### **Item 9 Disciplinary Information**

Neither Invictus nor any member of Invictus's management has been involved in legal or disciplinary events that Invictus believes would be material to an investor's evaluation of it or its personnel.

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

Invictus is not registered and does not intend to register as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator or commodity trading advisor. Invictus is affiliated and under common control with the general partners of the Funds managed by Invictus, including Invictus Opportunity GP, LLC, Invictus Opportunity GP II, LLC, Invictus Opportunity GP III, LLC, Invictus Gladiator Fund GP, LLC, Invictus Managed Account-P GP1, L.P., Invictus Alternative Credit GP, LLC, Invictus Recovery Opportunity GP, LLC and Invictus Rex Ventures GP, LLC.

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

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

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

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;

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

Invictus's COE also requires employees to (i) report certain personal securities transactions on at least a quarterly basis, and (ii) provide Invictus with a detailed summary of certain holdings and securities accounts (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

Certain Invictus principals and employees, through an investment in the Gladiator Fund by an affiliated investment vehicle, from time to time invest in the same securities that Invictus or its related persons recommends to other Clients. In such circumstances, Invictus will allocate the securities among the Gladiator Fund and such other Clients in accordance with the allocation policy maintained by Invictus, as amended from time to time, which may include priority allocation for certain Clients. Further information on conflicts of interest related to investment recommendations are disclosed in the Funds' Offering Materials. We encourage investors in the Funds to review those documents.

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

A copy of Invictus's COE is available to any client or prospective client upon request by contacting Duane Beasley at (202) 780-1024.

## **Item 12 Brokerage Practices**

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

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

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

In most instances, Invictus will identify mortgage loans which meet the investment objective of more than one Fund. As a result, Invictus has established an allocation committee (the "Allocation Committee") that, together with the Invictus investment committee, implements and updates the policy that sets investment targets for the types of mortgage loans underlying the interests to be held by the Funds. The policy primarily utilizes an algorithmic model that generates preferential loan combinations based on the available mortgage loans, with the Allocation Committee being responsible for determining which mortgage loans will be allocated to the specific Funds, taking into account any allocation priorities and considerations set forth in the governing documents of the Funds.

## **Item 13 Review of Accounts**

### Oversight and Monitoring

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

Investors in the Funds typically will receive written quarterly financial reports and annual financial statements (audited in accordance with GAAP). Additionally, investors may

receive quarterly reports or letters, quarterly financial and capital account statements, or any other information as requested by an investor.

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

Invictus currently utilizes placement agents for Funds sponsored by Invictus (“Sponsored Funds”) and has entered into placement or “finders” arrangements for soliciting investors into the Sponsored Funds. The Sponsored Funds disclose in their respective Offering Materials that they may enter into these arrangements.

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

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

#### **Item 15 Custody**

Invictus is deemed to have “custody” over each Fund’s assets for purposes of Rule 206(4)-2 under the Advisers Act (the “Custody Rule”). To comply with the Custody Rule, each investor in the Funds receives financial statements, prepared in accordance with GAAP, that have been audited by an independent public accounting firm that is registered and subject to inspection by the Public Company Accounting Oversight Board, within 120 days following the applicable Fund’s fiscal year-end. Investors who have not received audited financial statements timely should contact Invictus immediately.

#### **Item 16 Investment Discretion**

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

#### **Item 17 Voting Client Securities**

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



to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our firm's proxy policies and practices. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote Client proxies and disclose any potential conflicts of interest as well as making information available to Clients about the voting of proxies for their portfolio securities and maintaining relevant and required records. Clients may request information regarding how Invictus voted a Client's proxies, and Clients may request a copy of the firm's proxy policies and procedures by contacting Duane Beasley at (202) 780-1024.

**Item 18 Financial Information**

Not applicable.