

PART 2A OF FORM ADV: FIRM BROCHURE

OCTAGON FINANCE LLC



Octagon Finance LLC
126 Garrett Street, Suite G
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This brochure provides information about the qualifications and business practices of Octagon Finance LLC ("Octagon" or the "Firm"). If you have any questions about the contents of this brochure, please contact Ashley Smith at ashley@octagonfinance.com or 434-977-7770. 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.

Any reference to Octagon as a registered investment adviser does not imply a certain level of skill or training.

Additional information about Octagon is available on the SEC's website at www.adviserinfo.sec.gov.

ITEM 2: MATERIAL CHANGES

Octagon is amending this “Brochure” as part of its Form ADV Annual Amendment for the fiscal year ending December 31, 2023. Since the Firm’s last Annual Amendment, which was filed on March 29, 2023, there have been no material changes.

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ITEM 4: ADVISORY BUSINESS

Item 4.A.

Octagon Finance LLC ("**Octagon**" or the "**Firm**"), a Delaware limited liability company, was formed in May 2011, and registered with the SEC in January 2018. Octagon's principal place of business is Charlottesville, Virginia. Octagon is primarily owned by Octagon Owner LLC, a Delaware limited liability company, and Octagon Finance Holdings LLC, a Virginia limited liability company.

Item 4.B.

Octagon is an investment management firm that provides advisory services on a discretionary basis to privately offered pooled investment vehicles (each, individually, a "**Fund**" and, collectively, the "**Funds**"). Octagon provides investment advisory services to: Octagon Credit Partners LP (the "**Master Fund**"), a Delaware limited partnership; Octagon Bridge Inc. ("**Octagon Inc.**"), a Delaware corporation; Octagon Credit Partners Offshore, Ltd. (the "**Offshore Fund**" or "**Feeder Fund**"), a Cayman Islands exempted company; Octagon Equity Partners Inc. ("**Equity Partners**"), a Delaware corporation; and OCP CCOF LLC ("**CCOF**"), a Delaware limited liability company. The Offshore Fund invests substantially all of their capital in Octagon Inc. through the acquisition of non-voting shares in the capital of Octagon Inc. and by the provision of a credit facility to Octagon Inc. Octagon Inc. then invests substantially all of its debt and equity capital in an interest in the Master Fund.

The Funds are direct lending funds that extend bridge loans to real estate developers for the renovation of historic properties. The bridge loans are secured by a first lien on tax credits that apply to the development of properties that qualify for federal, state, rehabilitation, new market, low-income housing, and municipal tax credits ("**Tax Credit Bridge Loans**"). Tax Credit Bridge Loans are typically extended for periods ranging from 6 to 24 months and are repaid by the assignment of the tax credits that vest upon completion of the renovations.

Please refer to **Item 8.A.** for a more detailed description of the investment strategies utilized by the Funds.

Item 4.C.

The Firm's investment management and advisory services to the Funds are provided pursuant to the terms of the respective offering documents, organizational documents, and agreements, or participation agreements, and are based on the specific investment objectives and strategies as disclosed in the offering documents, or in the participation agreement in the case of special purpose vehicles which are established for lenders participating in a particular investment opportunity. The Funds may impose restrictions on investing in certain types of securities in accordance with achieving their investment objectives and strategies, or pursuant to their governing agreement. Investors in the Master Fund, the Feeder Fund cannot obtain services tailored to their individual specific needs or impose individual restrictions on investing in certain securities or types of securities. Participating lenders who invest through special purpose vehicles that are subsidiaries of the Master Fund may choose which loans or investments to participate in.

Item 4.D.

Octagon does not participate in a wrap fee program.

Item 4.E.

As of December 31, 2023, Octagon manages approximately \$259,900,782 in regulatory assets under management on a discretionary basis. Octagon does not manage any Advisory Client assets on a non-discretionary basis.

ITEM 5: FEES AND COMPENSATION

Item 5.A.

As of the end of each calendar month, the Master Fund pays to Octagon, in arrears, a management fee equal to 1/12 of 2% of the net asset value of each investor's capital account, as at the last business day of each calendar month (the "**Management Fee**"). No management fees will be paid by the Offshore Fund, Octagon Inc., or any special purpose entity or other subsidiary through which the Master Fund may make investments other than the management fee as described.

As of each fiscal year-end, Octagon will generally be entitled to a profit allocation ("**Profit Allocation**") from each investor's capital account in the Master Fund, or attributable capital account if investing through Octagon Inc. or the Offshore Fund (a "**Capital Account**"), if the net capital appreciation of such Capital Account for the fiscal year, minus any losses attributed to the Capital Account carried forward in accordance with the Funds' offering documents (the "**Loss Recovery Account**"), is greater than a 6.0% per annum rate of return on the Capital Account (the "**Hurdle**").

The Profit Allocation, if earned, will be an amount equal to the lesser of: (1) 20% of the positive amount of the difference between the net capital appreciation of such Capital Account for such fiscal year, if any, minus the balance of any Loss Recovery Account as of the previous fiscal year-end for such Capital Account; or (2) the amount by which the net capital appreciation of such Capital Account for such fiscal year, if any, minus the balance of any Loss Recovery Account as of the previous fiscal year-end for such Capital Account, exceeds the Hurdle applicable to such Capital Account. The intended effect of (1) and (2) above is that the Profit Allocation will be reduced to the extent that it reduces the return earned on an investor's capital below the Hurdle.

If an investor makes a withdrawal or receives a special distribution or otherwise receives a return of capital from its Capital Account (other than a regular distribution as anticipated by the Funds' offering documents), other than as of the calendar year-end, the Profit Allocation will be calculated with respect to the amount withdrawn, distributed or otherwise returned amounts as of the relevant date as if it had been the calendar year-end.

The terms and amounts of the Funds' Management Fee and Profit Allocation may be subject to change or adjustment according to the terms of the Fund's offering documents and organizational agreements. Octagon may, in its sole discretion, waive all or a portion of any Profit Allocation from a Capital Account of any related party or any other investor. A more detailed discussion of the calculation of the Profit Allocation is provided to investors in the Funds' offering documents.

Octagon accrues a management fee and profit allocation from the special purpose vehicles which it advises. The amount of the management fee and profit allocation is based on the amount funded by any participating lenders, other than the Master Fund, and is negotiated according to the terms of the participation agreement with the participating lender.

Item 5.B.

Octagon deducts the Management Fee and Performance Allocation from the Master Fund's account by instructing the Master Funds' custodian at the frequency discussed above in response to **Item 5.A.** Fees and profit allocations that accrue on loans and investments in the special purpose vehicles are paid from the proceeds of the investment when recognized.

Item 5.C.

The Master Fund and Feeder Funds are responsible for, and Octagon is entitled to reimbursement from the Funds for all costs and expenses actually incurred in connection with the activities and operations of the Funds such as investment expenses (i.e., expenses that Octagon reasonably determines to be related to the investment of the Funds' assets, such as transaction costs; legal fees and disbursements; fees related to enforcement proceedings against security provided in connection with the Funds' investments, negotiating loan documents, security, intercreditor arrangements and other contracts; bank service fees; interest expenses; and expenses relating to proposed investments that are not consummated); investment-related travel expenses; due diligence expenses; external legal expenses; professional fees (including, without limitation, fees and expenses of appraisers, consultants and experts) relating to investments; accounting expenses; auditing and tax preparation expenses; the costs and expenses of information systems, software and hardware used in the operations of the Funds; organizational expenses; the Management Fee; other loan related expenses (due diligence review fees, loan monitoring deposit); expenses in respect of any organizational meeting of the Funds; expenses incurred in connection with any meeting of any advisory committee of the Funds and the reasonable expenses of the members of such advisory committee incurred in connection with their service on the advisory committee; and fees and expenses of the Funds' administrator and other service providers, all as determined by Octagon in its sole discretion.

Costs and expenses incurred in connection with the activities and operations of any special purpose vehicles are paid in accordance with the terms of the participation agreement with the participating lender.

Item 5.D.

The Master Fund pays a management fee to the Firm which is accrued and paid in arrears at the end of each calendar month as set forth in **Item 5.A.** above. Fees and profit allocations that accrue on loans and investments in special purpose vehicles are payable according to the terms of their participation agreement. Loan underwriting fees may be paid at the time of each respective closing of a loan.

Item 5.E.

Not applicable. Neither Octagon nor its supervised persons are compensated for the sale of securities or other investment products.

ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Octagon understands that there exist certain potential conflicts of interest associated with the presence of a performance-based fee. Such a fee may create an incentive for the Firm to cause a Fund to make investments that are riskier or more speculative than would be the case if there were no performance fee. Performance-based compensation may vary with respect to the Master Fund, Feeder Funds, and any

special purpose vehicles, which may create an incentive to favor clients that pay higher performance-based compensation in the allocation of investment opportunities. However, Octagon advises each Fund in accordance with its investment strategy and any allocation restrictions set forth in each Fund's organizational documents or participation agreement so that investors in the Funds are aware of the applicable investment strategy, restrictions, and risks.

Additionally, Octagon has established policies and procedures designed to address potential conflicts of interest relating to the side-by-side management of pooled investment vehicles and co-investment vehicles where the performance-based compensation varies, including the allocation of investments and opportunities. The Firm reviews the portfolio holdings of each client to determine whether any patterns exist which indicate improper allocation, or whether there is any other indication of impropriety. The Firm's procedures require fair and equitable treatment in light of the relevant circumstances for the allocation of limited opportunities among clients.

ITEM 7: TYPES OF CLIENTS

Octagon provides discretionary investment management services to pooled investment vehicles and co-investment vehicles, as described in **Item 4.B.**

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

Item 8.A.

The primary objectives of the Funds are to: (i) preserve the capital of the Funds, (ii) provide investors with stable superior risk-adjusted returns with low correlation to traditional equity and debt markets, and (iii) make available semi-annual distributions to the Funds' investors that elect to receive such distributions. The Funds seek to achieve these investment objectives through originating, structuring, monitoring, and otherwise servicing (i) bridge loans to developers of real estate properties that qualify or will qualify for federal, state, new market, and/or municipal government tax credits, also known as Tax Credit Bridge Loans, and (ii) secured and unsecured development, bridge, mezzanine, subordinated and senior loans and other forms of credit.

The Funds may also seek to preserve capital and mitigate certain risks through the use of interest rate swaps and other derivatives instruments.

The Funds use credit lines and may obtain other credit facilities to manage short-term liquidity issues and to increase funds available to make Tax Credit Bridge Loans and other investments.

Octagon may, from time to time, maintain a percentage of the Funds' assets in cash and cash equivalents pending allocation to address short-term liquidity requirements, to use as collateral for derivatives transactions, or as otherwise determined by Octagon.

Investment Process

In determining whether to make a loan from the investable assets of the Funds, Octagon employs the following investment standards where applicable. The terms of any Tax Credit Bridge Loans made by the Funds may vary or be completely different from the foregoing expected terms of Tax Credit Bridge Loans,

and the terms of other loans will be substantially different from the foregoing expected terms of Tax Credit Bridge Loans.

- *Development Standards.* The Funds intend to only advance Tax Credit Bridge Loans in respect of those development projects that have a committed primary construction/rehabilitation lender in place, as well as a binding general contractor agreement and necessary approvals from the relevant government agency from whom the applicable tax credits will be received. These structural protections are intended to minimize the risk that a project will not be obtained or that the relevant tax credits will not be available.
- *Detailed Diligence Review.* Personnel of Octagon shall undertake a detailed review of construction plans and agreements to verify that construction-related contingencies are properly accounted for. In addition, Octagon will complete a review of the financial position of the relevant parties to the applicable development projects (including the borrower, the holders of any tax credits on the project, the general contractor, the primary construction lender, and the architect) to assess any risk arising in this regard.
- *Tax Credit Investment Agreements.* The Funds shall only enter into loans where an investment agreement has been entered into with an approved holder of any tax credits for the applicable project, or where Octagon has determined that the market for a prospective tax credit investor has sufficient demand and pricing stability. This helps to ensure that the ultimate payment that will be used to repay the principal component of a Tax Credit Bridge Loan on maturity will be forthcoming. The Funds will sometimes advance predevelopment funds, secured by real estate collateral for projects that meet the general qualifications for Tax Credit Bridge Loans.
- *Conservative Underwriting.* Octagon will engage in constant monitoring of the secondary markets for applicable tax credits to determine the appropriate value thereof. Once determined, the Funds will typically only advance up to 80% of the determined value of the tax credit.
- *Ongoing Monitoring.* In order to keep assessed of developments relevant to the investment portfolio of the Fund, Octagon engages in monthly reviews of construction progress on the development projects underlying its various Tax Credit Bridge Loans.
- *Intercreditor Arrangements.* In order to clarify the relationship between a borrower, the Funds, and any existing senior project lenders, the Funds will work towards entering into credit agreements, inter-creditor arrangements, or other documentation oriented towards ensuring that in the event of any default or delays in construction, the Funds will have certain rights to step in and work with such parties to bring the project to completion. When applicable, the Funds will seek to have a priority position in all tax credit holder proceeds up to the total advanced loan and any accrued interest and fees.

Actions on Default

In the event that delays, costs, or other matters lead to the potential for a Tax Credit Bridge Loan to be in default, Octagon intends to segregate the defaulting Tax Credit Bridge Loan from the Funds' other investment portfolio assets and to employ various strategies to work with a borrower and any senior project lenders to complete the relevant development. This could potentially include the advance of further funds in order to bridge any gap in the borrower's finances to allow them to complete the relevant project and make the underlying tax credit available to any holder of the project's tax credits.

No Formal Diversification Policies

The Funds intend to use a substantial portion of its capital for Tax Credit Bridge Loans. Octagon will manage the investment portfolio of the Funds by monitoring, on an ongoing basis, the investment portfolio's individual positions with a view to determining the best strategy for each such position. The Funds are not subject to any formal policies regarding diversification and may often concentrate its portfolio holdings without regard to market risks or other factors, subject to the Investment Restrictions as described in the respective offering documents. There will be no minimum or maximum holding period for any of the loans in the Funds' investment portfolio.

The investment strategies and the anticipated terms of Tax Credit Bridge Loans and other loans described herein and in the relevant offering documents may change over time in response to factors such as the size of the Funds, the size of Octagon's management team, the level of attractive investment opportunities and the overall market and interest rate environment.

Flexibility

The Funds have complete flexibility to create or organize (alone or in conjunction with others including Octagon or other affiliates) or otherwise use special purpose subsidiaries, affiliates, feeders, or other special purpose investment, origination or financing vehicles, swaps, or other derivatives or structured products to access investments, particularly in instances where Octagon, in its sole discretion, determines that there is a potential tax, regulatory, finance, confidentiality or other advantage to such structured product, instrument or entity. Other than the Investment Restrictions (described below), there are no limitations on the strategies and techniques that Octagon may use to achieve the investment objectives of the Funds. The Funds' investment strategies may evolve and develop over time. The Funds anticipate making Tax Credit Bridge Loans and other loans, and holding its other investment assets, through investment vehicles which are wholly-owned subsidiaries of the Master Fund.

There is risk associated with an investment in the Funds and there is no assurance that the investment strategies of the Funds will be profitable. The Funds are highly speculative investments and are not intended as a complete investment program. The Funds are designed as investments only for sophisticated persons who can bear the economic risk of loss of their investment in the Funds and who have no requirement for liquidity for their investment. There can be no assurances that the Funds will be able to achieve their investment objectives or that losses on investments in the Funds will be avoided. The investment strategies used by the Funds (as described herein) present special and significant risks which investors should consider in consultation with their investment, legal, and tax advisers. For additional discussion regarding the risks associated with an investment in Funds, see **Item 8.B and Item 8.C.—Risk Factors** below.

Investment Restrictions

The investment activities of the Funds are subject to the investment restrictions listed below. For purposes of the restrictions in numbers 2 and 3 below, the net asset value limitations apply only immediately upon the acquisition of an investment or the incurrence of leverage and any subsequent change in the relative values of the Funds' investment assets will not require the Funds to modify the composition of investment assets in the portfolio or to de-lever. The investment restrictions on the Funds' investment assets are as follows (the "**Investment Restrictions**"):

1. Substantially all of the investment assets of the Funds will consist of Tax Credit Bridge Loans, secured and unsecured development, bridge, mezzanine, subordinated and senior loans and other forms of credit, and cash and cash equivalents.

2. The Funds will allocate not less than 80% of the investment assets of the Funds to Tax Credit Bridge Loans.
3. The Funds will not borrow money under a line of credit, credit facility, margin facility, or other similar arrangement for the purpose of acquiring investment assets such that total leverage in respect of borrowed money (excluding, for greater certainty, leverage inherent in certain derivatives instruments) will exceed 150% of the net asset value of the Master Fund as at the date of incurring such leverage.
4. The Funds will only invest in investment assets denominated in U.S. Dollars.

Other than the Investment Restrictions, there are no limitations on the nature of the loans, advances, credit facilities, and other forms of credit on, and in respect of, real property and real property development and otherwise on the security of tax credits, tax credit purchase and sale agreements and real property and the loans that the Funds may provide in connection therewith to achieve their investment objectives.

Item 8.B and Item 8.C.—Risk Factors

Risks Associated with an Investment in the Funds

Nature of Investment. An investment in the Funds requires a long-term commitment, with no certainty of return. The Master Fund does not intend to make special distributions, other than to Octagon Inc. to fund interest payments made on the Octagon Inc. Notes, but does intend to make periodic distributions to limited partners other than Octagon Inc. The Funds may be unable to distribute income earned by them or to generate sufficient current income to make distributions. In which case, the return of capital and the realization of gains, if any, from an investment generally will occur upon the partial or complete redemption, realization, or disposition of such investment.

Public Disclosure Obligations. The Funds may be required to disclose confidential information relating to its investments and its financial results pursuant to requests made by third parties under applicable U.S. federal, state, and local public disclosure laws or regulations. Such disclosure obligations may adversely affect certain shareholders, particularly shareholders who are not otherwise subject to public disclosure of information relating to the private holdings of funds in which they invest.

Speculative Investment. An investment in the Funds is speculative and is not intended as a complete investment program. An investment should be considered only by persons financially able to maintain their investment, who can bear the risk of loss associated with an investment in the Funds, and who have sufficient liquid assets to fund capital contributions as and when required. Investors should review closely the investment objectives and investment strategies to be used by the Funds to familiarize themselves with the risks associated with an investment in the Funds.

Risks Relating to the Funds' Investment Strategies

Disease and Epidemics. The impact of disease and epidemics may have a negative impact on the Firm and the Funds' underlying investments. In December 2019, a novel strain of coronavirus known as COVID-19 surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. COVID-19 has resulted in health and other government authorities recommending or requiring the closure of offices or other businesses and has also resulted in a general

economic decline, supply chain, and delivery interruptions, travel restrictions, and increased rates of unemployment. The duration and depth of the economic dislocation caused by COVID-19 remains uncertain, notwithstanding recent successes with vaccines. Renewed outbreaks of COVID-19 or other epidemics or the outbreak of new epidemics could result in health or other government authorities recommending or requiring the closure of businesses, including those that benefit from Tax Credit Bridge Loans, and could also result in a general economic decline. Moreover, the Firm's operations and those of the Funds or the borrowers under the Tax Credit Bridge Loans could be negatively affected if personnel are quarantined as the result of, or in order to avoid, exposure to a contagious illness. Similarly, travel restrictions or operational issues resulting from the rapid spread of contagious illnesses may have a material adverse effect on business and results of operations. A resulting negative impact on economic fundamentals and consumer confidence may negatively impact market value, including that of real properties financed by the Tax Credit Bridge Loans, increase market volatility, cause credit spreads to widen, and reduce liquidity, all of which could have an adverse effect on the business of the Firm, the Funds, and the borrowers under the Tax Credit Bridge Loans. The duration of the business disruption and related financial impact caused by a widespread health crisis cannot be reasonably estimated, but has been and will continue to be dramatic. The extent to which COVID-19 (or any other disease or epidemic) impacts business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain this coronavirus or treat its impact, among others.

COVID-19 Economic Impact. The outbreak of COVID-19 has adversely impacted global commercial activity and contributed to significant volatility in certain markets, including equity, debt, and commodities markets. The COVID-19 outbreak has created significant disruption to economic activity and economic and financial market conditions.

The response by governments to the economic impact of COVID-19 has taken various forms, including measures to reduce interest rates, protect payrolls, make available loans and other credit to protect businesses, delay tax payments, provide immediate cash payments, and other financial assistance. Additional measures are regularly being assessed and evaluated. The impact of any such measures is uncertain and there can be no assurance that any such measures will be effective at stabilizing markets or result in a recovery of the financial markets. It is also possible that such measures may ultimately result in additional adverse impacts on the economy.

No Material Limitation on Strategies. Subject to the Investment Restrictions, Octagon will implement whatever strategies or discretionary approaches to development, real estate, and tax credit lending that it believes from time to time may be best suited to prevailing market conditions in light of the availability of opportunities to make such loans without prior approval by the Funds' investors if Octagon determines that such change is in the best interest of the Funds. Such strategies or approaches may involve higher levels of risks and lower rates of return than the ones discussed herein. There can be no assurance that Octagon will be successful in applying any strategy or discretionary approach to managing the Funds' investment portfolio.

Limited Experience in Implementing the Funds' Strategy. The strategy employed by the Funds of investing primarily in loans secured by various federal, state, and municipal tax credits is a relatively new strategy for Octagon.

Dependence on Key Individuals. Octagon will depend on the experience and services of a limited number of individuals in the administration of the Funds' activities. The loss of one or more such individuals for any reason could impair the ability of Octagon to perform its investment management activities on behalf of the Funds.

Available Opportunities. The success of the Funds will depend on the availability of appropriate investment opportunities and Octagon's ability to identify, select, close, and exit those investments. There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable the Funds to invest all of their committed capital or that such investment opportunities will lead to completed investments by the Funds. The Funds may compete with other national, regional, local and specialized lending sources for prospective investments and such competition may increase over time given Octagon's views on the risk/return characteristics of the Funds' investment strategy. As a result of this competition, there can be no assurance that the Funds will be able to locate suitable investment opportunities, acquire them for an appropriate level of consideration, achieve its targeted rate of return or fully invest its committed capital.

Cash, Cash Equivalents and Reserve Capital. Octagon may, from time to time, maintain a percentage of the Funds' assets in cash and cash equivalents pending allocation to appropriate investments to address short-term liquidity requirements, to use as collateral, or believes that suitable investments are not then available as otherwise determined by Octagon. Cash equivalents will not achieve the rate of return objectives of the Funds.

Interest Rate Risk. A change in interest rates can have a significant effect on any portfolio of fixed-income assets, including bridge loans and other real estate loans as the portfolio will be exposed to the risk that future cash flows will fluctuate as a result of a change in interest rates. To the extent that the cash flow from a loan is fixed in advance, the present value (i.e., discounted value) of that cash flow decreases as interest rates increase. While Octagon intends to hold loans in the investment portfolio of the Funds to maturity, if the Funds must sell or assign a loan in the investment portfolio of the Funds, higher interest rates may result in lower proceeds of realization on such sale or assignment.

Benchmark Reform. Financings entered into by the Master Fund either as a lender or as a borrower may pay interest based on the London Interbank Offered Rate ("LIBOR"). As a result, a significant decline in LIBOR or the future phasing out and eventual discontinuation of LIBOR could negatively impact the expected return on the Master Fund's loan portfolio and/or the availability of instruments designed to hedge the Master Fund's exposure to LIBOR, and such impacts may be material. While the Master Fund may pay lower prices for loans with LIBOR interest rates, there can be no guarantee that such prices will offset losses in current income, or that the effects on the Master Fund's Tax Credit Bridge Loan will not, on balance, be adverse to the Master Fund.

In July 2017, the head of the UK Financial Conduct Authority announced plans to phase out the use of LIBOR by the end of 2021. Although the impact is uncertain at this time, if LIBOR is discontinued as a benchmark rate, it may cause one or more of the following to occur, among other impacts: (i) there may be an increase in the volatility of LIBOR prior to the consummation of any such change; (ii) fewer investments by borrowers under the Tax Credit Bridge Loans may be made using interest payment benchmarks based on LIBOR and more investments may be made using interest payment benchmarks other than LIBOR or bearing interest at a fixed rate, resulting in differential investment returns to the Master Fund; (iii) there may be an increase in pricing volatility with respect to the Master Fund's Tax Credit Bridge Loans and/or a reduction in the value of the Master Fund's investments; (iv) there may be a reduction in the Master Fund's ability to effectively hedge interest rate risks; and (v) the Master Fund may incur losses from hedging disruptions due to transition basis risk, the cessation of LIBOR or an inability of the Master Fund and its counterparties to effectively value their existing trades due to a lack of dealers providing LIBOR-based quotations in the derivatives markets. There is no certainty as to what rate or rates may become market-accepted alternatives to LIBOR or how those alternatives may impact the Master Fund or its investment returns, which depend in large part upon the interest rates on the Tax Credit Bridge Loans and the rate paid by the Master Fund to fund all or a portion of those loans. There may not be any

alternative benchmark that reflects the composition and characteristics of LIBOR, and there may be dramatic shifts in debt investments and the debt markets generally. Any of the foregoing could materially adversely impact results for the Master Fund.

Replacement benchmarks that have emerged are (i) the secured overnight funding rate, published by the Federal Reserve Board of New York, including “daily SOFR,” “term SOFR,” and each as adjusted by generally accepted adjustment provisions when converting from LIBOR, and (ii) Bloomberg’s short-term bank yield index. There is no assurance about how these benchmarks will perform over the long term.

Leverage. The use of leverage increases the risk to the Funds and subjects the Funds to higher current expenses. The Funds avail themselves of a line of credit and may obtain other similar borrowing arrangements. The Funds may utilize different forms of leverage, including entering into derivatives and other transactions with inherent financial leverage. The use of leverage involves increased market exposure as well as interest expense. The use of leverage to increase the Funds’ exposure in its investment portfolio may be counterproductive in that the interest expense associated with such leverage may materially exceed the rate of return earned by the Fund. Leverage may result in a significant loss of capital. The Funds will provide collateral to derivative counterparties by registering or pledging the interests or assets of the Funds in the names of such counterparties or their nominees. This procedure exposes the Funds to the risk that, for whatever reason, including, without limitation, the default, insolvency, negligence, misconduct, or fraud of such counterparties, the Funds will not re-acquire the ownership of such interests upon the repayment by the Funds of such loans. Also, the Funds will be unable to re-acquire such interests if the Funds defaults on its derivatives transactions. The Funds’ failure or inability to re-acquire such interests from the counterparties in whose name the interests are registered could entangle the Funds in protracted litigation and, potentially, result in the complete loss of such interests. While Octagon will cause the Funds to enter derivatives transactions with counterparties it believes to be creditworthy, there can be no absolute certainty that such institutions will return such interests to the Funds upon the repayment of its secured obligations.

Derivatives Instruments. The Funds may use derivatives instruments, including, without limitation, options, swaps, notional principal contracts, contracts for differences, and forward contracts, and may use derivative techniques for hedging. The use of derivatives instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. The risks posed by such instruments and techniques, which can be extremely complex and may involve leveraging of the Funds’ assets, include: (i) credit risks (the exposure to the possibility of loss resulting from a counterparty’s failure to meet its financial obligations); (ii) market risk (adverse movements in the price of a financial asset or commodity); (iii) legal risks (the characterization of a transaction or a party’s legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); (iv) operations risk (inadequate controls, deficient procedures, human error, system failure or fraud); (v) documentation risk (exposure to losses resulting from inadequate documentation); (vi) liquidity risk (exposure to losses created by the inability to prematurely terminate the derivative); (vii) system risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (viii) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular industry or exposure linked to a particular entity); and (ix) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

Use of derivatives for hedging purposes involves certain additional risks, including: (i) dependence on the ability to predict movements in interest rates; (ii) imperfect correlation between movements in interest rates on which the derivative is based and movements in the assets of the underlying portfolio; and (iii)

possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of a portfolio's assets segregated to cover its obligations. In addition, by hedging a particular position, any potential gain from an increase in the value of such a position may be limited.

Concentration Risk. Octagon will take more concentrated positions for the Funds than it would for a typical diversified or multi-strategy fund and will concentrate investment holdings of the Funds in Tax Credit Bridge Loans. Investment in the Funds involves greater risk than other investments since the performance of such Tax Credit Bridge Loans will significantly and adversely affect the overall performance of the Funds.

Hedging. The Funds may enter into positions to hedge risks related to its change in interest rates if appropriate. Although a hedge is intended to reduce risk, it does not eliminate risk entirely. A hedging strategy may not be effective. A hedge can result in a loss in the case of an extraordinary event. There are several such possible cases including, but not limited to: (i) credit quality considerations; and (ii) lack of liquidity during market panics.

Fraud. Of paramount concern in purchasing or originating loans and other assets is the possibility of material misrepresentation or omission on the part of a borrower or other counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or other assets, or may adversely affect the ability of the Funds to perfect or effectuate a lien on the collateral securing the loan or other assets. The Funds rely upon the accuracy and completeness of representations made by borrowers or other counterparties to the extent reasonable, but cannot guarantee that such representations are accurate or complete. Under certain circumstances, payments to the Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

No Guaranteed Secondary Market. The loans comprising the investment portfolio of the Funds are not exchange-traded, which may limit the ability of the Funds to sell any such loans if required. Similarly, the tax credits underlying the loans in the Funds' investment portfolio are also not exchange-traded and the Funds may not be able to readily dispose of such tax credits if required. Holders wishing to sell such loans and/or tax credits may have to give up a significant liquidity discount below the intrinsic value of such loans if a liquid secondary market for such loans does not continue to exist.

Bank Loans and Participations. The assets may include investments in fixed and floating-rate bank loans and participations. The special risks associated with these obligations include: (a) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (b) environmental liabilities that may arise with respect to the collateral securing the obligations; (c) adverse consequences resulting from participating in such investments with other institutions with less available cash to fund their obligations; and (d) limitations on the ability of an investor in such participations to directly enforce its rights with respect to such instruments.

Lender Liability. In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lenders on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that a lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to a borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. The Funds could be subject to allegations of lender liability.

Real Estate-Related Products. The value of the real estate that underlies mortgage loans and other real estate-related products is subject to market conditions. Changes in the real estate market may adversely

affect the Funds notwithstanding that the value of Funds' collateral, (the purchase and sale contract in respect of a tax credit and the tax credit itself), is not directly impacted by real estate values. In addition, adverse changes in real estate values increase the probability of default, as the incentive of the borrower to retain equity in the property declines. Loans may become non-performing for a wide variety of reasons, including, without limitation, because the mortgaged property is too highly leveraged (and, therefore, the property is unable to generate sufficient income to meet its debt service payments), the property is poorly managed or because the mortgaged property has a high vacancy rate, has not been fully completed or is in need of additional rehabilitation. Such non-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments, and a substantial write-down of the principal of the loan.

Real estate is subject to long-term cyclical trends that give rise to significant volatility in real estate values. Investments in real estate-related investment products are subject to various risks, including, for example: adverse changes in national and international economic and geopolitical conditions, local market conditions, and the financial conditions of borrowers; changes in the number of buyers and sellers of properties; increases in the availability of supply of property relative to demand; changes in the availability of financing; increases in interest rates, real estate tax rates, energy prices, and other operating expenses; changes in environmental laws and regulations, zoning laws, rent control laws, and other governmental rules and policies; changes in the relative popularity of properties; risks due to dependence on cash flow; operating problems; and "acts of God", uninsurable losses and other factors which are beyond the control of any investor.

The real estate markets are directly affected by the availability of credit and interest rates as well as being subject to general economic conditions. During certain cycles many real estate projects fail, and there can be no assurance that any such real estate investments will not experience such a cycle.

Certain laws and regulations impose strict liability, often regardless of fault, on various parties, including owners and operators, associated with real estate affected by a release of a hazardous or toxic substance. The costs of any required removal, investigation, or remediation of such substances may be substantial and may have a material adverse effect on the profitability of the affected investment.

The current downturn in the U.S. real estate market has resulted in major losses for many real estate-related funds.

Force Majeure. Global markets are interconnected, and events like hurricanes, floods, earthquakes, forest fires and similar natural disturbances, war, terrorism or threats of terrorism, civil disorder, public health crises, pandemics, and similar "Act of God" events have led, and may in the future lead, to increased short-term market volatility and may have adverse long term and wide-spread effects on world economies and markets generally. Clients may have exposure to countries and markets impacted by such events, which could result in material losses.

Risks Associated with the Tax Credit Bridge Loans

The following risk factors associated with an investment in the Tax Credit Bridge Loans may directly or indirectly impact investors in the Funds. In addition, the risk factors applicable to Octagon and the Funds' investment strategies and other unidentified risk factors will also apply to the Tax Credit Bridge Loans.

Construction Risk. The availability of funds to repay the Tax Credit Bridge Loans made by the Funds is in many cases largely dependent upon the substantial completion of the underlying development project in

connection with which the Tax Credit Bridge Loans have been made. While the Funds seek to mitigate and minimize the consequences of this risk by taking certain measures such as: (a) only participating in the origination of Tax Credit Bridge Loans where a committed first priority construction lender is in place and a binding guaranteed maximum price contractor agreement has been entered into (including performance bonding and completion guarantees); (b) undertaking detailed initial due diligence in connection with the project and financial position of the relevant parties including the proposed borrower, the holders of any tax credits on the project, general contractor and architect; (c) conducting monthly reviews of construction progress (including percentage completion, quality of work and compliance reviews in connection with applicable tax credit legislation and guidelines); and (d) imposing certain limits on the advance of funds relative to the value of the relevant tax credits, there is no guarantee that such measures will be effective. In the event that the completion of a development project is delayed, the returns of the Funds could be impaired.

In addition, if construction cost-overruns are experienced, this could result in the relevant development project being delayed or not completed. Such an event could either delay or eliminate the availability of the payments necessary to repay the applicable Tax Credit Bridge Loans, which could have an adverse effect on the returns of the Funds. While the Funds employ measures to mitigate such risks including the proactive management of project construction managers in the event of cost-overruns, there is no guarantee that such measures will be effective.

Strikes and other labor-related actions, inability to procure materials or services, power failure, restrictive governmental laws or regulations, riots, insurrection, sabotage, rebellion, war, an act of God, or other reasons whether of a like nature or not, affecting the construction or building maintenance industries in the jurisdictions in which the development projects underlying the Tax Credit Bridge Loans are located, could result in delays in construction, could disturb operations and could result in damage to such projects, which could, in turn, reduce the returns of the Funds.

Potential Environmental Liability. A current or previous owner, developer, or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under, or in its property. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. Octagon will attempt to assess such risks as part of its due diligence activities, but cannot give any assurance that such conditions do not exist or may not arise in the future. The presence of such substances could adversely affect the payback of a loan and Octagon's ability to sell such investments as collateral.

Developer Default Risk. In many instances, Tax Credit Bridge Loans are extended to developers undertaking more than one development project. In such circumstances, there is a risk that adverse developments at such other development project(s) could impact the development of the property underlying the Tax Credit Bridge Loan(s) extended by the Funds. While the Funds seek to mitigate such risks by taking certain measures including, if necessary, taking control of affected projects as a special servicer in these circumstances to oversee the projects until completion, there is no guarantee that such measures will be effective.

Permits, Licenses, and Approvals. The construction of the projects underlying the Tax Credit Bridge Loans requires a variety of permits, licenses and approvals to be obtained and maintained. Failure to obtain any such permits, licenses, or approvals in a timely fashion (or at all) could materially adversely affect the likelihood or timing of completion of such projects, which could reduce the returns of the Funds.

Governmental authorities and the courts have the power to enforce compliance with these permits, licenses, and approvals, and with applicable environmental, health, and safety laws and regulations; and violations may result in civil or criminal penalties, the curtailment or cessation of operations, orders to pay compensation, orders to remedy the effects of violations and/or orders to take preventive steps against possible future violations.

The cost of ongoing compliance with permits, licenses, and approvals required to be obtained in connection with the projects underlying the Tax Credit Bridge Loans could be substantial. In addition, there may be changes in laws or requirements relating to the permits, licenses, and approvals. There can be no assurance that the cost of complying with present or future laws or regulations will not adversely affect the results of operations or the financial condition of the various parties involved in the construction of the projects underlying the Tax Credit Bridge Loans which could in turn negatively affect the ability of such parties to fulfill their respective obligations.

Tax Treatment of Tax Credit Investor Proceeds. The proceeds received by the developer from a tax credit holder, may become taxable to the developer. This may reduce the loan amount requested by developers.

Appropriations Risk. The availability of New Market Tax Credits and Federal Historic Rehabilitation Tax Credits are subject to annual review and allocation by the Federal Government, specifically the Department of Treasury and the Department of the Interior. There is no guarantee of the continued allocation to any government program.

Counterparty Risk. Certain of the markets in which the Funds invest and trade are OTC or "inter-dealer" markets. The participants in these markets typically are not subject to the type of strict credit evaluation and regulatory oversight applicable to members of "exchange-based" markets, and transactions in these markets typically are not settled through exchanges or clearinghouses that guarantee the trades of their participants. Rather, the responsibility for performing under a particular transaction rests solely with the counterparties to such transaction. This results in the risk that a counterparty may not settle a transaction with the Funds in accordance with its terms, because the counterparty is either unwilling or unable to do so (for example, because of a credit or liquidity problem affecting the counterparty), potentially resulting in a significant loss. In an attempt to mitigate the risk of counterparty default, many counterparties now require the posting of collateral. However, this collateral may be difficult to liquidate in a market crisis. In addition, the Funds could lose a significant portion of its capital while it attempts to execute a substitute transaction to replace a transaction under which a counterparty has defaulted.

Recession. The strategies implemented by the Funds are materially less likely to achieve its objectives during periods of economic recession and a general slowdown in the overall economy. It is impossible to predict whether the prevailing economic conditions will worsen, how long such conditions may persist and/or whether there may not be certain structural economic changes in the near- to mid-term future. A recession and/or any such changes as may result could be materially adverse for the prospects of a number of the investments of the Funds.

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The occurrence of more than one of the events or circumstances described in these "Risk Factors" may have a cumulative or compound impact on the Funds that could be greater than the sum of the impacts of such events or circumstances if each were to occur in isolation. Certain events or circumstances described herein may also exacerbate one another if they occur simultaneously or in a particular sequence, and the occurrence of certain events or circumstances may increase the likelihood of other events, circumstances, or risks.

ITEM 9: DISCIPLINARY INFORMATION

There are no material legal or disciplinary events related to Octagon, its members, officers, or supervised persons.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Item 10.A.

Neither Octagon nor any of its management persons are currently applying to register as a broker-dealer and do not intend to do so.

Item 10.B.

Neither Octagon nor any of its management persons are applying to register with the National Futures Association and do not intend to do so.

Item 10.C.

Octagon is the managing partner of the Master Fund.

Item 10.D.

Not applicable. Octagon does not recommend or select other investment advisers for its clients.

ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Item 11.A.

Octagon has adopted a written Code of Ethics (the “**Code**”) under Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) designed to provide that Octagon employees comply with applicable federal securities laws. The Code was designed to promote high ethical standards by reinforcing fiduciary principles that govern the conduct of Octagon and its employees. The Code requires certain standards of business conduct, compliance with federal securities laws, reporting and recordkeeping of personal securities transactions and holdings, and reviews so that Octagon may determine whether Firm employees are complying with the Code. The Code also includes policies regarding political contributions, gifts and entertainment, and confidentiality. The Firm’s employees must acknowledge in writing having received and read a copy of the Code. Adherence to the Code is monitored by Octagon’s Chief Compliance Officer and any exceptions to the Code need prior approval by Octagon’s Chief Compliance Officer.

A copy of the Firm’s Code of Ethics is available to Fund investors and prospective Fund investors upon request.

Item 11.B

Potential conflicts could arise related to matters involving the bridge lending and loan origination business of Octagon. Octagon may recommend to clients or engage in transactions in which the Firm acts as a principal, such as participating in lending opportunities or acquiring loans originated or serviced by Octagon and/or securities issued by trusts or other pooling vehicles which acquire loans originated or serviced by the Firm. Octagon has established policies and procedures designed to address these conflicts of interest. Octagon will not enter into principal transactions without making appropriate disclosures to its client(s) and obtaining the appropriate consent.

Item 11.C and Item 11.D.

Octagon, as a fiduciary to its clients and endeavoring to be honest and truthful to its clients at all times, prohibits investments in the personal account of any Firm employee or a related person in a security or investment that is currently held or intended to be held by the Funds or any other client account. Octagon's employees and related persons are restricted from investing in client account investments and, therefore, are not able to recommend investments to clients in which any of Octagon's employees are invested.

ITEM 12: BROKERAGE PRACTICES

Item 12.A.1

Octagon retains full discretion to determine the broker or dealer used for securities transactions for Funds accounts and seeks to obtain the best execution by placing orders for the purchase and sale of securities with brokers and dealers based on the Firm's evaluation of the ability of the broker or dealer to execute orders in a prompt and effective manner as well as a consideration of other factors, including but not limited to, the financial stability and reputation of brokerage firms, and the brokerage or other services provided by such brokers

In connection with providing advice to clients regarding loans and other real estate-related transactions, the specific loan or transaction will be the subject of extensive contract negotiations with the project sponsor and no broker or dealer is utilized for these transactions.

Octagon does not engage in the use of soft dollars.

Item 12.A.2.

Octagon does not participate in selecting or recommending broker-dealers in exchange for client referrals.

Item 12.A.3.

Not applicable. Octagon does not allow directed brokerage by its clients.

Item 12.B.

Octagon recognizes its duty to treat all clients fairly and equitably. If the Firm determines to buy or sell the same security on behalf of more than one client account, it may, but shall be under no obligation to, aggregate (to the extent permitted by applicable law and regulations) the securities to be purchased or

sold in order to seek more favorable prices, lower brokerage commissions or more efficient execution. In such case, the Firm will place an aggregate order with the broker on behalf of all such accounts to confirm that accounts for which no directed brokerage arrangement is in place are treated fairly; provided, however, that trading shall be reviewed periodically to confirm that accounts are not systematically disadvantaged by this policy. The Firm will determine the appropriate number of securities to place with brokers and will select the appropriate brokers based upon the determination of who will likely provide the best execution.

ITEM 13: REVIEW OF ACCOUNTS

Item 13.A. and 13.B.

The investment personnel of Octagon review the investment portfolios of the Funds as necessary, but in no case less than monthly. Additionally, Octagon engages in monthly reviews of construction progress on the development projects underlying the Funds' investments in various Tax Credit Bridge Loans.

Item 13.C.

Investors in the Funds will receive monthly statements reflecting the net asset value of their Capital Account, and on annual basis within 120 days after the fiscal year-end a written audited financial statement, prepared in accordance with GAAP, for each of the Funds in which they are an investor. Investors in the Funds will also receive on an annual basis a statement of their Capital Account, which will include a report on any allocations of gain or losses to the account.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

Item 14.A.

Not applicable. Octagon does not receive a direct economic benefit from any third party for providing investment advice or other advisory services to any of the Funds.

Item 14.B.

Octagon does not currently maintain any referral arrangements with individuals or entities that may be compensated, directly or indirectly. However, Octagon may establish referral or placement arrangements in the future.

ITEM 15: CUSTODY

The assets of the Funds are held by an unaffiliated qualified custodian, as required by the rules adopted under the Advisers Act. On an annual basis, the administrator of the Funds delivers the audited financial statements to the investors in the respective Fund within 120 days of the Funds fiscal year-end.

In addition, each investor in the Funds receives written monthly statements with respect to the net asset value of their Capital Account

ITEM 16: INVESTMENT DISCRETION

Octagon accepts discretionary authority to manage securities accounts on behalf of the Funds and therefore, determine which securities and the amounts of securities it buys and sells for Funds. This authority has been granted to Octagon by means of the execution of the relevant organizational documents and agreements which set forth the scope of the Firm's discretion with respect to the Offshore Fund, Octagon Inc., and the Master Fund.

ITEM 17: VOTING CLIENT SECURITIES

Octagon is deemed to have voting authority for securities held in the investment portfolio of the Funds due to the fact that the Firm has discretionary authority with regard to the Funds' investments. Although it is unlikely Octagon will receive proxy votes based on the Funds' anticipated investments, Octagon understands its fiduciary responsibility to monitor corporate events, to vote proxies and cast votes in the best economic interests of the Fund's investors, and to not put its own economic interests before its clients. Pursuant to its fiduciary responsibilities, Octagon has adopted proxy voting policies which govern how the Firm will vote proxies which it receives. Clients are not permitted to direct the Firm's vote in a particular proxy solicitation. Clients may obtain information regarding how Octagon voted proxies by requesting records from the Chief Compliance Officer, who is responsible for retaining all records relating to proxy voting. Additionally, clients may obtain a copy of the Firm's proxy voting policies upon request from the Chief Compliance Officer.

ITEM 18: FINANCIAL INFORMATION

Item 18.A.

Not applicable. Octagon does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

Item 18.B.

Octagon is not aware of any financial condition that is reasonably likely to impact its ability to meet its contractual commitments to clients.

Item 18.C.

Not applicable. Octagon has not been the subject of a bankruptcy petition at any time during the past ten years.