

**Form ADV Part 2A: Firm Brochure**

**Arc70 Advisers LP**

345 Lorton Avenue, Suite 203

Burlingame, California 94010

(415) 322-3260

<https://arc70.com>

March 27, 2024

This Brochure provides information about the qualifications and business practices of Arc70 Advisers LP (“**Arc70**,” the “**Adviser**,” the “**Firm**,” “**we**” or “**us**”). If you have any questions about the contents of this Brochure, please call us at (415) 483-2309 or send an email to: [tom@arc70.com](mailto:tom@arc70.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Arc70 is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

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

This Brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described herein. Any such offer or solicitation will be made solely to qualified investors by means of a private placement memorandum and related subscription materials.

**Item 2 – Material Changes**

This Item 2 discusses material changes to this Brochure that have occurred since its last annual amendment filed on March 30, 2023 and its subsequent amendment filed on May 1, 2023 to correct the Firm's address in Item 1. No material changes have been made.

### **Item 3 – Table of Contents**

Item 1 – Cover Page	
Item 2 – Material Changes .....	2
Item 3 – Table of Contents.....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	6
Item 6 – Performance-Based Fees and Side-By-Side Management .....	8
Item 7 – Types of Clients.....	9
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	9
Item 9 – Disciplinary Information .....	27
Item 10 – Other Financial Industry Activities and Affiliations .....	28
Item 11 – Code of Ethics .....	29
Item 12 – Brokerage Practices .....	30
Item 13 – Review of Accounts.....	30
Item 14 – Client Referrals and Other Compensation.....	31
Item 15 – Custody .....	31
Item 16 – Investment Discretion.....	31
Item 17 – Voting Client Securities.....	31
Item 18 – Financial Information .....	31
Item 19 – Requirements for State-Registered Advisers.....	32

#### Item 4 – Advisory Business

Arc70, founded in 2017, provides investment advisory services to private investment funds on a discretionary basis.

Arc70 currently manages on a discretionary basis the following seven private investment funds: (1) Arc70 Fund I LP (“**Fund I**”); (2) Arc70 Fund II LP (“**Fund II**”); (3) Arc70 III LP (“**Fund III**”); (4) Arc70 Fund IV LP (“**Fund IV**” and collectively with Fund I, Fund II, Fund III, the “**Flagship Funds**”); (5) Arc70 Strategic Opportunities I LLC (“**Opportunities Fund I**”); (6) Strategic Opportunities II LLC (“**Opportunities Fund II**”); and (7) Strategic Opportunities III LLC (“**Opportunities Fund III**,” collectively with Opportunities Fund I and Opportunities Fund II, the “**Strategic Opportunities Funds**,” and collectively with the Flagship Funds, the “**Funds**”). The Funds are exempt from registration under the Investment Company Act of 1940, as amended and the offer and sale of interests in the Funds are made in reliance on an exemption from registration under the Securities Act of 1933, as amended.

#### Advisory Services offered to the Flagship Funds

The Flagship Funds have the same investment strategy which consists of acquiring, holding, selling and otherwise dealing with and gaining exposure to a portfolio of mortgage revenue bonds which have been issued to provide construction and/or permanent financing with respect to multi-family residential properties (collectively, the “**Multi-Family Mortgage Bonds**”). The Flagship Funds gain exposure to the Multi-Family Mortgage Bonds through direct acquisitions or through financing transactions which are expected to include one or more cash-settled total return swaps (collectively, the “**Bond Financing Transactions**”). Once Arc70 has determined that a Flagship Fund has gained a sufficient amount of exposure to the Multi-Family Mortgage Bonds through direct purchase or through the Bond Financing Transactions, Arc70 will seek to obtain leveraged exposure to all or a portion of the Flagship Funds’ portfolio through one or more securitized products (each, an “**Arc-Managed Securitized Product**”).

In connection with the initial issuance of securities by an Arc-Managed Securitized Product, it is expected the applicable Flagship Fund will settle a pro rata portion, or its economic equivalent, of the Bond Financing Transactions. Each Arc-Managed Securitized Product will issue subordinate tranches of equity securities to a Flagship Fund (“**SP Subordinated Equity**”) and senior tranches of equity securities (“**SP Senior Equity**”) to third-party investors. The Flagship Funds will receive their interests in the SP Subordinated Equity either in exchange for the transfer of Multi-Family Mortgage Bonds to the Arc-Managed Securitized Product or by paying for it with cash. It is also expected that following a Flagship Fund’s settlement of the Bond Financing Transactions, the Flagship Fund’s investors will receive a portion of the cash collateral posted in connection with the relevant Bond Financing Transactions which will represent a return of capital to such investors.

In addition to investing in and otherwise gaining exposure to the financial instruments referred to above (including, without limitation, the Multi-Family Mortgage Bonds and Arc-Managed Securitized Products), with respect to Fund III and Fund IV, Arc70 has broad discretion to invest in and otherwise gain exposure to a variety of other assets and financial products that the Firm considers to be consistent with the mandate of Fund III and Fund IV. Such other assets and

other financial products are referred to herein as “**Additional Permitted Investments**” and are generally those that Arc70 considers opportunistic investment opportunities that are related to the affordable housing sector; provided that the Additional Permitted Investments will not represent more than 20% of Fund III’s net asset value, as determined as of the date the relevant asset is purchased or the transaction is entered into, as the case may be. Fund IV may also directly or indirectly acquire loans associated with affordable housing businesses that are expected to be originated by third parties but, in the future, may be originated by the Adviser or an affiliate. Fund III and Fund IV may, but does not expect to, borrow in order to fund Additional Permitted Investments. It is also expected that the Flagship Funds and the Arc-Managed Securitized Products may from time to time enter into one or more interest rate swaps or other instruments (the “**Hedge Agreements**”) in order to manage certain risks, including interest rate risks associated with the Multi-Family Mortgage Bonds to which the Bond Financing Transactions provide exposure, risks associated with Additional Permitted Investments and any related portfolio collateral, any Multi-Family Mortgage Bonds held directly by the Flagship Funds, and the Portfolio Collateral (as defined below) (collectively, the “**Referenced Portfolio**”) or any specific Multi-Family Mortgage Bond therein.

Each Flagship Fund has an advisory board (“**Advisory Board**”) consisting of certain limited partners of the Flagship Funds. Each Advisory Board provides non-binding advice related to business, economic and market conditions, and other matters, relevant to the Flagship Fund it serves.

#### **Advisory Services Offered to the Strategic Opportunities Funds**

The strategy of Opportunities Funds is to invest in mortgage-backed securities (the “**Certificates**”) issued by Freddie Mac’s Multifamily Loan Series (“**FRETE Trust**”), which are securitization vehicles that securitize Multi-Family Mortgage Bonds similar to the manner in which the Arc-Managed Securitized Product securitizes Multi-Family Mortgage Bonds (FRETE Trust and the Arc-Managed Securitized Products collectively, the “**Securitization Vehicles**,” and the Multi-Family Mortgage Bonds to which a Securitization Vehicle is exposed, the “**Portfolio Collateral**”). The Certificates represent the subordinated tranches of equity securities of the FRETE Trust (“**Frete Subordinated Equity**” and collectively with the SP Subordinated Equity, the “**Subordinated Equity**”). The FRETE Trust also issues senior tranches of equity securities (“**SP Senior Equity**”) to third-party investors (“**Frete Senior Equity**” and collectively with the SP Senior Equity, the “**Senior Equity**”).

The Subordinated Equity, in general, does not bear a stated rate of interest but is entitled to receive residual distributions on each payment date if and to the extent proceeds received during the previous payment period exceed what is needed for the relevant Securitization Vehicle to pay expenses and current interest on its Senior Equity, as well as maintain the required level of subordination, and certain required ratios of assets-to-liabilities and expected interest proceeds to current interest obligations for each tranche of the Senior Equity. Distributions to the holders of the Subordinated Equity of excess current proceeds are subordinate to all other obligations of the relevant Securitization Vehicle on each payment date. In addition, any additional Portfolio Collateral proceeds that remain after full repayment of all of a Securitization Vehicle’s liabilities will be distributed to the holders of the Subordinated Equity.

Each Securitization Vehicle has a collateral manager (“**Collateral Manager**”) that is independent of Arc70.

The Adviser’s principal owners are Denny Hou and Adrian Garcia.

As of December 31, 2023, the Adviser managed approximately \$1,341,323,809 in assets on a discretionary basis.

## **Item 5 – Fees and Compensation**

### **Fees**

The specific manner in which Arc70 is compensated and the amount of such compensation is established in the offering memorandum and/or the operating agreement of each Fund. The Flagship Funds pay their fees in arrears. The Flagship Funds’ administrator calculates the fees owed by the Flagship Funds subject to the approval of Arc70. Arc70 calculates and deducts all Opportunities Funds’ fees owed to Arc70. Opportunities Funds’ annual asset management fees are paid in advance. If an Opportunities Fund investor redeems prior to the end of an annual asset management fee billing period, the investor will receive a pro rata refund of the annual asset management fee based on the number of days of the billing period that the investor was invested in the Opportunities Fund.

### **Expenses**

In addition to the Fees paid to Arc70, each Fund will bear costs and expenses incurred in connection with its organization and operations as described below. An expense cap is applicable for the Flagship Funds each fiscal year and any expenses in excess of the expense cap may cause the management fee to be reduced, provided some expenses shall not be included for the purpose of calculating the expense cap including, but not limited to, management fees paid to the Adviser and the expenses of any Arc-Managed Securitized Products (each, regardless of whether an Arc70-Managed Securitized Product is actually established).

#### *Flagship Funds*

Each Flagship Fund will bear all costs and expenses incurred in connection with its organization (or any series or class thereof) and the organization of the Flagship Fund’s general partner, Arc70 Capital LLC (the “**General Partner**” or “**Arc70 Capital**”), and the continuing offering of its interests (including, without limitation, the preparation of the Flagship Fund’s offering memorandum and the entry into certain of the contracts to which the Flagship Fund is a party). These expenses include, without limitation, legal and accounting fees, printing costs, travel and out-of-pocket expenses (“**Organizational Expenses**”).

In addition to Organizational Expenses, each Flagship Fund will all of pay all of its ordinary and extraordinary expenses (including those incurred through any investment vehicle created to facilitate the Flagship Funds’ investments), including (i) costs and expenses incurred in connection with investment activities of the Flagship Fund including, without limitation, evaluating Multi-Family Mortgage Bonds, Additional Permitted Investments and other assets, evaluating and

implementing financing options (including the Bond Financing Transactions), filing fees, legal, bookkeeping, accounting, auditing, recordkeeping, administration, computer and clerical expenses (including expenses incurred in preparing reports and tax information to the limited partners and expenses for specialized administrative services); (ii) regulatory compliance costs; (iii) costs and expenses incurred in connection with establishing the Arc-Managed Securitized Products and the issuance of any equity and/or debt securities thereby; (iv) costs of evaluating and contracting with a servicer to any securitization, and fees payable to any such servicer or other agent of the securitization; (v) costs and expenses of any third party valuation agent; (vi) printing and duplication expenses; (vii) investment-related travel expenses; (viii) investment research; (ix) investment research-related travel expenses; (x) costs incurred with entering into and maintaining compliance with side letters; (xi) costs incurred with amending or amending and restating the Flagship Fund's operating agreement; (xii) costs incurred in connection with a wind down of the Flagship Fund or any other investment vehicle through which the Flagship Fund invests; (xiii) consulting and/or statistical services expenses; (xiv) market data, newswire and data processing expenses (including those associated with investigating potential investments or maximizing return on existing investments); (xv) software and connectivity charges; (xvi) brokerage commissions, bank charges, custody fees and borrowing costs and expenses related therewith; (xvii) the cost of maintaining the Flagship Fund's legal existence and expenses; (xviii) liability insurance (including errors & omissions insurance) costs; (xix) investment and operating expenses; (xx) the Flagship Fund's pro-rata portion of the regulatory and compliance costs of Arc70 arising out of its management of the Flagship Fund, such as legal, administrative, and filing costs and expenses relating to the Investment Adviser's SEC Form ADV and Form PF, if applicable; (xxi) such other expenses necessary to perform the operation of the Flagship Fund as determined by the Flagship Fund's General Partner; and (xxii) extraordinary expenses, which may include, without limitation, taxes, indemnification costs, litigation costs, costs incurred in connection with a reorganization or restructuring of a Flagship Fund, trade errors or damages (collectively, the **"Flagship Fund Expenses"**).

As noted above, the Flagship Funds bear a significant portion of the costs and expenses incurred in connection with the organization of the Arc-Managed Securitized Products, which expenses would not be borne by the Flagship Funds if Arc70 had determined to invest the Flagship Funds' assets in instruments other than SP Subordinated Equity. However, Arc70 believes that investing the Flagship Fund's assets in the SP Subordinated Equity is in the best interests of the Flagship Funds despite the expenses that the Flagship Funds bear for the organization of the Arc-Managed Securitized Products.

### *Opportunities Funds*

The Opportunities Funds shall bear and be charged with all costs and expenses of their operations, including, without limitation the following: (i) all costs and expenses incurred in connection with the organization of the Opportunities Funds and the offering of their interests, including without limitation any related legal and accounting fees and expenses, printing costs, and travel and out of pocket expenses up to a maximum of \$75,000; (ii) costs and expenses incurred in connection with the investment activities of the Opportunities Fund including, without limitation, evaluating the Certificates, filing fees, legal, bookkeeping, accounting, auditing, recordkeeping, administration, computer and clerical expenses (including expenses incurred in preparing reports and tax information for its members and expenses for specialized administrative

services); (iii) regulatory compliance costs; (iv) costs of evaluating and contracting with a servicer to any securitization, and fees payable to any such servicer or other agent of the securitization; (v) costs and expenses of any third party valuation agent; (vi) printing and duplication expenses; (vii) investment-related travel expenses; (viii) investment research; (ix) consulting and/or statistical services expenses; (x) costs incurred in connection with a wind down of the Opportunities Fund; (xi) market data, newswire and data processing expenses (including those associated with investigating potential investments or maximizing return on existing investments); (xii) software and connectivity charges; brokerage commissions, bank charges, custody fees and borrowing costs; (xiii) the cost of maintaining the Opportunities Fund's legal existence and expenses; (xiv) liability insurance (including errors and omissions insurance) costs and indemnification expenses; (xv) the Opportunities Fund's pro-rata portion of Arc70's regulatory and compliance costs, such as legal, administrative, and filing costs and expenses relating to any Form PF, if applicable, but not, for the avoidance of doubt, including any costs related to SEC Form ADV; (xvi) costs incurred in connection with amending or amending and restating Opportunities Fund's operating agreement from time to time; (xvii) such other expenses reasonably necessary to perform the operation of the Opportunities Fund as determined in good faith by its members; and (xviii) extraordinary expenses, which may include, without limitation, taxes, indemnification costs, litigation costs, trade errors or damages.

The Adviser does not accept compensation for the sale of securities or other investment products to its clients.

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

Certain Funds pay Arc70 performance-based compensation. Performance-based compensation is based upon unrealized, as well as realized, gains, and such unrealized gains may never be recognized by the Funds. Thus, performance-based compensation creates an incentive for Arc70 to recommend investments that are riskier or more speculative than those that would be recommended under a different fee arrangement. However, this conflict is mitigated due to the investment strategy of the Funds, which focuses on long-term investments that are generally held until maturity rather than trying to make short term profits. Furthermore, upon the termination of the Funds, Arc70 will be required to restore funds, including performance-based compensation, to the Funds for distribution to applicable investors, subject to the terms and restrictions of the Funds' offering documents, to the extent, if any, that such investor did not receive (prior to the dissolution of the Fund), distributions at least equal to the amount of the investor's capital contributions that were made or deemed to have been made to the relevant Fund.

Performance-based compensation arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. In addition, the Firm has an incentive to favor accounts for which performance-based compensation is likely to be paid sooner than for accounts for which such compensation is likely to be paid later.

In addition, Arc70 affiliates, officers and/or employees and Arc 70 itself (collectively “**Related Persons**”) invest varying amounts in the Funds. Like performance-based compensation



accounts, Arc70 has an incentive to favor Funds that have a higher amount of Related Person investments over Funds that have a lower amount of Related Person investments.

Nonetheless, the Firm does not believe that the foregoing conflicts will affect Arc70's management of the Funds because generally each Fund has a different investment horizon, and, therefore, the Firm does not expect that any Fund will be eligible to invest in the same investments as any other Arc70 managed Funds.

Arc70 is responsible for the valuation of certain Funds' assets and liabilities and has an inherent conflict of interest in performing this function. It is in Arc70's interest to value the assets of such Funds at as high a level as possible, as the performance-based compensation are calculated based on the valuations of the Funds. This conflict is mitigated by Arc70's valuation policies and procedures and its use of a third-party valuation agent.

## **Item 7– Types of Clients**

Arc70 provides investment advisory services to four Delaware organized Funds. The Funds offer and sell their respective interests and shares solely to accredited investors that are qualified clients and qualified purchasers or are certain employees of Arc70 and its affiliates. The minimum initial capital commitment for investors in the Funds is \$5 million which may be waived by the Funds' general partner or manager. Arc70 has entered into side letters and written agreements with certain individual investors which provide different terms; differing terms are typically available only to investors who negotiate for such terms.

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

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

#### *Strategy for Flagship Funds*

To execute the investment strategy of the Flagship Funds, Arc70 will: perform underwriting activities; supervise servicers; seek to ensure compliance with investment process and monitor the overall quality and performance of the Referenced Portfolio; analyze risks; review the credit of owners and guarantors; analyze rental rates; analyze investment metrics (loan-to-value ratios, debt-service covered ratios, pricing ratios, and return on investment); analyze the need for and strategy with respect to the Hedge Agreements; review third-party reports (e.g., consultant and servicer reports, engineering and existing building reports, environmental site inspections, and appraisals); review legal and insurance issues; review property location and amenities; monitor macro/micro economics and demographic figures; review historical property performance; inspect properties; conduct lease and filing audits; evaluate property management; complete survey and status of rental market; compare property analysis; project property performance; and propose capital expenditure budget and annual replacement reserves.

The investment process employed by Arc70 with respect to sourcing the Multi-Family Mortgage Bonds is summarized below:

Origination and Screening. Arc70 often assists in originating new investments pursuant to a review process that includes historical financial performance, developer track record, location analysis, site visit, market study, metrics and pricing analysis and preliminary discussion with servicers

Due Diligence. Upon execution of the term sheet for a proposed Multi-Family Mortgage Bonds offering, due diligence information is compiled. The relevant bond underwriter will visit properties (site and competing properties) and interview the property manager and developer. The underwriter creates a real estate underwriting memorandum that includes an analysis of the economic condition and overall quality of the property and market. Arc70 will compile and review all due diligence materials. One of the principals of Arc70, or a delegate of such principals that is an Arc70 employee, will serve as deal lead on each potential fund investment.

Confirmatory Due Diligence. The relevant deal lead will perform confirmatory due diligence to finalize the relevant deal structure, guarantees / rental contracts, operating and replacement reserves, final scope of work and third-party reports (engineering, environmental and appraisals). The deal lead will also review and strategize the potential hedge for interest rate exposure.

Final Approval. Arc70 will review the final investment memorandum prepared with respect to the relevant proposed Multi-Family Mortgage Bond investment. The investment memorandum is designed to communicate the final economic, legal, accounting and servicing terms of the proposed investment. The relevant attorney will send a legal closing memorandum to highlight any key changes in bond documentation. Assuming no key significant changes have been made, the Investment Adviser will approve the investment and begin the process of closing the proposed investment.

Investment Monitoring. Post-closing, each investment will be subject to a quarterly review and an annual site inspection. Arc70 and the relevant servicer will meet quarterly to discuss the performance of the investment. Any underperforming property will be placed in a watch list and will require in-depth discussions between Arc70, the relevant servicer, developer and property manager. Arc70 will determine the appropriate action steps to resolve any underperformance issues in the property.

Additionally, the Funds (directly or through one or more Arc-Managed Securitized Products) may maintain assets in cash, deposit, call or current accounts or invest in short-term instruments, such as short-term debt instruments, money market funds, government securities, certificates of deposit, bankers' acceptances or similar temporary investments, to meet the expense needs of the Funds and/or for such other purposes as may be determined by Arc70.

#### *Investments by Funds in Securitization Vehicles*

The Subordinated Equity of a Securitization Vehicle represents a leveraged investment in the underlying Portfolio Collateral, although this leverage is non-recourse to the equity investors of the Securitization Vehicle. With respect to the Funds, the leveraged nature of the Subordinated Equity increases the cash flow that may be available for distribution to the Funds as compared to

the cash flow that would be available for distribution in a comparable non-leveraged investment. However, this leverage also increases the Fund's exposure to investment losses and defaults, and accordingly, causes returns to bear a higher risk profile and be more volatile. Payments to the Funds on the Subordinated Equity may be deferred or eliminated depending on the amount of cash flow generated by the Portfolio Collateral, which is highly sensitive to defaults and other credit losses.

#### *Loans by Fund IV*

Fund IV is permitted to directly or indirectly acquire loans associated with affordable housing businesses that are expected to be originated by third parties but, in the future, may be originated by the Adviser or an affiliate.

#### *Additional Permitted Investments by Fund III and Fund IV*

Fund III and Fund IV's investments in Additional Permitted Investments may include, without limitation, investments in the following:

- Existing Securitization Vehicles. Fund III and Fund IV may invest in existing securitization vehicles that have been already underwritten and securitized by government-sponsored enterprises and investment banks. These assets seek to provide stabilized, high yielding cash flow that is secured by a seasoned portfolio of affordable housing projects.
- Taxable Bonds. Fund III and Fund IV may acquire taxable bonds secured by affordable housing financing.
- Equity in Affordable Housing-Related Assets. Fund III and Fund IV may invest in equities, including workforce and other de facto affordable housing equities, preferred equity structures, general or limited partnership interests, and joint ventures/buyouts with developers, owners, operators, and servicers.
- Other Tax-Exempt Bonds. Fund III and Fund IV may acquire other government-supported bonds with affordable housing characteristics, including senior independent, assisted living, veteran, student and workforce housing-related bonds.
- Other Opportunistic Investments. Fund III and Fund IV may invest in other assets reasonably considered to be aligned with the affordable housing sector.

### **Material Risks**

#### **Risks Applicable to All Funds and/or Securitization Vehicles**

**Leverage.** The low margin and collateral deposits required to trade certain financial instruments may permit a high degree of leverage. The Funds may "leverage" investment returns with derivative instruments such as total return swaps. The degree of leverage that the Funds may utilize is not limited to any predetermined level, but is subject to applicable lender and counterparty imposed leverage limitations, to the extent applicable. The amount of leverage the Funds may

employ at any time may be large in relation to their capital. Consequently, the level of interest rates, generally, and the rates at which the Funds can borrow, in particular, affects the operating results of the Funds. Additionally, Fund III and Fund IV may utilize a subscription facility and incur indebtedness secured by available capital commitments provided that any such subscription facility shall not exceed the aggregate amount of available capital commitments resulting in certain fees and interest charges.

As a result of trading with a high degree of leverage, a relatively small price movement in a financial instrument may result in immediate and substantial losses to the Funds. Thus, like other leveraged investments, any investment may result in losses in excess of the amount invested. The Funds may lose more than their initial margin deposit on a trade. In addition, if the Funds are in a leveraged position, any losses would be more pronounced than if leverage were not used and, under particularly adverse circumstances, could exceed their capital.

As a general matter, counterparties apply the amount of margin, haircuts, financings, security and collateral valuation policies in a discretionary manner. Changes in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Funds to liquidate all or part of their financial instruments at disadvantageous prices. The losses resulting from any such forced liquidation would likely be exacerbated by the illiquid and specialized character of the Funds' financial instruments.

There can be no assurance that the Funds will be able to maintain, or that the Adviser will be able to negotiate, adequate financing arrangements under all market circumstances.

**Risk of Limited Number of Investments; Dependence on Performance of Certain Investments.** The Referenced Portfolio and the FRET Trust will consist of a limited number of investments and, as a consequence, the aggregate returns of the Funds and the Securitization Vehicles may be substantially adversely affected by the unfavorable performance of any single investment. Moreover, since all of the investments that comprise the Referenced Portfolio and the FRET Trust cannot reasonably be expected to perform well or even return capital, for the Funds and the Securitization Products to achieve above-average returns, one or a few of its investments must perform very well. There can be no assurance that this will be the case. In addition, investors in the Funds have no assurance as to the degree of diversification of the Referenced Portfolio and the FRET Trust. To the extent the Referenced Portfolio and/or the FRET Trust is concentrated in a small group of Multi-Family Mortgage Bonds, its investments will become more susceptible to fluctuations in value resulting from adverse economic-to-business conditions with respect thereto.

**General Economic and Market Conditions.** The success of the Funds' investment activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, and changes in laws. These factors

may affect the level and volatility of securities prices and the liquidity of the Funds' investments. Unexpected volatility or illiquidity could impair the Funds' profitability or result in losses.

**General Investment and Trading Risks.** All financial instrument investments present a risk of loss of capital. Such investments are subject to investment-specific price fluctuations as well as to macro-economic, market and industry-specific conditions, including, but not limited to, national and international economic conditions, domestic and international financial policies and performance, conditions affecting particular investments such as the financial viability, sales and product lines of corporate issuers, national and international politics and governmental events, and changes in income tax laws. Moreover, the Funds may have only limited ability to vary their investment portfolio in response to changing economic, financial and investment conditions. The Funds' investment programs may utilize a wide variety of investment techniques, including option transactions, limited diversification, margin transactions, short sales, forward contracts and other derivative transactions, which practices can, in certain circumstances, substantially increase the adverse impact to which the Funds may be subject. No guarantee or representation is made that the Funds' programs will be successful. The market price of financial instruments owned by the Funds may go up or down, sometimes unpredictably.

**Limited Diversification.** The Funds' portfolios may not be as diversified as other investment vehicles. Because the Adviser intends to concentrate the Funds' investments in a limited number of industries or issuers and strategies, the Funds' performance may become more susceptible than a diversified portfolio to fluctuations in value or loss resulting from adverse economic or business conditions that affect those industries, issuers, or strategies. Accordingly, investors should expect that the Funds' performance may be subject to high volatility. There is generally no limit on the amount of assets that the Funds can invest in any particular position or strategy. Accordingly, a loss in any single position or strategy could have a material adverse impact on the Funds' capital.

**Highly Competitive Market for Investment Opportunities.** The activity of identifying, completing, and realizing attractive investments that fall within the Funds' investment objectives is highly competitive and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions. The Funds will be competing for investments with other private investment vehicles, as well as individuals, companies, financial institutions, and other investors. Further, over the past several years, an ever-increasing number of private equity funds have been or are being formed (and many such existing funds have grown in size). Additional private investment funds with similar investment objectives may be formed in the future by other unrelated parties. It is possible that competition for appropriate investment opportunities may increase, which may also require the Funds to participate in auctions, the outcome of which cannot be guaranteed, thus possibly reducing the number of investment opportunities available to the Funds and potentially adversely affecting the terms upon which investments can be made. Participation in auctions may also increase the pressure on the Funds with respect to pricing of a transaction. Moreover, the Funds may incur due diligence costs, bidding costs, or other expenses on potential investments that may not be successful. As a result, the Funds may not recover all of their costs, which would adversely affect returns. There can be no assurance that the Funds will be able to locate, complete, and exit investments that satisfy the Funds' investment objectives, or realize upon their values, or that they will be able to invest substantially all their committed capital. The Adviser at times may be unable to identify suitable

investments for the Funds, or the Funds may be unable to purchase suitable investments in periods of market volatility or disruption or for any number of other reasons. As a result, the Funds may not always be fully invested. In addition, the ability to obtain Portfolio Collateral that satisfies the investment criteria imposed by the agreement governing a Securitization Vehicle, at the projected prices, ratings, rates of interest and any other applicable characteristics will be subject to market conditions and availability of such Portfolio Collateral. Any inability to acquire Portfolio Collateral that satisfies such investment criteria may adversely affect the Funds. These risks also apply to collateral provided with respect to Additional Permitted Investments.

**Market Dislocation, Illiquidity and Volatility.** Significant dislocations, illiquidity and volatility in the global financial markets have occurred in the past several years (and may occur once again), which had an adverse effect on market liquidity and caused significant market disruption. To the extent that such marketplace events occur again, they may have an adverse impact on the availability of credit to businesses generally and lead to an overall weakening of the U.S. and global economies. Any resulting economic downturn could adversely affect certain of the Funds' investments to greater or lesser extents. Such marketplace events also may restrict the ability of the Funds to sell or liquidate investments at favorable times or for favorable prices (although such marketplace events may not foreclose the Funds' ability to hold such investments until maturity).

**Availability and Accuracy of Information.** The Adviser selects investments for the Funds on the basis of information and data derived from firsthand research by the Adviser and publicly-available research reports by various analysts. Although the Adviser intends to evaluate all such information and data and to seek independent corroboration when the Adviser considers it appropriate and when it is reasonably available, the Adviser will not in many cases be in a position to confirm the completeness, genuineness or accuracy of such information and data, and in such cases will be dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Corporate mismanagement, fraud and accounting irregularities relating to certain of the Funds' financial instruments may result in material losses. In addition, certain strategies of the Adviser may rely on the financial information made available (on a non-confidential basis) by the issuers, servicers, third-party modeling firms, third-party data providers including macro-economic data and trustees of securities in which the Funds will invest.

**Brokers, Custodians, and Counterparties May Fail.** The brokers, custodians, counterparties, banks and other financial institutions with which the Funds do business or at which the Funds' assets are held may encounter financial difficulties that impair the operational capabilities or the capital position of the Funds. Should one of the Funds' brokers, custodians, counterparties or banks become bankrupt and/or fail to segregate the Funds' assets on deposit as required, the Funds may be subject to a risk of loss. In addition, there can be no guarantee in the event of a broker's insolvency that the pool of customer property held by the broker pursuant to applicable law will be sufficient to satisfy all customer claims, including those of the Funds. Further, even if the Funds do not lose the assets on deposit with one or more brokers (or other financial institutions with which the Funds may deal), the Funds could incur market losses as a result of financial difficulties at such institutions (including, but not limited to, in situations where the Funds may be unable to access their assets and/or execute transactions through their brokers or other financial institutions in a timely manner).

**Disaster Recovery and Data Security Measures May Not Be Effective.** The Funds rely on the information technology and data management systems of the Investment Adviser and those of its service providers (collectively, “**Service Providers**”). These systems can fail or be subject to interruption, damage, or destruction caused by natural or man-made occurrences such as extreme weather, fires, or earthquakes; quarantines and other mobility and/or access restrictions; widespread or prolonged loss of access to key personnel; power loss or computer, network, or telecommunications failures; usage errors by personnel; infiltration by unauthorized persons, including through malware, ransomware, hacking, and other forms of cyber-attacks, some of which may not be detected for an extended period of time (“**Cyber Attacks**”); terrorist attacks; vandalism or other intentional acts of destruction; or similar events or malfeasance (collectively referred to hereafter as “**Disaster/Security Events**”). With the increasing interconnectedness of our global economy, a massive Cyber Attack aimed at a country’s critical infrastructure and economic systems may create chaos more catastrophic than a terrorist attack, natural disaster, or pandemic. Any failure, interruption, damage, or destruction of a Service Provider’s information technology and/or data management systems could have a material adverse impact on the operations of the Funds, including impairing their financial performance. In addition, a breach in the security of a Service Provider’s systems could result in the theft, disclosure, or loss of proprietary, confidential, and other sensitive information relating to the Funds, such as, depending on the Service Provider affected, personal information relating to investors in the Funds or information about the Funds’ financial condition, investment positions, or the Funds’ pending legal or audit matters. This could adversely affect the Funds and could result in, among other things, reputational harm. Any of the foregoing could also lead to litigation in which the Funds could incur liability.

The Funds, through the Investment Adviser and/or its affiliates, has in place information security, incident response, backup, and disaster recovery procedures intended to prevent or mitigate damage if a Disaster/Security Event occurs. Other Service Providers are believed to have in place systems and procedures with respect to Disaster/Security Events, but the Funds and the Investment Adviser and its affiliates do not control or supervise such systems and procedures and cannot provide assurance of their efficacy.

A breach caused by a Disaster/Security Event could nevertheless occur despite procedures and systems designed to prevent such breaches, and any procedures or systems could fail or be insufficient to avoid, mitigate, or remedy any resulting interruption or failure. In particular, Cyber Attacks continue to evolve over time, and their ever-changing methods and technologies often are not known until used against a potential target. Therefore, a Service Provider may be unable to anticipate the forms of Cyber Attacks that could be used against its systems or to implement adequate protections against them.

**Epidemics and Pandemics.** Many countries have been susceptible to epidemics, such as severe acute respiratory syndrome, avian flu, H1N1/09 flu and, most recently, COVID-19. The epidemic or pandemic outbreak of an infectious disease in a country or region of the world or globally, together with any resulting restrictions on travel, transportation or production of goods, provision of services or quarantines imposed, could have a negative impact on the U.S., regional or global economy and business activity in any of the countries in which the Funds may invest and thereby adversely affect the performance of the Funds. While the economic impact of the ongoing global outbreak of COVID-19 is presently uncertain, such outbreak and any future outbreak of an

infectious disease or any other serious public health concern in a country, region or globally could materially harm a Fund's investments. In addition, COVID-19 has led to significant volatility in the securities, commodities and other markets and the coronavirus and any future outbreak of an infectious disease or any other serious public health concern may lead to additional volatility and illiquidity of a Fund's investments. Furthermore, at times of extreme volatility and market stress, certain governmental regulators have imposed limitations or restrictions on short sales of equity securities, which – if imposed again – could impact a Fund's ability to trade in certain equities and/or equity index derivatives. Furthermore, COVID-19 and any future outbreak of an infectious disease or any other serious public health concern may lead to significant interruption in normal business activity of Arc70's and/or other service providers that service the Funds' investment account (e.g., brokers and custodians) which could negatively affect the performance of the Funds. One such interruption is long term remote working by Arc70 employees which could cause delays in processing of important mail, changes in supervision of Arc70 employees, changes in responsibilities of employees, information technology failures and other disruptions to normal business operations that could negatively affect the performance of the Funds.

**The Markets and Financial Instruments Traded by the Funds May be Illiquid.** At various times, the markets for financial instruments purchased or sold by the Funds may be “thin” or illiquid, making purchase or sale at desired prices or in desired quantities difficult or impossible. As part of its emergency powers, an exchange or regulatory authority can suspend or limit investment in a particular instrument, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. The possibility also exists that governments may intervene to stabilize or fix exchange rates, restricting or substantially eliminating trading in the affected currencies.

**The Value of the Properties is the Only Source of Repayment of Multi-Family Mortgage Bonds.** The principal of many Multi-Family Mortgage Bonds does not fully amortize over their terms. This means that all or some of the balance of the mortgage loans underlying these Multi-Family Mortgage Bonds will be repaid as a lump-sum “balloon” payment at the end of the term. The ability of the property owners to repay the mortgage loans with balloon payments is dependent upon their ability to sell the properties securing the Multi-Family Mortgage Bonds or obtain adequate refinancing. The Multi-Family Mortgage Bonds are not personal obligations of the property owners, and the Funds rely on the value of the properties for security. Similarly, if a Multi-Family Mortgage Bond goes into default, the Funds' or the Securitization Vehicles' only recourse is to foreclose on the underlying property. If the value of the underlying property securing the Multi-Family Mortgage Bond is less than the outstanding principal balance and accrued interest on the Multi-Family Mortgage Bond, the Funds or the Securitization Vehicles will incur a loss. In the event a property securing a Multi-Family Mortgage Bond is not sold prior to the maturity or refinancing, any contingent interest payable from the net sale or refinancing proceeds of the underlying property will be determined on the basis of the appraised value of the underlying property. Real estate appraisals represent only an estimate of the value of the property being appraised and are based on subjective determinations, such as the extent to which the properties used for comparison purposes are comparable to the property being evaluated and the rate at which a prospective purchaser would capitalize the cash flow of the property to determine a purchase price. Accordingly, such appraisals may result in realizing less contingent interest from a Multi-Family Mortgage Bond than would have been realized had the underlying property been sold or



refinanced. These risks also apply to Additional Permitted Investments with similar investment characteristics as Multi-Family Mortgage Bonds.

**The Properties Securing Multi-Family Mortgage Bonds or Fund Investments May Be Subject to Liability for Environmental Contamination Which Could Increase the Risk of Default on Such Bonds or Loss of Investment.** The owner or operator of real property may become liable for the costs of removal or remediation of hazardous substances released on its property. Various federal, state and local laws often impose such liability without regard to whether the owner or operator of real property knew of, or was responsible for, the release of such hazardous substances. It is possible that the properties that secure Multi-Family Mortgage Bonds or other Fund assets entered into in connection with Additional Permitted Investments are contaminated with hazardous substances. The costs associated with the remediation of any contamination may be significant and may exceed the value of a property or result in the property owner defaulting on the revenue bond secured by the property or otherwise result in a loss of our investment in a property.

**There are a Number of Risks Related to the Construction of Residential Properties That May Affect the Funds' Investments.** The Funds may invest in Multi-Family Mortgage Bonds or invest in assets entered into connection with Additional Permitted Investments secured by residential housing properties that are still under construction. The principal risk associated with construction lending is that construction of the property will be substantially delayed or never completed. This may occur for a number of reasons including (i) insufficient financing to complete the project due to underestimated construction costs or cost overruns; (ii) failure of contractors or subcontractors to perform under their agreements; (iii) inability to obtain governmental approvals; (iv) labor disputes; and (v) adverse weather and other unpredictable contingencies beyond the control of the developer. While the Funds may be able to protect themselves from some of these risks by obtaining construction completion guarantees from developers, agreements of construction lenders to purchase Multi-Family Mortgage Bonds or other assets if construction is not completed on time, and/or payment and performance bonds from contractors, the Funds may not be able to do so in all cases or such guarantees or bonds may not fully protect the Funds in the event a property is not completed. In other cases, the Adviser may decide to forego certain types of available security if it determines that the security is not necessary or is too expensive to obtain in relation to the risks covered. If a property is not completed, or costs more to complete than anticipated, it may cause the Funds to receive less than the full amount of interest owed to them on the Multi-Family Mortgage Bonds financing such property or otherwise result in a default under the mortgage loan that secures the Multi-Family Mortgage Bond on the property and/or lead to losses. In such case, the Adviser may be forced to foreclose on the incomplete property and sell it in order to recover any losses and/or the principal and accrued interest on the Multi-Family Mortgage Bond and the Funds may suffer a loss of capital as a result. Alternatively, the Adviser may decide to finance the remaining construction of the property, in which event the Funds will need to invest additional funds into the property, either as equity or as a taxable property loan. Any return on this additional investment would be taxable. Also, if the Funds foreclose on a property, they will no longer receive interest on the Multi-Family Mortgage Bond issued to finance the property. The overall return to the Funds from their investment in such property is likely to be less than if the construction had been completed on time or within budget.

**Geographic Concentration.** The Multi-Family Mortgage Bonds and certain Additional Permitted Investments may be concentrated in a specific state or states. Weak economic conditions in these locations or any other location (which may or may not affect real property values) may affect the ability of borrowers to repay their mortgage loans on time. Properties in certain jurisdictions may be more susceptible than homes located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the residential real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in the loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the Multi-Family Mortgage Bonds and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of the mortgage loans. Natural disasters, such as wildfires, severe storms and flooding affecting regions of the United States from time to time may result in prepayments of mortgage loans. Properties located in certain parts of the southern and eastern United States may have been damaged by the hurricanes and tropical storms that recently affected those areas. In addition, certain areas in the United States, including, without limitation, New York City, Washington D.C., Los Angeles and their surroundings as well as areas near energy and military infrastructure, may be considered at risk with respect to terrorist attacks, which could affect property values and rates of loan default and delinquency.

**Over-the-Counter and Other Derivative Instruments in General.** The Adviser uses derivative instruments to mitigate some, but not all, of the risks to which the Funds are exposed as a result of changing interest rates. There is no assurance that these instruments will fully insulate the Funds from the interest rate risks to which they are exposed. In addition, there are costs associated with these derivative instruments and these costs may not ultimately exceed the losses the Funds would have suffered, if any, had these instruments not been in place. Use of derivative instruments presents various risks, including the following:

- (i) **Tracking** — When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Adviser from achieving the intended hedging effect or expose the Funds to the risk of loss.
- (ii) **Liquidity** — Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets the Adviser may not be able to close out a position without incurring a loss for the Funds.
- (iii) **Leverage** — Investment in derivative instruments can result in large amounts of leverage. Thus, the leverage offered in connection with derivative instruments may magnify the gains and losses experienced by the Funds and could cause their assets to be subject to wider fluctuations than would be the case if the Funds did not use the leverage feature in derivative instruments.
- (iv) **Over-the-Counter Trading** — Certain derivative instruments may not be traded on an exchange. Over-the-counter financial instruments that may be purchased or sold by the Funds may include swap transactions. Over-the-counter financial instruments, unlike exchange-traded financial instruments, are two-party contracts

with price and other terms negotiated by the buyer and the seller. The risk of nonperformance by the counterparty on such an instrument may be greater and the ease with which the Funds can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. Because performance of over-the-counter financial instruments is not guaranteed by any exchange or clearinghouse, the Funds will be subject to the risk of the inability or refusal to perform with respect to such financial instruments on the part of the counterparties with which they trade. Any such failure or refusal, whether due to insolvency, bankruptcy or other causes, could subject the Funds to substantial losses.

- (v) **Lack of Regulation** — Financial instruments not traded on exchanges are also not subject to the same type of government regulation as exchange-traded financial instruments and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions. The counterparty to an over-the-counter financial instrument entered into by the Funds may not be subject to the same credit evaluation and regulatory oversight as are members of exchange based markets. The same may be true with respect to financial instruments traded on certain types of alternative exchanges (e.g., exempt commercial markets) that are less regulated than traditional securities, commodities and futures exchanges.
- (vi) **Market Conditions** — Recent events in the financial markets resulting in the failure of large institutions that serve as counterparties to many over-the-counter financial instruments have resulted in greater illiquidity of such instruments and heightened concern for counterparty risk.

**Use of Swap Agreements.** The Adviser expects to use swap agreements. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary investment transactions. Interest rate swaps, for example, do not typically involve the delivery of financial instruments, other underlying assets or principal. Accordingly, the market risk of loss with respect to an interest rate swap is often limited to the amount of interest payments that the Adviser is contractually obligated to make on a net basis. If the other party to an interest rate swap defaults, the Adviser's risk of credit loss may be the amount of interest payments that it is contractually entitled to receive on a net basis. However, where swap agreements require one party's payments to be "up-front" and timed differently than the other party's payments, the entire principal value of the swap may be subject to the risk that the other party to the swap will default on its contractual delivery obligations. If there is a default by a counterparty, the Adviser may have contractual remedies pursuant to the agreements related to the transaction. The investment performance of the Adviser, however, may be adversely affected by the use of swaps if the Adviser's forecasts of market values or interest rates are inaccurate.

The Funds from time to time expect to enter into total return swaps. As a buyer of total return swaps, the Funds will be obligated to make certain periodic payments in exchange for the total return on a referenced asset (in this case, Multi-Family Mortgage Bonds), including coupons, interest and the gain or loss on such asset over the term of the swap. The Funds will be required to maintain collateral with the total return swap counterparty(ies). If the Funds were to fail to

fulfill their payment obligations or fail to post any required collateral under a total return swap, the relevant counterparty may declare an event of default and, as a result, the Funds may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipts from the counterparty of further total return swap payments.

**Hedging Transactions.** The Adviser intends to utilize financial instruments to hedge certain risks, including to hedge the interest rate on the liabilities or assets of the Funds. Since the characteristics of many financial instruments change as markets change or time passes, the success of the Funds' hedging strategy also is subject to the Adviser's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. While the Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in any such hedging transactions. Hedging against a decline in the value of positions requires establishing other positions designated to gain from and moderate such decline. However, such hedging transactions also limit the ability for gain if the value of offsetting positions increases. These hedging transactions may also mitigate the benefit to investors in the Funds related to the fact that certain management fees paid to the Adviser are calculated with respect to capital commitments as opposed to the net asset value of the Funds. Furthermore, for a variety of reasons, the Adviser may not seek to hedge certain (or any) holdings, or may not seek to establish a perfect correlation between such hedging instruments and the holdings being hedged. Such imperfect correlation may prevent the Funds from achieving the intended hedge or expose the Funds to risk of loss.

The Adviser is not subject to any specific risk management or portfolio diversification policies in managing the Referenced Portfolio and the FRET Trust. To the extent that the Adviser engages in transactions intended to hedge certain of the Funds' market risks, the Funds may have exposure to movements of indices, economies or other market characteristics. The Adviser does not expect to attempt to hedge all, or even most, of such risks. In fact, a number of the risks to which the Referenced Portfolio and the FRET Trust are subject cannot be effectively hedged.

**Cash Investments.** The Funds also may from time to time hold cash or invest in cash equivalents for short-term investments (including in times of usual or adverse conditions and for temporary defensive purposes). While the Funds hold cash or have investments in cash equivalents, the overall appreciation of the assets in the Funds may be less than if all the assets of the Funds were invested fully in accordance with the relevant investment strategy.

**Inability to Secure Financing; Return of Capital.** Effective implementation of the investment objective and strategy of the Flagship Funds is substantially contingent upon the Adviser being able to enter into the Bond Financing Transactions, and to establish the Securitization Vehicles, in each case, on terms that the Adviser determines are reasonable. There is no guarantee that the Adviser will be able to secure the Bond Financing Transactions or otherwise obtain leverage on terms that it considers reasonable. There is no date certain by which the investors in the Flagship Funds can expect a return of their capital even if the Adviser does not establish a Securitization Vehicle. In addition, inability to renew or extend Bond Financing Transactions may cause a Securitization Vehicle to seek more-costly financing for these assets or to lose the ability to utilize them.

Due to general market conditions and/or other reasons (including the terms which may be available to the Flagship Funds with respect to various financing options), if the Adviser is able to establish a Securitization Vehicle, the consummation of such Securitization Vehicle may be on significantly less advantageous terms than the Adviser had anticipated. In such a case, the SP Subordinated Equity that is issued in the securitization may be issued on terms that are less advantageous than anticipated by the Adviser.

**Over-Collateralization.** The agreement governing a Securitization Vehicle is expected to provide that the principal amount of Portfolio Collateral must exceed the principal balance of the related Senior Equity by a certain amount, commonly referred to as “over-collateralization,” and may provide that, if certain delinquencies and/or losses exceed the levels specified in the relevant agreement, cash otherwise available to pay amounts to the Subordinated Equity may be reallocated to pay principal on the Senior Equity so that the level of over-collateralization may be increased or prevented from decreasing. If the Portfolio Collateral held by a Securitization Vehicle fails to perform as anticipated, the over-collateralization of the Senior Equity may need to be restored, resulting in a reduction in the Funds’ income and cash flow from these investments. In addition, while completing the long-term financing of a Securitization Vehicle, the Collateral Manager will be engaged in negotiations with the rating agencies and other key transaction parties regarding the Securitization Vehicle delinquency tests, over-collateralization terms, cash flow release mechanisms or other significant factors regarding the release of cash flow to the Funds by a Securitization Vehicle. Failure to obtain favorable terms with regard to these matters may materially and adversely affect the value of the Subordinated Equity of a Securitization Vehicle. Many of these risks are also expected to apply to collateral provided with respect to other transactions entered into by the Funds, including those entered into in connection with Additional Permitted Investments.

**Risks Relating Specifically to Subordinated Equity.** If a Securitization Vehicle is created, the relevant Fund will invest substantially all of its assets in the Subordinated Equity. Investment in the Subordinated Equity involves a number of substantial risks, including the following:

- (i) **Nature and Risks of Subordinated Equity.** The Subordinated Equity represents the most junior interest in the capital structure of a Securitization Vehicle, is not expected to be rated by any rating agency and may not be secured by the underlying assets held by such Securitization Vehicle, which generally secure the classes of the Senior Equity issued by the Securitization Vehicle. As such, the holders of the Subordinated Equity will rank behind all of the creditors, whether secured or unsecured and known or unknown, of a Securitization Vehicle, including, without limitation, the holders of all the classes of the Senior Equity issued by the Securitization Vehicle. Consequently, the Subordinated Equity of a Securitization Vehicle will be subject to the greatest risk of loss, will be the first part of the capital structure of the related Securitization Vehicle to incur losses, and will be directly affected by any losses or delays in payment on the related Portfolio Collateral. The performance of the Subordinated Equity of any particular Securitization Vehicle will depend, among other things, on the level of defaults experienced on the related Portfolio Collateral, as well as the timing of such defaults and the timing and

amount of any recoveries on such defaulted Portfolio Collateral and the impact of any trading of the related Portfolio Collateral.

- (ii) **Leveraged Investment.** Because the payments on the Subordinated Equity are subordinated to payments on the senior obligations of a Securitization Vehicle, the Subordinated Equity represents a subordinated, leveraged investment in the Portfolio Collateral. Due to the existence of leverage, changes in the value of the Subordinated Equity are anticipated to be greater (on a percentage basis) than the change in the market value of the Portfolio Collateral owned by such Securitization Vehicle, which is subject to, among other things, credit, liquidity and interest rate risk. The presence of leverage will increase the cash flow available to the holders of the Subordinated Equity as compared with the cash flow that would be available for a comparable investment in a non-leveraged transaction, if the Portfolio Collateral performs as expected. This increased cash flow will directly affect the yield on the Subordinated Equity. However, the use of leverage also creates risk for the holders of Subordinated Equity, such as the Funds, because the leverage increases such holders' exposure to losses with respect to the underlying assets. As a result, the occurrence of defaults with respect to only a small portion of the Portfolio Collateral held by such Securitization Vehicle could result in a substantial or complete loss of the Funds' investment in the Subordinated Equity.
- (iii) **The Receipt of Interest and Principal Payments on Multi-Family Mortgage Bonds Will Be Affected by the Economic Results of the Underlying Properties.** Although Multi-Family Mortgage Bonds are issued by state or local housing authorities, they are not obligations of these governmental entities and are not backed by any taxing authority. Instead, each of these revenue bonds is backed by a non-recourse loan made to the owner of the underlying property. Because of the non-recourse nature of the underlying mortgage loans, the sole source of cash to pay base and contingent interest on the Multi-Family Mortgage Bonds, and to ultimately pay the principal amount of the Multi-Family Mortgage Bonds, is the net cash flow generated by the operation of the financed property and the net proceeds from the ultimate sale or refinancing of the property, (except in cases where a property owner has provided a limited guarantee of certain payments). This makes investments in Multi-Family Mortgage Bonds subject to risks usually associated with direct investments in real estate. If a property is unable to sustain net cash flow at a level necessary to pay its debt service obligations on Multi-Family Mortgage Bonds on the property, a default may occur. Net cash flow and net sale proceeds from a particular property are applied only to debt-service payments of the particular mortgage revenue bond secured by that property and are not available to satisfy debt-service obligations on other Multi-Family Mortgage Bonds held by the Funds or a Securitization Vehicle. In addition, the value of a property at the time of its sale or refinancing will be a direct function of its perceived future profitability. Therefore, the amount of interest that the Funds or a Securitization Vehicle earns on Multi-Family Mortgage Bonds, and whether or not the Funds or a Securitization Vehicle will receive the entire principal balance of the Multi-Family Mortgage Bonds as and when due, will depend to a large degree on the economic results of the underlying properties.

The net cash flow from the operation of a property may be affected by many things, such as the number of tenants, the restricted rental and fee rates, operating expenses, the cost of repairs and maintenance, taxes, government regulation, competition from other similar multi-family, student, or senior citizen residential properties, mortgage rates for single-family housing, and general and local economic conditions. Low mortgage interest rates and federal tax credits make single-family housing more accessible to persons who may otherwise rent apartments.

The general securitization risks described above generally apply directly and indirectly to investments in securitized products entered into in connection with Additional Permitted Investments.

**Risks Associated with the Securitization Transfer.** A Securitization Vehicle will receive all of the interest payments from the Portfolio Collateral, from which it will pay interest on the senior security at a variable or fixed rate. As the holder of the Subordinated Equity, the Funds will be entitled to any remaining interest received by a Securitization Vehicle after they have paid the full amount of interest due on the Senior Equity and all of the expenses of such Securitization Vehicle, including various fees. Specific risks generally associated with asset securitization programs include the following:

- (i) Changes in short-term interest rates can adversely affect the cost of an asset securitization financing. Because the Senior Equity typically may allow for tendering back to the Securitization Vehicles, causing the Securitization Vehicles to remarket the Senior Equity from time to time, an increase in interest rates may require an increase to the interest rate paid on the Senior Equity in order to successfully remarket these securities. Any increase in interest rate payable on the Senior Equity will result in more of the underlying interest being used to pay interest on the Senior Equity leaving less interest available for the Subordinated Equity. As a result, higher short-term interest rates will reduce, and could even eliminate, the Funds' return on a residual interest in this type of financing.
- (ii) Payments on the Subordinated Equity are subordinate to payments on the Senior Equity and to the payment of expenses, and there are no party guarantees to the payment of any amounts under the residual interests. The Funds will hold residual interests in the Securitization Vehicles. These residual interests are subordinate to the Senior Equity sold to investors. As a result, none of the interest received by the Securitization Vehicles will be paid to the Funds as the holders of Subordinated Equity until all payments then due on the Senior Equity have been paid in full and other expenses satisfied. As the holders of the Subordinated Equity, the Funds can look only to the assets of the Securitization Vehicles remaining after payment of Senior Equity for payment. No third party guarantees the payment of any amount on the Subordinated Equity.
- (iii) Termination of a Securitization Vehicle can occur for a number of reasons which could cause the Funds to lose the assets and other collateral pledged for such financing. In general, a Securitization Vehicle can terminate for a number of different reasons relating to problems with the Portfolio Collateral or problems with the Securitization Vehicle itself. Problems with the Portfolio Collateral that could

cause a Securitization Vehicle to be terminated include payment or other defaults or a determination that the interest on the Portfolio Collateral is taxable. Problems with a Securitization Vehicle include a downgrade in the investment rating of the Senior Equity, a ratings downgrade of any liquidity provider, increases in short-term interest rates in excess of the interest paid on the Portfolio Collateral, an inability to remarket the Senior Equity or an inability to obtain credit or liquidity for a Securitization Vehicle. In each of these cases, a Securitization Vehicle will be terminated and the Portfolio Collateral held by such Securitization Vehicle will be sold.

**Limitations on Collateral Manager.** Upon the occurrence of a default of a Securitization Vehicle, it is expected that the Collateral Manager will not control the exercise of remedies under the related agreement. As a result, there can be no assurance that following a default by a Securitization Vehicle, the remedies exercised will be in the best interest of the investors of the Funds. It is also expected that the agreement governing a Securitization Vehicle and the collateral management agreement with respect thereto will place significant restrictions on the Collateral Manager's ability to advise a Securitization Vehicle to buy and sell Portfolio Collateral. As a result of such restrictions, a Securitization Vehicle may be unable to buy or sell Portfolio Collateral or to take other actions which the Collateral Manager might otherwise consider to be in the interests of the Securitization Vehicle and the holders of the Senior Equity and the Subordinated Equity.

**Investors May Incur Tax Liability if Any of The Interest from Multi-Family Mortgage Bonds Is Determined to be Taxable.** The governmental issuer and the underlying borrower of each Multi-Family Mortgage Bond have covenanted and agreed to comply with all applicable legal and regulatory requirements necessary to establish and maintain the tax-exempt status of interest earned on the Multi-Family Mortgage Bond. Failure to comply with such requirements may cause interest on the Multi-Family Mortgage Bonds to be includable in gross income for federal income tax purposes retroactive to the date of issuance, regardless of when such noncompliance occurs. Should the interest income on a Multi-Family Mortgage Bond be deemed to be taxable, the bond documents include a variety of rights and remedies that are intended to help mitigate the economic impact of taxation of the interest income on the affected bonds including often a step-up in interest rate of the Multi-Family Mortgage Bonds. Under such circumstances, the Funds intend to enforce such rights and remedies as set forth in the related bond documents as well as any other rights and remedies available under applicable law. In addition, in the event the tax-exemption of interest income on any Multi-Family Mortgage Bond is challenged by the Internal Revenue Service, the Funds intend to be actively involved in the tax and legal proceedings to contest any such challenge. The loss of tax-exemption for any particular issue of Multi-Family Mortgage Bonds would not, in and of itself, result in the loss of tax exemption for any unrelated issue of Multi-Family Mortgage Bonds. However, the loss of such tax-exemption could result in the allocation to investors of the Funds of taxable income relating to such bonds.

#### *Risks Specifically Associated with Originating Loans and Other Lending-Related Investments*

Fund IV is permitted to originate loans, which are expected to be associated with affordable housing businesses. To the extent that Fund IV engages in origination, in addition to the risks referred to herein related to real estate and the affordable housing market, origination entails the following risks:



- (i) **Credit Risks.** Fund IV may directly or indirectly originate short-term loans associated with affordable housing businesses. Extending credit involves the risk that some loans will not be repaid. Since the borrowers will most likely be businesses with more limited financial resources than larger, more established companies, Fund IV may assume a greater risk of loss than might otherwise be the case if it had made loans to larger companies. The Adviser will attempt to reduce its risk of loss by evaluating each borrower's credit worthiness and the value of its collateral, by limiting the maximum amount loaned or invested in any single borrower, by taking security interests in the borrower's assets, including real property, and, in some situations, by obtaining guarantees. However, because such collateral may have limited uses, and because of the forced sale conditions that are generally present in a foreclosure and the holding costs incurred during the foreclosure process, if the Adviser ultimately was forced to liquidate collateral, there could be no assurance that sufficient funds would be collected to avoid a loss.
- (ii) **Weak Economy Could Trigger Defaults.** Any substantial economic slowdown could increase delinquencies, defaults and foreclosures and reduce the Adviser's ability to originate loans. Periods of economic slowdown or recession may be accompanied by decreased demand for credit, decreased asset values (including real estate values), and an increased rate of delinquencies, defaults and foreclosures. Any material decline in asset values would increase the loan-to-value ratios on loans that Fund IV holds, weaken Fund IV's collateral coverage and increase the possibility and severity of a loss if a borrower defaults. A lack of equity in a property may reduce the incentive a borrower has to meet its payment obligations during periods of financial hardship, which might result in higher delinquencies, defaults and foreclosures. These factors would reduce the Adviser's ability to originate loans and increase its losses on loans.
- (iii) **Risks of Extending Credit.** The risks associated with originating loans include the possible invalidation of a transaction as a fraudulent conveyance under creditors' rights laws, lender-liability claims by the issuer of the obligations, environmental liabilities that may arise with respect to the collateral securing the obligations, and limitations on the ability of the Adviser to directly enforce its rights with respect to borrowers. Fund IV or the Adviser may incur lender liability as a result of its lending activities. In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower, its other creditors or shareholders or third parties harmed by the borrower. Fund IV or the Adviser may be subject to allegations of lender liability, which could result in significant liability.
- (iv) **Litigation and Collection Costs.** Should Fund IV or the Adviser need to collect on a defaulted loan, litigation could result. There is a high cost associated with any litigation and the results of litigation are always uncertain. Even before litigation

is commenced, Fund IV could experience substantial costs in trying to collect on defaulted investments, such as legal fees, collection agency fees, or discounts related to the assignment of a defaulted loan to a third party.

### *Risks Specifically Associated with Additional Permitted Investments*

**Equity Securities in Affordable Housing-Related Assets.** Fund III and Fund IV may invest in equities, including workforce and other de facto affordable housing equities, preferred equity structures, general or limited partnership interests, and joint ventures/buyouts with developers, owners, operators, and servicers as mortgage bonds or other Additional Permitted Investments. The value of equity securities may fluctuate in response to specific situations for each company, industry market conditions and general economic environments. Affordable housing-related equity securities, including workforce, de facto affordable housing and other equity securities for assets may be subject to land use restrictive agreements (“LURAs”) or other restrictive agreements, which may limit the uses of the underlying asset. Where LURA or other restrictive agreements apply, certain set asides of an affordable housing development or other subject residential development’s units will be limited to residents earning a certain percentage less than the area median income. LURA requirements often last for at least 15 years and may be extended for longer periods based on the source of subsidies and may discount the overall value of the underlying assets to which the equity interest corresponds. Investment in property that is subject to LURAs or other restrictions may limit its sale price, and accordingly adversely impact Fund III’s investment performance. In addition, the nature of government-assisted housing may fluctuate in value as a result of economic, financial and investment conditions; these properties are also subject to changes in local economic circumstances and housing patterns, as well as rising operating costs, vacancies, rent collection difficulties, energy shortages and other factors, which have an impact on real estate values. These properties also require greater management expertise and may have higher operating expenses than conventional housing projects that may impact overall performance returns.

**Affordable Housing Fixed-Income Investments.** Fund III and Fund IV may invest in fixed-income financial instruments in the affordable housing sector, including workforce and other de facto affordable housing, mixed housing, adaptive reuse projects, loans associated with the affordable housing businesses and other fixed-income financial instruments as mortgage bonds or other Additional Permitted Investments. The value of fixed-income financial instruments will change as the general levels of volatility and interest rates fluctuate. When interest rates decline, the value of fixed-income financial instruments can be expected to rise. Conversely, when interest rates rise, the value of such financial instruments can be expected to decline. Fixed-income financial instruments invested by Fund III and Fund IV may be secured against the underlying assets in affordable housing projects and other affordable housing related businesses. Bonds secured against affordable housing projects subject to LURAs or other restrictions may discount the overall value of the underlying assets and limit its sale price in a foreclosure sale. Investments in taxable bonds in affordable housing may be accompanied by subordinate subsidies that impose restrictions on the underlying assets in turn affecting the underlying assets’ liquidity or discounting the underlying assets’ value.

**High Yield Securities.** Fund III and Fund IV may invest in “high yield” bonds and preferred securities as mortgage bonds or Additional Permitted Investments, which are rated in the

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

**Subordinated Securities.** Fund III and Fund IV may invest in securities as mortgage bonds or other Additional Permitted Investments that are subordinate to one or more senior classes. Generally, such subordinated securities bear the first risk of loss on the collateral underlying such securities. As a result, changes in the value of the performance of subordinated securities are expected to be greater than the change in the value or payment performance of the underlying collateral. In the event of a default, proceeds from any realization on the underlying collateral will first be allocated to the senior classes of securities in accordance with the priority of payments prior to any allocation to the subordinated securities held by Fund III.

**Third-Party Involvement.** Fund III and Fund IV may co-invest along with third parties through partnerships, joint ventures or other entities in affordable housing-related opportunities as Additional Permitted Investments. Such investments involve risks not present in investments where a third party is not involved, including the possibility that a third party co-venturer or partner may at any time have economic or business interests or goals which are inconsistent with those of Fund III and Fund IV, or may be in a position to take action contrary to the investment objective of Fund III. In addition, Fund III and Fund IV may in certain circumstances be liable for actions of its third-party co-venturer or partner.

**Additional Tax Considerations.** Fund III and Fund IV's ability to invest in Additional Permitted Investments raises additional tax risk factors. Fund III and Fund IV investors should review a description of such additional tax risk factors in Fund III and Fund IV's offering memorandum.

## **Item 9– Disciplinary Information**

The Adviser does not have any material legal or disciplinary events to disclose with respect to itself or its employees.

## Item 10 – Other Financial Industry Activities and Affiliations

The Firm's affiliate, Arc70 Capital, acts as general partner to Fund I and Fund II. Arc70 Capital has hired the Firm to act as the investment adviser to Fund I and Fund II. In addition, the Firm's affiliate, Arc70 Capital Fund III GP LLC ("**Fund III GP**"), acts as general partner to Fund III and Arc70 Capital Fund IV GP LLC ("**Fund IV GP**") acts as general partner to Fund IV. Fund III GP and Fund IV GP have hired the Firm to act as the investment adviser to Fund III and Fund IV, respectively. Furthermore, the Firm acts as the general partner to the Opportunities Funds. Consequently, Arc70's performance as investment adviser with respect to each of the Funds is not subject to review and oversight by an independent party.

Arc70 and/or certain affiliates thereof receive benefits for their activities related to the creation of Arc-Managed Securitized Products and the issuance and sale of SP Subordinated Equity. Therefore, Arc70 has a conflict of interest with respect to its determination to purchase any SP Subordinated Equity with assets of the Flagship Funds. Prior to any such purchase, Arc70 will put in place policies and procedures that it believes are reasonably designed to monitor that transactions between the Flagship Fund and any Arc-Managed Securitized Product are in the best interests of each party; however, there can be no assurance that such policies and procedures will be successful.

It is expected that certain Multi-Family Mortgage Bonds to which the Flagship Funds have exposure will have been structured by an investor in the Flagship Funds, or that such investor will have otherwise acted as an adviser to the issuer of certain Multi-Family Mortgage Bonds and will receive compensation for such services. Such investor is also entitled to a revenue share from the General Partner and the Firm and is a member of the Flagship Funds' Advisory Boards. The receipt of any compensation by the relevant investor for services in relation to a Multi-Family Mortgage Bond creates a conflict of interest for such investor in respect of its duties to any Flagship Fund Advisory Board because such investor has an incentive to recommend to the Firm in its capacity as an Advisory Board member for a Flagship Fund that such Flagship Fund seek exposure to such Multi-Family Mortgage Bonds. This conflict is mitigated by the fact that the Arc70 portfolio managers are not required to accept any investment recommendations of the Advisory Board and are required to make investment decisions that are in the best interest of the Flagship Funds rather than based on interests of any Advisory Board member.

There is an additional conflict with respect to members of Fund III's Advisory Board (the ("**Fund III Board**") and Fund IV's Advisory Board (the ("**Fund IV Board**").) Under Fund III and Fund IV's organizational documents, the term of Fund III and Fund IV lasts for seventeen years with the option of up to two (2) extensions of one (1) year each in the discretion of the Fund III GP and the Fund IV GP, respectively; provided, however, that the second year extension requires the consent of the Fund III Board and Fund IV Board, respectively. Since the members of the Fund III Board and Fund IV Board receive a revenue share from Fund III and Fund IV, respectively, they have an incentive to consent to the second extension even if such an extension is not in the best interest of Fund III and Fund IV. However, this conflict is mitigated by the fact that the consent of Fund III GP and the Fund IV GP are also needed to extend the term of each of its respective funds and the Fund III GP and Fund IV GP cannot take actions that are adverse to Fund III and Fund IV, respectively, and their respective investors.

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

Arc70 has adopted a Code of Ethics (the “**Code**”) for all supervised persons of the firm which sets forth the ethical and fiduciary principles and related compliance requirements under which Arc70 operates and the procedures for implementing those principles. The Code includes provisions that:

- Require Arc70 to comply with its fiduciary duties;
- Prohibit officers, directors, and employees (each, an “Employee”) from benefitting at the expense of any client;
- Require Employees to comply with federal securities laws;
- Place limitations on personal securities trading by Employees (as described below );
- Impose preclearance and reporting obligations with respect to Employees’ personal securities trading;
- Require Arc70 to review Employee personal trading and holdings; and
- Require reporting of violations of the Code.

The Employees of Arc70 and their related accounts are permitted to maintain personal securities accounts provided that such accounts are disclosed to Arc70 and that any personal trading is consistent with applicable law and with the Code. Under the Code, Employees must preclear transactions in private placements and initial public offerings. With respect to transactions in other securities, Arc70 does not expect that it would raise any conflict of interest with respect to Client accounts because employees are not expected to transact in the same securities as Client accounts. The Code is designed to assure that the personal securities transactions, activities and interests of the Employees of Arc70 will not interfere with making decisions in the best interest of advisory clients.

In addition to Employee personal investing, as noted in Item 6 above, Arc70 Related Persons invest varying amounts in the Funds. Like performance-based compensation accounts, Arc70 has an incentive to favor Funds that have a higher amount Related Person investments over Funds that have a lower amount of Related Person investments. Nonetheless, the Firm does not believe that such a conflict will affect Arc70’s management of the Funds because each Fund has a different investment horizon, and, therefore, the Firm does not expect that any Fund will be eligible to invest in the same investments as any other Arc70 managed Funds.

Arc70 does not engage in principal transactions with Client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or certain related accounts, buys from or sells any security to any advisory client. Furthermore, Arc70 may engage in cross transactions between client accounts but only when allowed under the relevant clients’ advisory agreement. Cross transactions are generally defined as transactions where an adviser causes one client to purchase a security from a different client. Arc70 has adopted policies and procedures within its compliance policies and procedures to address such cross transactions.

Arc70's compliance policies and procedures and Code are available to any client or prospective client upon request by contacting Tom Moore, Arc70's Chief Compliance Officer, at (415)-322-3260.

## **Item 12 – Brokerage Practices**

Arc70 enters into Bond Financing Transactions with brokers. In selecting brokers to act as the counterparty for Bond Financing Transactions, Arc70 looks at a number of factors, such as: reputation, standing in the marketplace, credit rating, the brokers' ability and willingness to execute the transaction, and the relevant terms of the transaction, including the spread of the transaction. Arc70 has established a committee consisting of Arc70's two portfolio managers (the "**Portfolio Managers**") and the Chief Compliance Officer to periodically review that the counterparties Arc70 has selected for its Bond Financing Transactions are consistent with its fiduciary obligations to the Funds' investors and to evaluate the reasonableness of compensation to such brokers if applicable.

The Firm does not expect to aggregate trades for the Funds because each Fund has a different investment horizon, and, therefore, the Firm does not expect that any Fund will be eligible to invest in the same investments as any other Arc70 managed Funds.

As applicable, neither Arc 70, Arc70 Capital their affiliates, nor any of their respective managers, members, partners, shareholders, officers, employees, and agents (each, an "**Indemnified Party**") will be liable, responsible or accountable in damages for any losses to a Fund resulting from (i) any act or omission (including trade errors, such as "fat-finger" errors and transposition errors) unless such error, act, or omission is found by a court of competent jurisdiction upon entry of a final judgment to have been the result of the Indemnified Party's fraud, gross negligence, or willful misconduct or (ii) any mistake, negligence, dishonesty, or bad faith of any broker or agent of a Fund unless such Indemnified Party was grossly negligent in the selection or monitoring of such broker or agent.

## **Item 13– Review of Accounts**

On a regular basis, the Portfolio Managers review and monitor the performance of the Funds' portfolios and make determinations as to whether any actions should be taken to increase the Funds' performance.

Within 120 days after the end of each Fund's fiscal year, the Fund will furnish audited financial statements, in accordance with U.S. generally accepted accounting principles ("**GAAP**"), to all investors and tax information necessary for the completion of income tax returns. On a quarterly basis, each investor in the Funds will be furnished with unaudited financial statements of the Funds in which the investor is invested.

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

Arc70 does not receive any benefit other than management fees and performance compensation for providing advice to the Funds.

With respect to Fund I and the Opportunities Funds, Arc70 does not compensate any outside party for investor or client referrals. With respect to Fund II, Fund III and Fund IV, Arc70 compensates a third party registered as a broker-dealer for making introductions of investors to Fund II, Fund III and/or Fund IV. Such compensation is a percentage of total committed assets introduced by the third party broker-dealer to Fund II, Fund III and Fund IV. Such compensation comes from Arc70's revenues and investors in Fund II, Fund III and Fund IV will not pay any additional fees as a result of Arc70's payments to the third party. The third party has an incentive to recommend the investment in Fund II, Fund III and Fund IV due to its receipt of such compensation. For additional information about the arrangement with the third-party broker dealer, you may contact Arc70.

## **Item 15 – Custody**

Arc70 does not have physical custody of any of the Fund's assets. However, under Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended, (the “**Advisers Act**”), Arc70 is deemed to have custody of the assets of the Funds. In accordance with Rule 206(4)-2, audited financial statements are furnished annually to all investors in the Funds within 120 days of the close of the Funds' fiscal year.

## **Item 16 – Investment Discretion**

Arc70 provides its investment advisory services on a discretionary basis. Limitations on Arc70's investment authority are found in the offering memorandum and/or the operating agreement of each Fund.

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

Arc70 does not currently invest in securities for its clients over which it would need to vote proxies on behalf of its clients. If in the future, Arc70 intends to invest in securities that would give it authority to vote client securities, it will adopt voting policies and procedures in accordance with the Advisers Act and disclose such policies and procedures to all clients.

## **Item 18– Financial Information**

This section is not applicable to the Adviser as the Adviser does not charge or solicit pre-payment of \$1200 in fees per client six or more months in advance.

Furthermore, the Adviser does not believe that there are any financial conditions reasonably likely to impair its ability to meet its contractual commitments to its clients.

**Item 19 – Requirements for State-Registered Advisers**

This Item 19 is not applicable to the Adviser.