

ITEM 1
COVER PAGE

PART 2A OF FORM ADV: FIRM BROCHURE

KAH CAPITAL MANAGEMENT, LLC

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Kah Capital Management, LLC (“KCM”). If you have any questions about the contents of this Brochure, please contact us at (703) 677-3424.

Additional information about KCM also is available on the SEC's website at www.adviserinfo.sec.gov (click on the link “Investment Adviser Search,” select “Investment Adviser Firm” and type in KCM's name). Results will provide you with both Parts 1 and 2 of KCM's Form ADV.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. KCM is registered with the SEC as an investment adviser, which does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, serve as information for you to use to evaluate KCM and should be considered in your decision whether to hire KCM or to continue to maintain a mutually beneficial relationship.

ITEM 2

MATERIAL CHANGES

KCM's last update filing of the Form ADV Part 2A was made in March 2023. There have been updates to Item 4 to reflect changes in the Regulatory Assets Under Management. Item 8 has been amended to reflect an updated risk disclosures.

KCM, at any time, may update this Part 2A and either send you a copy or offer to send you a copy (either by electronic means or in hard copy form).

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ITEM 4 ADVISORY BUSINESS

This Brochure generally includes information about KCM and its relationships with its affiliates. References in this Brochure to “clients” are references to investment funds and separately managed accounts.

A. General Description of Advisory Firm

KCM is a Delaware limited liability company that commenced operations in 2018 and has an investment advisory office in McLean, Virginia. Pursuant to certain agreements (the “Restructure Agreements”) dated and effective as of May 13, 2022, KCM was reorganized as a subsidiary of Kah Capital Holdings, LLC (“Holdco”) including all of its subsidiaries.

The principal owners of Kah Capital Holdings LLC are Kah, LLC, a Delaware limited liability company the “Kah Member”), Woodmont Mortgage Investment TRS, LLC, a Delaware limited liability company (the “AGNC Member”), and Anacostia LLC, a Delaware limited liability company (the “Chimera Member”). The Kah Member directly owns 60% of the membership interests in KCM Holdings. The AGNC and Chimera Members each own 20% of the membership interests in KCM Holdings. The principal owner of the Kah Member is Adama Kah.

The principal owner of the AGNC member is AGNC Investment Corp. (NASDAQ: AGNC) (“AGNC”). AGNC was founded in 2008 and is based in Maryland. AGNC operates as a real estate investment trust in the United States. The company, through its subsidiaries, invests predominantly in agency mortgage-backed securities on a leveraged basis, financed primarily through collateralized borrowings structured as repurchase agreements.

The principal owner of the Chimera Member is Chimera Investment Corporation (NYSE: CIM) (“Chimera”). Chimera was founded in 2007, is based in New York and Chimera operates as a real estate investment trust in the United States. The company, through its subsidiaries, invests in a portfolio of mortgage assets, including residential mortgage loans, agency and non-agency residential mortgage-backed securities, agency mortgage-backed securities secured by pools of commercial mortgage loans, commercial mortgage loans, and other real estate related securities.

B. Description of Advisory Services

KCM provides discretionary investment management services to Kah Capital Mortgage Credit Master Fund II, LP, a private investment vehicle, the securities of which are offered to investors on a private placement basis (the “Fund”). KCM will provide investment management services to various funds and separately managed accounts on both a discretionary and non-discretionary basis (collectively, with the Fund, “Clients” or “Funds”). KCM will enter into an investment management agreement with each Client, which will contain or refer to such Client’s investment mandates, parameters and restrictions (the “Investment Guidelines”). The Investment Guidelines are periodically reviewed and revised, as needed or appropriate, by KCM and the applicable Clients.

As more fully set forth in Item 8 below, the Fund intends to invest in U.S. mortgage related assets, including seasoned and re-performing loans, the collateral securing such loans and structured transactions and securities sourced from government-sponsored enterprises and private sellers that

have been approved by the Fund investors.

C. Availability of Customized Services for Individual Clients

Not applicable.

D. Wrap Fee Programs

Not applicable.

E. Assets Under Management

KCM managed \$317,032,337 as of December 31, 2023, on a discretionary basis. This figure represents the unaudited assets of the Fund as of the same date including uncalled capital.

ITEM 5 FEES AND COMPENSATION

A. Fees and Compensation

As of the date of this filing, KCM's only Client is the Fund. With respect to the Fund, KCM charges the following fees:

Management Fee

KCM generally charges an annual management fee ranging between 1% to 1.5% (the "Management Fee"). The Management Fee is charged (i) during the investment period, on committed capital of the Fund, and (ii) upon expiration of the investment period, on the aggregate amount of invested capital. The Management Fee is payable monthly or quarterly in advance, based on committed or invested capital, as applicable, and will be due to KCM even if the fair value of the relevant remaining investments is below cost or even zero.

Collateral Management Fee

Affiliates of KCM (the "Collateral Managers") provide collateral management services to a securitization trust for which the Fund owns related mortgage-backed securities, if provided for in the related transaction documents, in consideration for the following fees (collectively, the "Collateral Management Fee"):

(a) For less "clean" re-performing loans ("RPLs") and seasoned performing loans ("SPLs") (i.e., spotty pay and moderately delinquent pools, and pools of esoteric loans, as determined by KCM in its reasonable, good faith discretion, after taking into account applicable industry standards): Collateral Management Fee in an amount equal to ten (10) basis points of unpaid principal balance ("UPB") on a deal and collateral basis, or as otherwise mutually agreed by the Collateral Manager and the Fund; and

(b) For "clean" RPLs and SPLs: Collateral Management Fee in an amount equal to five (5) basis points of UPB on a deal and collateral basis, or as otherwise mutually agreed by the Collateral Manager and the Fund.

The Collateral Managers provide certain administrative and ministerial tasks on behalf of mortgage assets held in securitization trusts, but do not provide investment advice with respect to the purchase, sale or holding of any such security held in a securitization trust.

Incentive Allocation and Carried Interest

An affiliate of KCM shall be entitled to a performance-based profits allocation (the "Incentive Allocation") with respect to each Client based on distributions in excess of the investors' invested capital, allocable fees and expenses (including Management Fees paid), a preferred return and catch-up allocations, as specified in the governing documents for each Client. A limited partner's Incentive Allocation ranges between 10% to 20% per annum. KCM can, in its discretion, waive or modify the Incentive Allocation with respect to any investor, including the general partner, affiliates and employees.

Other Fees and Compensation

KCM expects to advise other Clients and to provide advisory services in exchange for fees based as percentage of committed capital, invested capital or otherwise, as well as performance-based compensation.

The management fees and performance-based compensation, if any, payable by each Client or its affiliate will be set forth in detail in each Client's governing documents or investment management agreement, as applicable. Generally, KCM will receive a management fee from each Client that is equal to a percentage of the assets of such Client that are managed by KCM. In addition, KCM, or the general partner or managing member of a Client (each, a "General Partner"), which is or will be an affiliate of KCM, may be entitled to a performance-based fee or allocation from such Client, as described in Item 6. The fees and payments listed above will be negotiated and agreed upon in advance. Typically, the management fees will be deducted from a Client's account (or the account of its beneficial owners) at the beginning of each calendar month or quarter and the performance-based fee or allocation will be deducted or debited, as applicable, from a Client's account (or the account of its beneficial owners) as set forth in the relevant fund documents for each Client. KCM may waive, reduce or calculate differently the incentive distribution with respect to certain Client investors or investors in a Client.

B. Additional Fees and Expenses

Additional Fees

There are no additional fees payable by the Fund to KCM of any of its affiliates.

Manager Expenses

Except as otherwise provided under Fund Expenses below, the normal operating expenses incidental to day-to-day management services of KCM as the manager of the Fund (in such capacity, the "Investment Manager"), including salaries and benefits provided to members, managers, partners, or employees of KCM or its affiliates, rent and similar overhead expenses are paid by KCM.

Fund Expenses

The Fund will be responsible for all costs and expenses that are not paid or reimbursed in connection with investments, including without limitation, (i) the Management Fee, (ii) fees, costs and expenses attributable to due diligence, structuring, organizing, acquiring, managing, holding, valuing, winding up, liquidating, dissolving and disposing of the Fund's investments, including follow-on investments,, refinancings and margin calls, (iii) third party due diligence and other out-of-pocket expenses related to unconsummated transactions, (iv) general portfolio expenses (such as interest, brokerage, custodian, and finder's and registration fees) and market data charges (such as Bloomberg, Moody's, Intex, etc.), (v) premiums for insurance, (vi) all legal, accounting, appraisal, consulting, financing and auditing fees and expenses, (vii) expenses associated with the preparation and distribution of the Fund's financial statements, (viii) all costs and expenses of any meetings of the Fund's advisory committee and annual and other formal meetings of the Fund's partners, (ix) extraordinary expenses (such as litigation costs and indemnification obligations), (x)

expenses associated with the preparation of the Fund's tax returns and K-1s, (xi) expenses incurred by the general partner in its capacity as the Fund's partnership representative, within the meaning of the Internal Revenue Code or similar role under applicable state or local tax law, (xii) taxes, fees and other out-of-pocket expenses levied against the Fund or on its income or assets or in connection with any tax audit, investigation, settlement or review of the Fund (to the extent not indemnified for by a Fund partner) or otherwise related to the Fund's business or investments, (xiii) costs and expenses relating to establishing and maintaining credit lines and other financings, (xiv) costs associated with the amendment of governing documents of the Fund, (xv) fund administration fees; and (xvi) costs associated with the termination, liquidation, winding up or dissolution of the Fund or related vehicles. The Fund will also incur organizational expenses, as described in the governing documents.

D. Prepayment of Fees

Please see response to Items 5A and 5B above.

ITEM 6

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As disclosed in Item 5 of this Brochure, KCM or a General Partner is entitled to receive a performance-based fee or allocation from a Client, which is based on a percentage of capital gains on or capital appreciation of the assets of such Client. The performance-based fee or allocation represents a share of distributions made by a Client in excess of the relevant investors' invested capital, allocable fees and expenses and after a preferred return hurdle has been achieved as more fully described in the governing documents of each Client. As noted in Item 7, each Client must be an "accredited investor" or a "qualified purchaser", therefore any performance-based fees or allocations will only be assessed to such investors.

Investors should be aware that performance-based fee or allocation arrangements may create an incentive for KCM, or a General Partner, to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. This arrangement may cause investors to pay a greater expense than if such fees were not charged. KCM seeks to address such conflicts in a fair and equitable basis in its good faith discretion and has established policies and procedures to address the potential conflicts of interest described above through careful review of investment opportunities.

ITEM 7

TYPES OF CLIENTS

KCM provides investment advice to the Fund and intends to provide investment advice to other Clients in the future, which will consist of pooled vehicles and separately managed accounts. With regard to the Fund, the constituent documents set minimum amounts for investment by prospective investors and KCM expects the constituent documents for other Clients to set minimum amounts for investment by prospective investors for each such Client. KCM may modify or waive such minimum investment requirements from time to time. Generally, interests in a Client that is a pooled vehicle may only be acquired by certain investors that meet the criteria of an “accredited investor,” as defined in Regulation D under the Securities Act of 1933, as amended (the “Securities Act”), or a “qualified purchaser,” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Investment Company Act”).

ITEM 8

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies

The Investment Manager will provide advisory, consulting and administrative services to the Fund. The Fund will seek to achieve attractive returns for investors through the acquisition of debt obligations that are directly or indirectly principally secured by real estate in the U.S. There can be no assurance that the Fund will achieve its investment objective.

In addition, the Fund will seek to:

- preserve, protect and return invested capital;
- realize capital appreciation in the value of the Fund's investments over the long term; and
- enable the Fund to pay attractive cash distributions to its limited partners.

The Investment Manager targets investments in U.S. mortgage credit, including seasoned loans, distressed loans, newer origination residential mortgage loans, multifamily related mortgage assets and other mortgage credit assets. The Fund may invest opportunistically in other assets, including mortgage related assets backed by seasoned non-RPL mortgage assets, newer origination residential mortgages and multifamily related mortgage assets. The Fund will not invest in mortgage related assets outside the U.S.

The descriptions set forth in this Brochure of specific advisory services that KCM offers to Clients, and investment strategies pursued and investments made by KCM on behalf of its Clients, should not be understood to limit in any way KCM's investment activities. KCM may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that KCM considers appropriate, subject to each client's investment objectives and guidelines. There can be no assurance that the investment objectives of the Fund or any future fund or Client will be achieved.

B. Certain Risks Relating to Investment Strategies

The following risk factors do not purport to be a complete list or explanation of the risks involved with the activities of KCM, the Fund, or any future Client. These risk factors include only risks KCM believes to be material, significant or unusual based on information currently available, and relate to particular investment strategies employed by KCM and Fund investments made pursuant thereto.

Risks Relating to the Fund and the Investment Manager

An investment in the Fund involves a high degree of risk. KCM has discretion over the Fund's investments. Accordingly, investors will not have an opportunity to evaluate or approve specific investments prior to investing. Investors will be relying on the ability of KCM to identify, consummate and manage investments. The investors have no right to take part in the Fund's management, other than by voting on certain other matters as provided in the partnership agreement of the Fund. Accordingly, no person should purchase an Interest unless such person is willing to entrust all aspects of the Fund's management to KCM

The Fund has no operating history. The Master Fund is a recently formed entity and has no prior

operating history upon which an investor can base its investment decision. The Master Fund may be unable to, or may not, find a sufficient number of attractive opportunities to meet its investment objectives.

The past performance of KCM or its personnel is not a predictor of future results of the Fund. The Investment Manager's performance and the performance of the Fund are dependent on future events and are, therefore, inherently uncertain. The track record of KCM and its affiliates cannot be relied upon to predict future performance due to a variety of factors, including different local and national economic circumstances, different supply and demand characteristics, varying degrees of competition and varying circumstances pertaining to the real estate markets. Furthermore, there can be no assurance that the investments will meet the Fund's targeted average return.

Involvement of Affiliates. In order to implement and facilitate the Fund's investment strategy, it is anticipated that the Fund will utilize Teranga Asset Services, LLC, a wholly-owned subsidiary of Kah Capital Holdings LLC, to provide collateral administrator services through its wholly-owned subsidiaries (such subsidiaries along with Teranga Asset Services, LLC are hereinafter referred to as "Teranga"), with respect to prospective investments to the Fund and certain entities that are not affiliates of KCM. In the event that Teranga is not involved or their involvement is terminated early, the Fund may retain a different collateral administrator as service provider, and accordingly, the Fund's investment results and prospects may be negatively impacted. Teranga and other affiliates of KCM have no obligation to provide services to the Fund.

The Fund will be dependent on KCM and its key personnel. The ability of KCM to successfully manage the Fund's affairs depends on its management team and its ability to identify, structure and manage investments. KCM will rely on the experience, relationships and expertise of its management team and key employees. There can be no assurance that these individuals will remain in the employ of KCM or otherwise continue to be able to carry on their current duties throughout the Fund's term. The loss of the services of any such individuals could have a material and adverse effect on the Fund's operations and returns.

Although the Principal, Adama Kah, has worked with the other two principals of KCM for over 15 years and they each share common goals and values, there can be no assurances that the key personnel or other leadership of KCM will always act cohesively.

Due to restrictions on transfer and withdrawal, an investment in the Fund will be illiquid. An investment in the Fund requires a long-term commitment, with no certainty of return. The Fund has not been registered under the Securities Act, or any other applicable securities laws. There is no public market for interests in the Fund, and none is expected to develop. The interests are subject to certain transfer restrictions and limited partners will have no right to cancel their capital commitments or make the Fund withdraw their interests, except in limited instances when necessary to comply with applicable laws or regulations. Consequently, limited partners will generally not be able to liquidate their investments in the Fund prior to the end of the Fund's term. Therefore, interests should only be acquired by investors able to commit their funds for an extended period of time.

The Fund may be subject to litigation and or contingent liabilities. The Fund's investment activities subject it to the risks of becoming involved in litigation by third parties. The expense of

defending against claims by third parties and paying any amounts pursuant to settlements or judgments would, absent certain conduct by KCM or its affiliates, be borne by the Fund and would reduce net assets and could require limited partners to return to the Fund distributed capital and earnings to cover such expenses of the Fund. In addition, in connection with the disposition of an investment, the Fund may be required to make representations about the business and financial affairs of such investment typical of those made in connection with the sale of any business. The Fund also may be required to indemnify the purchasers of such investment with respect to certain matters, including the accuracy of such representations. These arrangements may result in contingent liabilities for which the Fund may establish reserves or escrows. Limited partners may receive less distributions and/ or be required to return amounts distributed to them to fund the Fund's indemnity obligations.

The General Partner and/or the Fund may enter into Side Letters with Limited Partners. The General Partner and/or the Fund may enter into other written agreements (each, a "Side Letter" and, collectively, the "Side Letters") with one or more limited partners. These Side Letters may entitle a limited partner to make an investment in the Fund on terms other than those described herein. Any such terms may be more favorable than those offered to any other limited partners. If the General Partner and/or the Fund enter into a Side Letter entitling a limited partner to opt out of a particular investment or withdraw from the Fund, any election to opt out or withdraw by such limited partner may increase any other limited partners' pro rata interest in that particular investment (in the case of an opt-out) or all future investments (in the case of a withdrawal).

Potential investors in the Fund may receive additional information. Due in part to the fact that potential investors may ask different questions and request different information, the General Partner may provide certain information to one or more prospective investors that it does not provide to all of the prospective investors. None of the answers or additional information provided is or will be integrated into offering documents of the Fund, and no prospective investor may rely on any such answers or information in making its decision to invest in the Fund. Notwithstanding the foregoing, the General Partner will share all material information provided in response to questions from individual limited partners with all limited partners.

Some of the Investments may be required to be held longer than the term of the Fund and the Fund may make in-kind distributions. Although KCM expects that investments will be disposed of prior to the dissolution of the Fund, the Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. Although the General Partner will use best efforts to avoid making in-kind distributions to the limited partners in lieu of cash distributions, the governing documents of the Fund will permit the General Partner to make in-kind distributions to the limited partners (upon prior written notice).

The Fund may use leverage. When available or appropriate, the Fund may use leverage as part of the investment strategy. The use of leverage will increase the volatility of the Fund. Leverage generally magnifies both the opportunities for gain and the risk of loss from a particular investment. Additionally, while the use of borrowed funds will increase returns if the Fund earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage will decrease returns if the Fund fails to earn as much on such incremental investments as it pays for such funds. The effect of leverage may therefore result in a greater decrease in the net asset value of the Fund than if the Fund were not leveraged.

The extent to which the Fund uses leverage may have important consequences to the investors, including, but not limited to, the following: (i) greater fluctuations in the net assets of the Fund, (ii) use of cash flow (including capital contributions) for debt service and related costs and expenses, rather than for additional investments, distributions, or other purposes (for example, the terms of the Fund's leverage facility may require payment on the facility in priority to payment to the investors), (iii) to the extent that the Fund's revenues are used to make principal payments, the investors may be allocated income (and therefore incur tax liability) in excess of cash available for distribution, (iv) in certain circumstances the Fund may be required to prematurely harvest investments to service its debt obligations, and (v) limitations on the flexibility of the Fund to make distributions to investors or sell assets that are pledged to secure the indebtedness. There can also be no assurance that the Fund will have sufficient cash flow to meet debt service obligations. As a result, the Fund's exposure to losses may be increased due to the illiquidity of the Fund's Investments generally and the leverage it has incurred.

There can be no assurance that the Fund will be able to obtain indebtedness on terms available to any competitors, including terms that may be currently available in the market, or that indebtedness will be accessible by the Fund at any time and, to the extent that it is available, there can be no assurance that such indebtedness will be on terms favorable to the Fund, including with respect to interest rates, or that such indebtedness will remain available throughout the term of the Fund. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast. Moreover, during times when credit markets are tight, it may be difficult to obtain or maintain the desired degree of leverage.

Finally, the use of leverage by the Fund may cause certain of the Fund's income to be UBTI to U.S. tax exempt investors. Each prospective U.S. tax exempt investor should consult with its own tax adviser as to the advisability and tax consequences of an investment in the Fund.

Risks Related to Investments in the U.S. Mortgage Market

Conditions in the U.S. Residential Mortgage Market May Adversely Affect the Performance of the Fund. The Fund intend to invest in assets involving the U.S. residential mortgage market, including in subprime or non-qualified (under the Qualified Mortgage Rule (as described below)) mortgage loans, securities backed directly or indirectly by subprime or non-qualified mortgage loans of subprime or non-qualified mortgage loans. The performance of residential mortgage loans and the performance of associated derivative securities (such as mortgage-backed securities ("MBS")) are influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner behavior.

It is possible that delinquencies, defaults and foreclosures on residential mortgage loans will increase in the future especially in light of current higher interest rate environment. The increase in delinquencies, defaults and foreclosures may significantly affect (although not be limited to) "subprime" mortgage loans, which generally refers to loans made to borrowers with impaired credit, and may also affect "alt-A" mortgage loans, which generally refers to loans made to borrowers with good credit but for which limited documentation or no documentation of borrower income and/or assets was required in connection with their loan application, and even "prime" mortgage loans, which generally refers to loans made to borrowers with excellent credit who provide full documentation. Compared with prime loans, subprime and alt-A loans typically have higher loan-to-value ratios, reflecting the greater difficulty that these borrowers have in making

down payments and the propensity of these borrowers to extract equity during refinancing. Historically, these borrowers pay higher rates of interest, go into delinquency more often and have their properties foreclosed on at a higher rate than prime borrowers. In addition, losses related to defaulted loans with higher initial loan-to-value ratios are generally higher than losses related to defaulted loans with lower initial loan-to-value ratios. As the Fund may invest in one or more of these types of mortgage loans and securities backed by such mortgage loans, the performance of the Fund may be sensitive to the same economic factors that affect these types of mortgage loans.

Market conditions may impair borrowers' ability to refinance or sell their residential properties, which may contribute to higher delinquency and default rates. These risks could be exacerbated to the extent that prevailing mortgage interest rates increase from current levels. If there is significant home price depreciation, it may also leave borrowers with insufficient equity in their homes to enable them to refinance. Borrowers who are unable to make the minimum monthly payments on their mortgage loans and intend to sell their homes may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their mortgage loans. While some mortgage loan originators and servicers have created or otherwise are participating in modification programs in order to assist borrowers with refinancing or otherwise meeting their payment obligations, not all borrowers will qualify for or will take advantage of these opportunities.

Unfavorable economic conditions could increase the likelihood of delinquencies and defaults. A general unavailability of credit also affects the overall economy in ways that could result in increased delinquencies and defaults on residential mortgage loans.

Another factor that may in the future result in, higher delinquency rates in residential mortgage markets is the increase in monthly payments on adjustable-rate mortgage loans ("ARMs") and/or pay option ARMs, each of which presents special default and prepayment risks.

Borrowers with ARMs are being exposed to increased monthly payments (1) when the related mortgage interest rate adjusts upward from the then-current rate to the rate computed in accordance with the applicable index and margin, (2) if interest rates rise significantly, (3) in the case of interest-only mortgage loans that are still in an interest-only period, from the large increases in monthly payments when the interest-only terms expire and the monthly payments on these loans are recalculated to amortize the outstanding principal balance over the remaining term and/or (4) in the case of loans with negative amortization features, from the large increases in monthly payments when the payments are recalculated to amortize the outstanding principal balance, including amounts of deferred interest on such loans.

Pay option ARMs permit a borrower, for a limited period of time, to elect to make a monthly payment that may be insufficient to pay the full amount of interest due on the loan. Borrowers with pay option ARMs are exposed to even greater increases in monthly payments due to the negative amortization of the principal balances of their loans. These increases in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with ARM loans. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Many borrowers who might otherwise qualify for refinancing have been unable to obtain new loans due to conditions in the credit markets. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed-rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance

of their loans, or that prospective buyers of their homes are unable to obtain financing. These events, alone or in combination, may contribute to higher delinquency rates or defaults.

Regulation of the Mortgage Industry and the Dodd-Frank Act. In response to the financial crisis of 2008, the United States government implemented sweeping financial and regulatory reform legislation. These reforms have created a level of uncertainty in the securitization market and the financial markets, generally, particularly with respect to mortgage-related investments. Securities, futures and credit markets, and originators and servicers of residential mortgage loans are subject to comprehensive statutes and extensive regulation by federal, state and local governmental authorities. Loans, and their related origination and servicing practices, are highly regulated consumer finance products and are subject to federal, state and local laws. Violations or alleged violations of federal, state or local laws could result in a reduction in the amount available from a mortgage loan and could otherwise affect the performance of the Master Fund's other Investments. In addition, violations, or even alleged violations, by loan servicers of laws or regulations applicable to mortgage loan origination and servicing, could adversely affect any such entity's ability to continue its performance of its obligations with respect to the mortgage loans.

In addition, the Dodd-Frank Act includes extensive changes to the laws regulating financial services firms, which included the creation of (i) the Consumer Financial Protection Bureau (the "CFPB") within the Federal Reserve to regulate consumer financial services and products and (ii) the Financial Stability Oversight Council to identify, monitor and address emerging systemic risks posed by the activities of financial services firms and make recommendations to the Federal Reserve to alleviate those risks. The CFPB has sole rulemaking and interpretive authority under existing and future consumer financial services laws and supervisory, examination and enforcement authority over institutions subject to its jurisdiction.

The law also provides for enhanced regulation of derivatives and securitization transactions (including the addition of risk retention requirements, third-party due diligence disclosure requirements, expanded asset-level data requirements and new standards relating to eligibility of securities as "mortgage-related securities" under the Exchange Act), restrictions on executive compensation and enhanced oversight of credit rating agencies. In addition, the law provides for the elimination of prepayment penalties for mortgage loans and expanded consumer protection in respect of high-cost loans.

The CFPB, U.S. Treasury Department, several regulatory bodies and state attorneys general have increased scrutiny of mortgage servicers and have imposed, or are seeking to impose, requirements on servicers to substantially revise their servicing practices, including the establishment of national servicing standards that would be applicable to all residential mortgage servicers. For example, such regulatory action may require servicers to make several enhancements to their servicing operations, including implementation of a single point of contact model for borrowers throughout the loss mitigation and foreclosure processes; adoption of measures designed to ensure that foreclosure activity is halted once a borrower has been approved for a modification unless the borrower fails to make payments under the modified loan; implementation of enhanced controls over third-party vendors that provide default servicing support services; and retention of an independent consultant to conduct a review of all foreclosure actions pending, or that have occurred within a specified period.

Actions that have been taken and may be taken in the future by the U.S. government or by state or municipal governments may have the effect of encouraging, or may require, that the terms of

residential mortgage loans be modified in order to reduce the applicable interest rate, reduce the outstanding principal amount, extend the term to maturity or otherwise benefit the borrower to the detriment of the holder of the mortgage loan. These loan modifications may affect only residential mortgage loans that are in default or may also affect other loans as to which the borrower has negative equity in the mortgaged property or is otherwise considered to be disadvantaged or deserving of assistance. Investments held by the Fund could be adversely affected, resulting in decreased yield or losses to investors.

There can be no assurance that governmental actions and regulations will have a beneficial impact on the financial markets. To the extent the market does not respond favorably to these initiatives or these initiatives do not function as intended, the Fund may not receive a positive impact from the legislation. It is also possible that competitors may utilize the programs, which would provide them with attractive debt and equity capital funding from the U.S. government. In addition, the U.S. government, the Federal Reserve, the U.S. Treasury and other governmental and regulatory bodies may consider taking other actions to address the lingering effects of the financial crisis. KCM cannot predict whether or when such actions may occur, and such actions could have a dramatic impact on the business, results of operations and financial condition of the Fund.

Risks Associated with Foreclosure and Bankruptcy. In addition to the procedural delays and uncertainties generally incident to the mortgage foreclosure process in various jurisdictions, several courts and state and local governments and their elected or appointed officials also have taken unprecedented steps to slow the foreclosure process or prevent foreclosures altogether. Several laws have been enacted for these purposes, including in California. It has been widely reported that irregularities in foreclosure processes have been discovered with respect to certain servicers of residential mortgage loans. In judicial foreclosure proceedings and in certain non-judicial foreclosure actions and proceedings, affidavits and other legal pleadings establishing the basis for the foreclosure must be submitted to the applicable court. Such filings are required to be based on the personal knowledge of the facts asserted by the person signing the filings. Many servicers attempted to streamline this process by employing individuals whose sole function is to sign such pleadings. Lawsuits have charged that these individuals signed and filed tens of thousands of foreclosure affidavits without following proper procedures, including without examining the related documentation to ensure knowledge of the facts being asserted and signing foreclosure affidavits in the presence of a notary public as required. As a result of the disclosure of these practices, several large servicers temporarily halted all foreclosures to conduct reviews of their procedures.

As a result of the review by regulators of deficiencies in servicing and foreclosure practices, certain servicers entered into a consent order with the Office of the Comptroller of the Currency (the “OCC”) and agreed to specific commitments regarding servicing and foreclosure practices for delinquent mortgage loans, which are designed to ensure timely and accurate decisions and effective quality control and risk management (the “OCC Enforcement Action”). On January 7, 2013, the OCC and the Federal Reserve reached an \$8.5 billion settlement agreement with ten U.S. banks arising from the OCC Enforcement Action regarding alleged foreclosure abuses (the “2013 Servicing Settlement”). Part of the 2013 Servicing Settlement provides for financial relief for affected homeowners, including loan modifications and principal reductions, which could have an adverse effect on the value of a mortgage loan.

Certain members of Congress, other political leaders and consumer advocacy groups have called for government-imposed moratoria on foreclosures from time-to-time. There can be no assurance

that federal or state governments will not impose such moratoria. Any of these types of laws, regulations, rules, moratoria or proceedings could result in substantial delays in, or prevention of, the foreclosure process, and may lead to reduced payments by borrowers, increased reimbursable servicing expenses, reduced proceeds from further depressed home prices, and additional defaults. In addition, the uncertainty regarding the validity of foreclosures may limit or reduce the potential number of buyers and/or the prices of property for sale after such property is acquired through foreclosure. Any of these consequences may lead to increased losses to the Fund.

In addition to the foregoing developments, the existing “right of redemption” in certain states may limit the ability of servicers to sell (or cause the sale of), or prevent a servicer from selling (or causing the sale of), an REO at what would otherwise be an appropriate time for sale. In some states, after sale pursuant to a deed of trust or foreclosure of a mortgage, the borrower and foreclosed junior lienors are given a statutory period in which to redeem the property from the foreclosure sale. In other states, including California, this right of redemption applies only to sales following judicial foreclosure, and not to sales pursuant to a non-judicial power of sale. In most states where the right of redemption is available, statutory redemption may occur upon payment of the foreclosure purchase price, accrued interest and taxes. In other states, redemption may be authorized if the prior borrower pays only a portion of the sums due. The effect of a statutory right of redemption is to diminish the ability of the lender to sell the foreclosed property. The exercise of a right of redemption would defeat the title of any purchaser from the lender subsequent to foreclosure or sale under a deed of trust. Consequently, the practical effect of the redemption right is to force the lender to retain the property and pay the expenses of ownership until the redemption period has run.

Similar to foreclosure considerations, bankruptcy proceedings that involve a mortgage loan could impede the related servicer’s ability to take actions that are necessary or appropriate to preserve the value of the mortgage loan. Although mortgage cram-down legislation was not included in the Dodd-Frank Act, no assurance can be made that future efforts by members of Congress to enact such legislation will not succeed in the future. Various proposals would have allowed a bankruptcy judge in a Chapter 13 proceeding, subject to the satisfaction of certain conditions, to modify the terms of a debtor’s mortgage loan to:

- Bifurcate the mortgage loan into secured and unsecured portions by allowing the debtor to establish a current market value for the mortgaged property and reducing the amount of the secured mortgage loan to such newly established current market value. The unsecured portion of the mortgage loan would be forgiven if the debtor satisfies the requirements of the bankruptcy plan;
- Modify the interest rate of the mortgage loan by reducing the interest rate or delaying interest rate reset dates for an adjustable-rate loan and reducing the interest rate for a fixed-rate loan; and
- Extend the amortization period of the mortgage loan for up to the longer of 40 years or the remaining term of the original loan.

If a similar legislative proposal were passed in the future, the bifurcation of mortgage loans into secured and unsecured portions and the resulting “cram-down” of secured portions of mortgage loans subject to Chapter 13 proceedings to newly established market values could have a negative impact on the value of mortgage loans if this results in losses on the related mortgage loans higher

than those which would have occurred pursuant to traditional loss mitigation and loan modification procedures. Any such cram-down modification by a bankruptcy judge could have a significant impact on the principal and interest collections on the related loans, and therefore may have a significant impact on payments to the owner of the mortgage loans and the Fund.

Risk of Future Legislative, Regulatory or Judicial Action. There can be no assurance as to what actions might be taken by any federal, state or municipal legal authority that may adversely affect investments held by the Fund. Such actions could include, by way of example, further restrictions on the ability of the holder of a mortgage loan to foreclose upon default by the borrower or delays in the foreclosure process, encouragement of modification of the terms of mortgage loans in ways that may be adverse to the interests of the holder of the mortgage loans or of related securities, and judicial determinations as to whether particular types of mortgage loans are “unfair” under applicable law.

Lack of Information Regarding Underwriting Standards; Higher Expected Delinquencies in Payment. The Fund may acquire mortgage loans or from unaffiliated institutions, finance companies and other sellers. When investing in such mortgage loans from time to time, the seller will not have information available to it as to the underwriting standards that were applied in originating the mortgage loans, and such mortgage loans may have been originated in accordance with standards less strict than those of the agencies. Similarly, when acquiring loans through third-party origination (“TPO”), the Fund may have limited information on the underwriting standards that were applied in originating such loan. As a result, certain mortgage loans owned by the Fund may experience higher than expected rates of delinquency and defaults, which could result in losses to the Fund. Changes in the values of mortgaged properties may have a greater effect on the delinquency, default and loss experience of the mortgage loans in the Fund than on mortgage loans that were originated under stricter guidelines.

Risks Related to Investments in Mortgage Loans

Re-performing Mortgage Loans. The Fund may invest in mortgage loans that have previously been in default or delinquent in payment and that, at the time such mortgage loans are acquired by the Fund, are in compliance with the terms of the related mortgage loan documents and are no longer delinquent. While these mortgage loans may have been acquired at a price that reflects the fact that the mortgage loans are re-performing at the time of acquisition, there can be no assurance that such mortgage loans will continue to be current and/or in compliance with the terms of the related mortgage loan document during the time period in which the Fund own such mortgage loans. It is therefore possible that re-performing loans may become non-performing loans and be subject to the same related risks.

Interest-Only Mortgage Loans. The Fund may invest in interest-only mortgage loans for pools of interest-only mortgage loans. Interest-only mortgage loans permit the borrowers to make monthly payments of only accrued interest for a period of time following origination, generally the first 60 or 120 months. After such interest-only period, the borrower’s monthly payment will be recalculated to cover both interest and principal so that the mortgage loan will amortize fully prior to its final payment date. If the monthly payment increases, the related borrower may not be able to pay the increased amount and may default or may refinance the related mortgage loan to avoid the higher payment. Interest-only mortgage loans reduce the monthly payment required by borrowers during the interest-only period and consequently the monthly housing expense used to qualify borrowers. As a result, the interest-only mortgage loans may allow some borrowers to

qualify for a mortgage loan that would not otherwise qualify for a fully amortizing mortgage loan or may allow them to qualify for a larger mortgage loan than otherwise would be the case.

Troubled Origination. The investments chosen by KCM may have been originated by financial institutions or other entities that are insolvent, in serious financial difficulty or no longer in existence. As a result, the standards by which such investments were originated, the recourse to the selling institution, or the standards by which such investments are being serviced or operated may be adversely affected.

Geographic Concentration of Mortgage Loans. The mortgage loans and securities backed by mortgage loans in which the Fund may invest 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 properties located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, floods, hurricanes, wildfires, mudslides and other natural disasters. 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 mortgage loans 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 or losses on the mortgage loans. Natural disasters, such as wildfires, severe storms, tornadoes, hurricanes and flooding affecting regions of the United States from time to time may also result in prepayments of or losses on mortgage loans. These factors and others may adversely affect the value of mortgage properties in some geographic regions and affect the performance of the Fund.

Credit Scores May Not Accurately Predict the Performance of the Mortgage Loans. KCM may rely on credit scores as part of its due diligence process. Credit scores are obtained by many lenders in connection with mortgage loan applications to help them assess a borrower's creditworthiness. Credit scores are generated by models developed by a third party that analyzed data on consumers in order to establish patterns that are believed to be indicative of the borrower's probability of default over a two-year period. The credit score is based on a borrower's historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit and bankruptcy experience. Credit scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a credit score purports only to be a measurement of the relative degree of risk a borrower represents to a lender (*i.e.*, a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score). Lenders have varying ways of analyzing credit scores and, as a result, the analysis of credit scores across the industry is not consistent. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assess only the borrower's past credit history. Therefore, a credit score does not take into consideration the effect of mortgage loan characteristics (which may differ from consumer loan characteristics) on the probability of repayment by the borrower. There can be no assurance that the credit scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans.

Environmental Risks. Real property pledged as security for a mortgage loan may be subject to certain environmental risks. Under the laws of certain states, contamination of a property may give rise to a lien on the property to ensure payment of the costs of cleanup. In several states, such a lien has priority over the lien of an existing mortgage against the property. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, a lender may be liable, as an “owner” or “operator”, for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property if agents or employees of the lender have become sufficiently involved in the operations of the borrower, regardless of whether or not the environmental damage or threat was caused by a prior owner.

A lender also risks such liability on foreclosure of the mortgage. Any such lien arising with respect to a mortgaged property would adversely affect the value of the mortgaged property and could make impracticable foreclosure on the mortgaged property in the event of a default by the related borrower. In addition, certain environmental laws impose liability for releases of asbestos into the air. Third parties may seek recovery from owners or operators of real property for personal injury associated with exposure to asbestos, lead paint, radon or other hazardous substances. Property owners in some areas have been subject to liability claims associated with mold.

Violation of Various Federal, State and Local Laws May Result in Losses on the Mortgage Loans. Violation of certain Federal, state or local laws and regulations relating to the protection of consumers, unfair and deceptive practices and debt collection practices may limit the ability of the Fund to collect all or part of the principal of or interest on the mortgage loans and, in addition, could subject the Fund to damages and administrative enforcement.

Homeowner Association Super Priority Liens. In some jurisdictions it is possible that the first lien of a mortgage may be extinguished by super priority liens of homeowners’ associations (“HOAs”), potentially resulting in a loss of the outstanding principal balance of the mortgage loan. In a number of states, HOA or condominium association assessment liens can take priority over first lien mortgages in certain circumstances. The number of these so called “superlien” jurisdictions has increased in the past few decades and may increase further. Approximately 20 states, including Colorado, Massachusetts, Maryland, New Hampshire, New Jersey, Oregon, and West Virginia, have statutes that give HOA or condominium assessment liens superlien status under certain circumstances. In Colorado, Massachusetts, and New Jersey, for example, HOAs have a super lien that has priority over a first deed of trust to the extent of six months’ worth of common expense assessments which would have become due before a foreclosure. In Nevada, nine months of assessments have super-lien status. In these jurisdictions, their superlien statute provides the HOA or condominium association with a true lien priority rather than a payment priority from the proceeds of the sale, creating the ability to extinguish the existing senior mortgage and greatly increasing the risk of losses on mortgage loans secured by homes whose owners fail to pay HOA or condominium fees.

There is currently no efficient mechanism available to loan servicers to track the status of payments of HOA assessments that are governed by superlien statutes. There is no unified database for HOA information nor is there a centralized place for HOAs and loan servicers to contact one another. Consequently, in some superlien jurisdictions there is often no practical, systemic method for a servicer to determine when an HOA assessment is unpaid or when the HOA initiates foreclosure of its lien. In some circumstances a servicer may make a servicing advance to pay (i) delinquent HOA fees or (ii) the costs of determining whether any mortgaged property is subject to an HOA

or related lien.

If an HOA, or a purchaser of an HOA superlien, completes a foreclosure in respect of an HOA superlien on a mortgaged property, the related mortgage loan may be extinguished. In those circumstances, the Fund could suffer a loss of the entire principal balance of such mortgage loan. The servicer might be able to attempt to recover, on an unsecured basis, by suing the related borrower personally for the balance, but recovery in these circumstances will be problematic if the related borrower has no meaningful assets against which to recover.

Special Assessments and Energy Efficiency Liens May Take Priority Over the Mortgage Lien. Mortgaged properties securing mortgage loans may be subject to the lien of special property taxes and/or special assessments. These liens may be superior to the liens securing the related mortgage loans, irrespective of the date of the mortgage. In some instances, individual mortgagors may be able to elect to enter into contracts with governmental agencies for Property Assessed Clean Energy (PACE) or similar assessments that are intended to secure the payment of energy and water efficiency and distributed energy generation improvements that are permanently affixed to their properties, possibly without notice to or the consent of the mortgagee. These assessments may also have lien priority over the mortgages securing the related mortgage loans. No assurance can be given that any mortgaged property so assessed will increase in value to the extent of the assessment lien. Additional indebtedness secured by the assessment lien would reduce the amount of the value of the mortgaged property available to satisfy the affected mortgage loan in the case of a sale or foreclosure of the related mortgaged property.

Foreclosure and Bankruptcy. When delinquent mortgage loans are resolved through foreclosure, the unpaid balance of such loans may cease to be a part of the aggregate unpaid principal balance. Also, delinquent mortgage loans resolved through foreclosure generally require more servicing advances over a longer time horizon prior to reimbursement as compared with servicing advances made with respect to delinquent mortgage loans that are resolved through repayment or permitted loan modifications. Accordingly, foreclosures could reduce the return to the Fund. Further, some legislatures have instituted stringent proof of ownership requirements that a servicer must satisfy before commencing a foreclosure action, which could increase costs or provide delays in foreclosure.

Risks Associated with Multifamily Mortgage Loans. The Fund may invest in multifamily mortgage loans. The value of the Fund's multifamily mortgage loans will be influenced by the rate of delinquencies and defaults experienced on the relevant multifamily mortgage loans and by the severity of loss incurred as result of such defaults. The factors influencing delinquencies, defaults and loss severity include: (i) economic and real estate market conditions; (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan. Multifamily mortgage loans are generally viewed as having a greater risk of loss through delinquency and foreclosure than lending on the security of single-family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (i.e., the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses and comply with applicable zoning and laws) rather than upon the existence of independent income or assets of the borrower. Many multifamily mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Multifamily mortgage loans generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining “balloon” amount at or prior to maturity of the mortgage loan. Accordingly, investors in multifamily mortgage loans bear the risk that the borrower will be unable to sell the property, refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower’s obligation. Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

Risks Relating to the Investments

Investments in real estate related assets will expose the Fund to a high degree of risk. Real estate historically has experienced significant fluctuations and cycles in value and the Fund may buy and/or sell investments at less-than-optimal times. The marketability and value of the investments will depend on many factors beyond the control of the Fund. The ultimate performance of the investments will be subject to the varying degrees of risk generally related to the ownership and management of interests in, or related to, real property. The ultimate value of the investments depends upon the Fund’s ability to identify, acquire, develop and dispose of investments in a profitable manner. The value of each investment may be adversely affected by changes in national or international economic conditions; changes in local market conditions such as changes in general or local economic conditions and neighborhood characteristics; the financial condition of tenants, buyers and sellers of properties; competition from prospective buyers for, and sellers of, other similar properties; changes in interest rates and in the availability, cost and terms of financing; the impact of present or future environmental legislation and compliance with environmental laws; changes in tax rates and other operating expenses; adverse changes in governmental rules and fiscal policies; civil unrest; pandemics; national emergencies; catastrophes, including earthquakes, hurricanes and other natural disasters; acts of war; acts of terrorism (any of which may result in uninsured losses); adverse changes in zoning laws; and other factors that are beyond the control of the Fund. In the event that any of the properties that comprise the investments experience any of the foregoing event or occurrences, the value of and return on such investments would be negatively impacted.

Investments may have a lack of availability and high competition. The Fund’s returns will be dependent upon the availability of, as well as KCM’s ability to identify, consummate, manage and realize attractive real estate investment opportunities. It may take considerable time for the Fund to identify and consummate appropriate investments. No assurance can be given that the Fund will be successful in identifying and consummating investments that satisfy the Fund’s rate of return objective or that such investments, once consummated, will perform as expected. The Fund will be competing for attractive investments with existing real estate investment funds and other funds formed in the future with similar or different investment objectives. These factors may affect the Fund’s ability to invest all of the available capital and achieve the targeted returns.

Investments may be illiquid. A substantial portion of the Fund’s assets may consist of securitized mortgage obligations, mortgage-backed loans, structured assets or other financial instruments that are not actively or widely traded, and the Fund may invest in illiquid securities, or securities that become illiquid after the Fund’s investments in such securities. Mortgage-backed loans and asset-backed securities are generally less liquid than are other securities (e.g., stocks or U.S. Treasury

bonds). A reduction in dealer market-making capacity in the fixed income markets would have the potential to further reduce liquidity. Certain securities and other investments held by the Fund may also be illiquid because, for example, they are subject to legal or other restrictions on transfer. Valuation of the Fund's investments may be difficult or uncertain, including with respect to securities, because there may be limited information available about the issuer. In addition, the sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Fund may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Even those markets which are expected to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid. Consequently, it may be relatively difficult for the Fund to dispose of certain investments rapidly and at favorable prices in connection with withdrawal requests, adverse market developments or other factors.

The Fund may invest in undervalued assets. The Fund may invest in undervalued instruments. The identification of investment opportunities in undervalued instruments is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While Investments in undervalued instruments offer the opportunity for above-average capital appreciation, these Investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Fund's investments may not adequately compensate for the business and financial risks assumed.

Leverage. The Fund generally intends to lever its assets through various types of financings, including seller financing, and through various securitization vehicles. KCM may also cause the Fund to leverage its investment returns which would include entering into repurchase or other credit facilities, secured by assets of the Fund. While leverage presents opportunities for increasing the Fund's total returns, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment by the Fund would be magnified to the extent the Fund is leveraged. The cumulative effect of the use of leverage by the Fund in a market that moves adversely to the Fund's investments could result in a substantial loss to the Fund, which would be greater than if the Fund was not leveraged. Leverage will increase the exposure of the Fund to adverse economic factors such as significantly rising interest rates, severe economic downturns or deterioration in the condition of the Fund's investments or their corresponding markets.

Investments Longer than Term. The Fund may make investments, which may not be advantageously disposed of prior to the date that the Fund will be dissolved, either by expiration of the Fund's term or otherwise. The Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. There can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the investors will occur.

General Economic and Market Conditions. The success of the Fund's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, rules and regulations (including laws relating to taxation of the Fund's investments), trade barriers, currency exchange controls, national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity of the Fund's investments.

Volatility or illiquidity could impair the Fund's profitability or result in losses.

Long-Term. The success of the Fund's long-term investment strategy depends upon KCM's ability to identify and purchase investments that are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, the Fund may forego value in the short-term or temporary investments in order to be able to avail itself of additional and/or longer-term opportunities in the future.

Co-Investments. The Fund may make direct or indirect investments in which other parties co-invest. In such an event, the Fund may not be in a position to unilaterally control 100% of the investments or unilaterally exercise certain rights associated with such investments. It is anticipated that allocations of investments among investment accounts or Fund will generally be made in accordance with KCM's Investment Allocation Policy. Notwithstanding the foregoing, the Fund will not enter into any co-investment in which the Fund invests less than 50% of the capital for such investment, *provided, however*, that the Fund may make co-investments in which the Fund invests 50% or less of the capital for such investment if at the time of such investment the Fund lacks sufficient unfunded capital commitments to make such investment without a co-investment partner. Any co-investment will be done in a collaborative nature consistent with market practice.

Fair Value Asset Valuation. The Fund's investments will be presented in its financial statements on a "fair value basis." In the case of many of the Fund's investments, it is unlikely that readily available price quotations will exist. Accordingly, investors will need to rely on the judgment of the Fund's management and accountants for valuing and pricing such Fund investments both for financial statement purposes and in connection with disposing of such investments.

Use of Valuations. Unlike exchange-listed and other readily tradable securities, many types of real estate debt assets generally cannot be marked to an established market. Real estate debt valuations are subject to numerous assumptions and limitations and are in part based upon the value of the real estate securing or supporting such debt investment. Ultimate realization of the market value of a real estate debt asset depends to a great extent on economic and other conditions beyond the control of the Fund, and KCM. Further, appraised or otherwise determined values of a real estate debt asset do not necessarily represent the price at which such underlying real estate investment would sell since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Generally, appraisals will consider the financial aspects of a property, market transactions and the relative yield for an asset measured against alternative investments. As a result, if the Fund were to acquire the real estate underlying a real estate debt asset, by foreclosure or otherwise, and if the Fund were to liquidate such real estate, the realized value to the Fund may be more or less than the amount due and owing on the Fund's debt investment.

Necessity for Counterparty Trading Relationships; Counterparty Risk in General. The Fund expects to establish relationships to obtain financing, derivative intermediation and brokerage services that permit the Fund to trade in any variety of markets or asset classes over time. There can be no assurance that the Fund will be able to establish or maintain such relationships. An inability to establish or maintain such relationships would limit the Fund's trading activities and could create losses, preclude the Fund from engaging in certain transactions, financing, brokerage services and prevent the Fund from trading at optimal rates and terms. Moreover, a disruption in the financing, and brokerage services provided by any such relationships before the Fund establishes additional relationships could have a significant impact on the Fund's business due to the Fund's reliance on

such counterparties.

Some of the markets in which the Fund may effect transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This potential occurrence exposes the Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Fund to suffer a loss. In addition, in the case of a default, the Fund could become subject to adverse market movements while replacement transactions are executed. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund may have concentrated its transactions with a single counterparty or small group of counterparties.

Furthermore, there is a risk that any of the Fund’s counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Fund’s counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of the Fund’s securities and other assets from the Fund’s broker-dealers will be delayed or be of a value less than the value of the securities or assets originally entrusted to such broker-dealer. Notwithstanding the foregoing, the Fund will only own fully paid securities. The Fund is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, the Fund’s internal credit function which evaluates the creditworthiness of the Fund’s counterparties may prove insufficient. The ability of the Fund to transact business with any one or more counterparties, the lack of complete and “foolproof” evaluation of the financial capabilities of the Fund’s counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Fund.

Systemic Risk. Credit risk may also arise through a default by one or more several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Fund interacts on a daily basis.

Volatility Risk. The Fund’s investment strategy may involve the purchase and sale of relatively volatile instruments such as derivatives, which are frequently valued based on implied volatilities of such derivatives compared to the historical volatility of underlying financial instruments. Fluctuations or prolonged changes in the volatility of such instruments, therefore, can adversely affect the value of investments held by the Fund.

Interest-Rate Risks. The prices of assets held by the Fund may be sensitive to interest-rate fluctuations. The Fund is not obligated to hedge its exposure to interest-rate, or any other risks. The value of the fixed rate securities in which the Fund invests generally will have an inverse relationship with interest rates. Furthermore, the higher a fixed rate security’s duration, the greater its price sensitivity to changes in interest rates. In addition, to the extent that the receivables or loans underlying specific securities are prepayable without penalty or premium, the value of such securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

Competition; Availability of Investments. The markets in which the Fund will invest are competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Fund will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, REITs, large financial institutions, the public equity markets and other investors may reduce the availability of investment opportunities. Competitive investment activity by other firms and institutions will reduce the Fund's opportunity for profit by generally increasing price pressure on desired assets, reducing mispricings in the market as well as the margins available on those mispricings that can still be identified. Some investors may also be competitors of the Fund and any such conflicts of interest will be addressed in accordance with the Fund's governing documents. Additionally, a minority investor in KCM is a competitor of the Fund and may bid against the Fund for the same investment opportunities.

Debt Instruments Generally. The Fund may invest in private and government debt securities and instruments. It is likely that many of the debt instruments in which the Fund invests may be unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these instruments and may have an adverse impact on the value of such instruments. It also is likely that any such economic downturn could adversely affect the ability of the issuers of such instruments to repay principal and pay interest thereon and increase the incidence of default for such instruments.

Hedging Generally. The Fund may invest in various securities, derivatives, indexes and cash equivalents and related instruments both to hedge its portfolio positions and to seek to meet the Fund's investment objectives opportunistically as more fully described above. The success of the Fund's hedging strategy is subject to the ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many instruments change as markets change or time passes, the success of the instances when the Fund hedges portfolio positions is also subject to the ability for hedges to be continually recalculated, readjusted and executed in an efficient and timely manner. While the Fund may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging transactions. For a variety of reasons, a perfect correlation may not be established between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. Moreover, the portfolio will always be exposed to certain risks that may not be hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Fund's portfolio holdings. The Fund will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally.

Fraud. Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may

adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Fund to perfect or effectuate a lien on the collateral securing the loan. The Fund will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Non-performing Nature of Debt. It is anticipated that certain debt instruments the Fund may purchase will be non-performing and possibly in default or may have previously been non-performing and possibly been in default. Furthermore, the obligor may also be in bankruptcy or liquidation or may have previously been in bankruptcy. There can be no assurance as to the amount and timing of payments, if any, with respect to these instruments and as a result there can be no assurance that the Fund will achieve its investment objective.

Exposure to Material Non-Public Information. From time to time, KCM may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Fund may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

Uncertain Exit Strategies. Due to the illiquid nature of many of the positions which the Fund is expected to acquire, as well as the uncertainties of the active management process, KCM is unable to predict with confidence what the exit strategy will ultimately be for any given investment, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

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

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

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

Data security breaches and other disruptions could compromise KCM's information and expose KCM to liability, which would cause its business and reputation to suffer. In the ordinary course of KCM's business, the company stores sensitive data, including borrower information, asset information, its proprietary business information and that of its business partners and affiliates, and personally identifiable information of its employees, in its data centers and on its networks. The secure processing, maintenance and transmission of this information is critical to KCM's operations and business strategy. Despite its security measures, KCM's information technology and infrastructure may be vulnerable to hacker attacks or other data security breaches due to employee error, malfeasance or other disruptions. Any such data security breach could compromise KCM's networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disrupt KCM's operations and the services it provides to the investors, damage its reputation, and cause a loss of confidence in KCM's advice and services, which could adversely affect its business as well as operating margins, revenues, and competitive position.

Investments may not be diversified. While the Fund intends to diversify its investments both geographically and by property type, there is no assurance as to the degree of diversification that will actually be achieved in the investments. Furthermore, the Fund may make investments in contemplation of sales or refinancings that do not occur as expected, resulting in the Fund having an unintended long-term investment and reduced diversification. Since the Fund may only make a limited number of investments and since many of the investments may involve a high degree of risk, poor performance by a few of the investments could severely affect the total returns to investors.

Investments may not achieve their intended rate of return. The Fund will make investments based on KCM's estimates or projections of internal rates of return and current returns, which, in turn, are based on, among other considerations, assumptions regarding the performance of Fund assets, the amount and terms of available financing and the manner and timing of dispositions of investments, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that have not been anticipated may occur and may have a significant effect on the actual rate of return on the investments.

Additional Risks Related to Investments in Mortgage-Backed and Asset-Backed Securities

Mortgage-Backed and Asset-Backed Securities Generally. The Fund may invest in MBS and asset-backed securities ("ABS"), including subordinated tranches of such securities. The value of MBS and ABS will be influenced by factors affecting the value of the underlying assets, and by the terms and payment histories of such MBS and ABS.

Some or all of the MBS and ABS contemplated to be acquired by the Fund may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated MBS and ABS, or "B-pieces", in which the

Fund intend to invest have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than “B” by the rating organizations can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner’s equity in the property may be insufficient to protect the Fund from loss. As an investor in subordinated MBS and ABS in particular, the Fund will be first in line among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral.

The Fund may acquire subordinated tranches of MBS and ABS issuances. In general, subordinated tranches of MBS and ABS are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and also have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of non-payment than are senior tranches of MBS and ABS or MBS and ABS backed by third-party credit enhancement. In addition, an active secondary market for such subordinated securities is not as well developed as the market for certain other mortgage-backed securities. Accordingly, such subordinated MBS and ABS may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

Some investment characteristics of MBS and ABS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying mortgages (or other assets) generally may be prepaid at any time. The frequency with which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans and other assets underlying MBS and ABS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. Although ABS are generally less likely to experience substantial prepayments than are residential MBS, certain of the factors that affect the rate of prepayments on residential MBS also affect the rate of prepayments on ABS. Particular investments may experience outright losses, as in the case of an interest only security in an environment of accelerated actual or anticipated prepayments. Particular investments will be affected by the credit quality of their underlying loan and the creditworthiness of the borrower. Also, particular investments may underperform relative to hedges that the Fund may have constructed in these investments, resulting in a loss.

Residential MBS. The Fund may invest in residential MBS (“RMBS”) including subordinated tranches of RMBS. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. The value of RMBS will therefore be influenced by factors affecting the value of the underlying portfolio or mortgage loans, as discussed below, and by the terms and payment histories of such RMBS. These risks, which are discussed below in the context of the underlying mortgage loans and the mortgage market in general, include, without limitation, default, delinquencies, prepayment and modification risks, as well as interest rate and general market risks.

In addition, residential mortgage loans underlying RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, delay foreclosures or permit or encourage modifications, which could have an adverse effect on the value of a mortgage

loan and the corresponding RMBS. Violation of such laws, public policies and principles may limit the servicer's ability to collect all or part of the principal or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

The value of RMBS and other mortgage-backed securities in which the Fund may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities will decline. In addition, to the extent that the mortgage loans which underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

In addition, it is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Servicing Advances. Most RMBS transactions will have provided for the servicers to make certain monthly advances (of principal and interest) and servicing advances pursuant to the applicable servicing agreements. As indicated above, the costs of servicing an increasingly delinquent mortgage loan portfolio may be rising without a corresponding increase in servicing compensation. Any regulatory oversight, proposed legislation and/or governmental intervention designed to protect consumers or otherwise may have an adverse impact on servicers and, as a result, may have an adverse impact on mortgage loans and on RMBS. These factors, among others, may have the overall effect of increasing costs and expenses of servicers while at the same time decreasing servicing cash flow. Such financial difficulties may have a negative effect on the ability of servicers to pursue collections on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on the sale of underlying properties following foreclosure. Increased levels of delinquencies and defaults on subprime, Alt-A, other non-prime and prime mortgage loans also have resulted in increases in the amounts of advances by servicers of pooled mortgage loans, which may create liquidity and capacity pressures for servicers. In addition, a servicer may generally stop advancing on a mortgage loan when, in the good faith exercise of its servicing judgment, it believes the proposed advance would not ultimately be recoverable from the related mortgagor, related liquidation proceeds or other recoveries in respect of the mortgage loan. There can be no assurance as to the current or continuing financial condition of any mortgage servicer or its ability to access markets for financing such advances.

When home values depreciate, servicers have to reconsider their assumptions regarding when to make monthly advances and servicing advances to avoid making such advances beyond the time that reimbursement for such advances would be unlikely. Falling home prices result in higher loan-to-value ratios and combined loan-to-value ratios which yield lower recoveries in foreclosure, and an increase in loss severities above those that would have been realized had property values remained the same or continued to increase. If servicers make advances that are not recoverable from the proceeds of the related foreclosure, the Fund's investments in RMBS could suffer losses. In addition, in the event an RMBS servicer determines not to advance, the related RMBS trust will suffer an interest rate shortfall which may result in bond interest shortfalls and may result in lower available credit protection provided that this interest serves as a form of credit enhancement ("excess interest"). This combined with the existence of modification programs, including the Home Affordable Modification Program ("HAMP"), and potentially any bankruptcy cramdown legislation or equivalent change based on industry settlements or regulatory requirements, where

the servicer can recoup prior advances upon modification and reduce the mortgage interest rate or forbear principal of the underlying mortgage loans, there is the risk that the interest available to the underlying securitization will be reduced in some instances, increasing bond interest rate shortfalls and decreasing the overall credit protection of the bond. In addition, this modification of interest rates, specifically by changing adjustable rate loans into a modified loan with a fixed rate, will potentially increase the mismatch between the bond interest adjustment features and the underlying loans. This potential decline in RMBS bond interest may increase the risk of leverage and the basis mismatch between the underlying bonds and the financing.

Although RMBS transactions may provide that the loan servicer is required to make advances in respect of delinquent mortgage loans, servicers experiencing financial difficulties, including those resulting from or exacerbated by servicing-related settlements with governmental entities, regulators or as a result of various civil lawsuits, may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee. There may be contractual differences related to the requirement of the servicer to advance delinquent principal and interest.

Additional Risks Related to Investments in Derivatives

Trading in Derivatives. The Fund may utilize derivative instruments such as options, futures, forward contracts, total return swaps, credit default swaps, and interest rate swaps, caps and floors, to hedge against fluctuations in the relative values of its positions. These are instruments whose values are based upon underlying assets, indices or reference rates or a combination of these, and generally represent future commitments to exchange cash flows or to purchase or sell other financial instruments (or make an equivalent cash payment) at specified future dates. Certain derivatives (options and credit default swaps in particular) may have intrinsic value separate from the value of underlying assets based upon market perception of creditworthiness or expected volatility in the value of the asset. The use of derivatives involves a variety of material risks, including the possibility of counterparty non-performance as well as of deviations between the actual and theoretical value of the derivatives. Derivatives also are inherently subject to two sources of risk: risk of loss due to adverse changes in the value of the underlying asset and risk of loss due to the insolvency or creditworthiness of the counterparty. In addition, the markets for certain derivatives may be illiquid.

Derivatives are typically intrinsically leveraged investments that may entail investment exposures that are greater than the initial amount of collateral required to enter into the derivative, meaning that an investment in a derivative could ultimately incur losses many times greater than the initial collateral requirements and could therefore have a disproportionate effect on the performance of the Fund. The Fund could also experience losses if the derivatives that are acquired or sold as a hedge are poorly correlated with the investment to be hedged, or if the Fund is unable to liquidate a position because of an illiquid secondary market. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives.

Hedging with Derivative Instruments. The Fund may use derivative financial instruments, including without limitation, futures, swaps, options, floors, total return swaps, primarily for

leveraging and hedging purposes. The use of derivative instruments involves a variety of material risks, including the high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance, as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (*i.e.*, non-conformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to the Fund to close out positions in order either to realize gains or to limit losses.

Many of the derivatives which the Fund trades in will be principal to principal or “over the counter” contracts between the Fund and third parties entered into privately, rather than on an exchange. As a result, the Fund is not afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many of the derivatives which the Fund trades in will be principal to principal or “over the counter” contracts between the Fund and third parties entered into privately, rather than on an exchange. As a result, the Fund is not afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices. Many derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price that the same dealers would actually be willing to pay for such derivative should the Fund wish or be forced to sell may be materially different. Such differences can result in an overstatement of the Fund’s net assets and could materially adversely affect the Master Fund in situations in which the Fund is required to sell derivative instruments.

Interest-only securities (“IOS”) may be utilized by the Fund for hedging or other investment purposes. An IOS is a synthetic total return swap index that references the interest component of various coupons of 30-year fixed rate agency pools of loans. Indices are generally categorized by net coupon and yearly vintage. IOS provide exposure to agency pool coupon cashflows via synthetic total return swap contracts. Net cashflow exchanges are a function of the change in market value of the reference pool interest component and standard monthly exchanges of coupon and financing. Corresponding POS tranches represent the principal component and corresponding MBX tranches represent the entire cashflow stream. The Fund may make long or short investments in various tranches for hedging or other investment purposes.

Risks Related to Risk Retention Securities. The Fund may from time to time purchase certain securities subject to the regulations set forth in 12 CFR Part 244, commonly referred to as Regulation RR, and other similar requirements, contractual or otherwise, of Fannie Mae or Freddie Mac (the “Risk Retention Securities”) in connection with certain co-investment opportunities with third-party co-investors. The Fund, however, will not be permitted to acquire any Risk Retention Securities following the second anniversary of the Final Closing Date. Additionally, there is no readily available public market for such Risk Retention Securities and one is not expected to develop. Accordingly, the Fund may be unable to sell such Risk Retention Securities for an uncertain period of time.

Servicers and Sub-Servicers. The Fund relies on third parties to perform certain services

particularly as they relate to servicing, complying with applicable laws and regulations, and carrying out contractual covenants and terms, the failure of which by any of these third parties may adversely impact the business and financial results of the Fund.

For example, to conduct its business of acquiring loans, engaging in securitizations and structured transactions, and investing in third party issued securities and other assets, the Fund may rely on third party service providers to perform certain services, comply with applicable laws and regulations, and carry out contractual covenants and terms. Thus, the Fund is subject to the risks associated with a third party's failure to perform, including failure to perform due to reasons such as fraud, negligence, errors, miscalculations, or insolvency. In the event of an increase in mortgagors requesting relief in the form of forbearance plans and/or other loss mitigation, servicers and other parties responsible in capital markets securitization transactions for funding advances with respect to delinquent mortgagor payments of principal and interest may begin to experience financial difficulties if mortgagors do not make monthly payments. The negative impact on the business and operations of such servicers or other parties responsible for funding such advances could be significant. Sources of liquidity typically available to servicers and other relevant parties for the purpose of funding advances of monthly mortgage payments, especially entities that are not depository institutions, may not be sufficient to meet the increased need that could result from significantly higher delinquency and/or forbearance rates. The extent of such liquidity pressures in the future is not known at this time and is subject to continual change.

Additionally, the Fund may rely on third party servicers to service and manage the mortgage loans it owns and that underlie its business. The ultimate returns generated by these investments may depend on the quality of the servicer. If a servicer is not vigilant in seeing that borrowers make their required monthly payments, borrowers may be less likely to make these payments, resulting in higher default rates. If a servicer takes longer than expected to liquidate non-performing loans, the Fund's losses related to those loans may be higher than originally anticipated. Any failure by servicers to service these mortgages or to competently manage and dispose of the related real properties could negatively impact the value of these Investments and the Fund's financial performance. In addition, while the Fund may contract with third party servicers to carry out the actual servicing of the loans the Fund owns, the Fund is nevertheless ultimately responsible, vis-à-vis the borrowers and state and federal regulators, for ensuring that the loans are serviced in accordance with the terms of the related notes and mortgages and applicable law and regulation. Considering the current regulatory environment, such exposure could be significant even though the Fund might have contractual claims against its servicers for any failure to service the loans to the required standard.

Moreover, for a majority of the loans that the Fund may hold and securitize, the Fund holds the right to service those loans and may retain a sub-servicer to service those loans. In these circumstances, the Fund is exposed to certain risks, including, without limitation, that it may not be able to enter sub-servicing agreements on favorable terms to the Fund or at all, or that the sub-servicer may not properly service the loan in compliance with applicable laws and regulations or the contractual provisions governing their sub-servicing role, and that the Fund would be held liable for the sub-servicer's improper acts or omissions.

In its capacity as a servicer of mortgage loans, a sub-servicer will have access to borrowers' non-public personal information, and the Fund could incur liability for a data breach relating to a sub-servicer or misuse or mismanagement of data by a sub-servicer. The Fund also relies on technology

infrastructure and systems of third parties who provide services to the Fund and with whom the Fund transacts business. To the extent any one sub-servicer counterparty services a significant percentage of the loans with respect to which the Fund owns the servicing rights, the risks associated with the Fund's use of that sub-servicer are concentrated around this single sub-servicer counterparty. To the extent that there are significant amounts of advances that need to be funded in respect of loans where the Fund owns the servicing right, it could have a material adverse effect on the Fund's business and financial results.

An expansion of federal, state and local regulations and the investigations of servicers may increase their cost of compliance and the risks of noncompliance and may adversely affect their ability to perform their servicing obligations. Federal laws and regulations have also been proposed or adopted which, among other things, could hinder the ability of a servicer to foreclose promptly on defaulted residential loans, and which could result in assignees being held responsible for violations in the residential loan origination process. The COVID-19 pandemic expanded the relief available to borrowers under federal, state and local regulation by, among other things, encouraging loan modification programs, further restricting the ability of servicers to foreclose on defaulted residential loans, modifying credit reporting requirements associated with borrowers who received financial accommodations, and enhancing the regulatory complexity and regulatory risk of mortgage servicing. Certain mortgage lenders and third party servicers have voluntarily, or as part of settlements with law enforcement authorities, established loan modification programs relating to loans they hold or service. These federal, state and local legislative or regulatory actions that result in modifications of the Fund's outstanding mortgages, or interests in mortgages acquired by the Fund through its Investments, may adversely affect the value of, and returns on, such Investments. Mortgage servicers may be incented by the federal government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the beneficial owners of the mortgages. The foregoing matters may cause the Fund's business, financial condition, results of operations and ability to pay distributions to be adversely affected.

Risks Related to Macroeconomic and Other Industry Factors

A public health crisis may negatively impact the overall economy, in general, and housing markets, in particular. A public health crisis caused by SARS, H1N1/09 flu, avian flu, Ebola, the recent COVID-19 pandemic, or other global or local pandemic or epidemic disease can have unpredictable and adverse impacts on global, national and local economies, which can in turn negatively impact the Fund and its investment performance. While the duration and intensity of resulting business disruption and related financial and social impact associated with the COVID-19 epidemic (including on KCM's business) have diminished in the recent past, the impact of the pandemic could continue to remain material for the foreseeable future. Consequently, KCM's operations and business results could be adversely affected.

Inflation risk. Securities prices and portfolio returns will likely vary in response to inflation and interest rates changes. Inflation causes future dollars to be worth less and may reduce the purchasing power of a Client's future interest payments and principal. Inflation also generally leads to higher interest rates which may cause the value of many types of fixed-income investments to decline.

The phase out of the London Interbank Offered Rate (LIBOR), or the replacement of LIBOR with a

different reference rate, may adversely affect interest rates and the overall cost of borrowing. In 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced that the publication of LIBOR would not be guaranteed beyond 2021. In December 2020, the administrator of LIBOR announced its intention to (i) cease the publication of the one-week and two-month U.S. dollar LIBOR after December 31, 2021, and (ii) cease the publication of all other tenors of U.S. dollar LIBOR (one-, three-, six- and twelve-month LIBOR) after June 30, 2023. On March 15, 2022, the U.S. President, Joe Biden, signed the Adjustable Interest Rate (LIBOR) Act into law in the United States (the “LIBOR Act”). The LIBOR Act provides a clear and uniform federal solution in the United States for transitioning legacy contracts that either lack or contain insufficient contractual provisions addressing the permanent cessation of LIBOR by providing for the transition from LIBOR to a nominated replacement rate to avoid litigation. The Federal Reserve, in conjunction with the Alternative Reference Rates Committee, or ARRC, a steering committee composed of large U.S. financial institutions, identified SOFR, a new index calculated using short-term repurchase agreements backed by Treasury securities, as its preferred alternative rate for LIBOR. According to the ARRC, data from the cash and derivatives markets show continued momentum in the transition from LIBOR to SOFR, and SOFR is currently predominant across cash and derivatives markets. While the LIBOR Act and implementing regulations will help to transition legacy LIBOR contracts to a new benchmark rate, the substitution of SOFR for LIBOR may have potentially significant economic impacts on parties to affected contracts. SOFR is different from LIBOR in that it is a retrospective-looking secured rate rather than a forward-looking unsecured rate. Additionally, while SOFR appears to be the preferred replacement rate for LIBOR, it is not possible to predict whether SOFR will ultimately prevail in the market as the definitive replacement for LIBOR. Uncertainty as to the nature of alternative reference rates, and as to potential changes or other reforms related to the transition from LIBOR, may adversely affect the value of LIBOR-based financial arrangements of the Master Fund.

The United Kingdom’s withdrawal from the European Union could have an adverse impact on the business, financial condition, operating result, and potential cash flows off the Fund. On March 29, 2017, the United Kingdom formally notified the European Council of its intention to leave the European Union (“Brexit”). On January 24, 2020, a withdrawal agreement was entered into between the European Union and the United Kingdom, setting the terms of the withdrawal of the latter from the European Union. On December 24, 2020, the United Kingdom and the European Union agreed a trade and cooperation agreement (the “Trade and Cooperation Agreement”). The Trade and Cooperation Agreement provided for, among other things, zero-rate tariffs and zero quotas on the movement of goods between the United Kingdom and the European Union.

Due to the size and importance of the economy of the United Kingdom, the uncertainty and unpredictability concerning the United Kingdom’s future laws and regulations (including financial laws and regulations, tax and free trade agreements, immigration laws and employment laws) as well as its legal, political and economic relationships with Europe following its exit of the European Union may continue to be a source of instability in international markets, create significant currency fluctuations or otherwise adversely affect trading agreements or similar cross-border cooperation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise) for the foreseeable future. The long-term effects of Brexit will depend on the implementation of the Trade and Cooperation Agreement and any future agreements (or lack thereof) between the United Kingdom and the European Union and, in particular, any potential changes in the arrangements for the United Kingdom to retain access to European Union markets. Brexit could result in adverse economic effects across the United Kingdom and Europe, which could have a material adverse effect on the Fund’s business, results of operations, financial condition and prospects.

Brexit may cause fluctuations in the value of the United Kingdom pound sterling and European Union euro. Fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect KCM’s expenses, earnings, cash flows, results of operations, revenues, business

partners, servicers and U.S. and non-U.S. limited partners. The Fund does not engage in foreign currency hedging arrangements.

The Russian invasion of Ukraine may adversely affect global economic and market conditions. In 2021, Russian President Vladimir Putin ordered the Russian military to begin amassing thousands of military personnel and equipment near its border with Ukraine and in Crimea, representing the largest mobilization since the illegal annexation of Crimea in 2014. President Putin has initiated troop movements into the eastern portion of Ukraine and continues to threaten an all-out invasion of Ukraine. On February 22, 2022, the United States and several European nations announced sanctions against Russia in response to Russia's actions. On February 24, 2022, President Putin commenced a full-scale invasion of Russia's pre-positioned forces into Ukraine, which could have a negative impact on the global economy and business activity around the world (including in the countries in which the Fund invests), and therefore could adversely affect the performance of the Fund's investments. Furthermore, the conflict between the two nations and the varying involvement of the United States and other North Atlantic Treaty Organization (NATO) countries, including increasing sanctions and political pressure on Russia, its people and its businesses, could preclude prediction as to their ultimate adverse impact on global economic and market conditions, including inflation and unprecedented oil and gas prices, and, as a result, presents material uncertainty and risk with respect to the Fund and the performance of its investments or operations, and the ability of the Fund to achieve its investment objectives. Additionally, to the extent that third parties, investors, or related customer bases have material operations or assets in Russia or Ukraine, they may have adverse consequences related to the ongoing and escalating conflict in Ukraine and the continued and increasing sanctions being imposed on Russia, its businesses and its people in the country and abroad.

The ongoing military conflict between Hamas and Israel may adversely affect global economic and market conditions. On October 7, 2023, Hamas launched a series of coordinated attacks on Israel. Hamas terrorists infiltrated Israel's southern border from the Gaza Strip and conducted a series of attacks on civilian and military targets. Hamas also launched extensive rocket attacks on Israeli population and industrial centers located along Israel's border with the Gaza Strip and in other areas within the State of Israel. These attacks resulted in extensive deaths, injuries and kidnapping of civilians and soldiers. Following the attack, Israel's security cabinet declared war against Hamas and a military campaign against these terrorist organizations commenced in parallel to their continued rocket and terror attacks. The extent and duration of these military actions, resulting sanctions and future market disruptions in this region is impossible to predict but could be significant and may have a severe adverse effect on the region. Among other things, the conflict has resulted in increased volatility in the markets for certain securities and commodities, including oil and natural gas, and other sectors. Certain economic sanctions on individuals, banking entities and corporations as a response to Hamas' attack on Israel could be forthcoming against countries who support or are believed to support the attack by Hamas on Israel. Moreover, the ongoing effects of the hostilities and sanctions may not be limited to the Middle East and supporters of Hamas and may spill over to and negatively impact other regional and global economic markets, including Europe and the United States. The ongoing military action, along with the potential for wider conflicts, could further increase financial market volatility and cause negative effects on economic markets, industries, and companies. The ultimate impact of the Israel-Hamas conflict and their effect on global economic and commercial activity and conditions, and on the operations, financial condition, and performance of the Fund or any particular industry or business and the duration and severity of those effects, are difficult to predict.

ITEM 9
DISCIPLINARY INFORMATION

Neither KCM nor any of its management persons have been involved in any legal or disciplinary events that are material to a Client, investor, prospective Client or prospective investor's evaluation of KCM's advisory business or the integrity of its management

ITEM 10
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status

Not applicable.

B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.

KCM is not currently registered as a Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser.

C. Material Relationships or Arrangements with Industry Participants

KCM's Relationship with Chimera Investment Corporation and AGNC Investment Corp

As noted in Item 4 above, pursuant to certain agreements (the “Restructure Agreements”) dated and effective as of May 13, 2022, KCM was reorganized as a subsidiary of Kah Capital Holdings, LLC (“Holdco”). As a result, all of KCM's subsidiaries became direct or indirect subsidiaries of Holdco. Holdco was formed as a limited liability company on June 23, 2021, under the laws of the State of Delaware in anticipation of this reorganization. Pursuant to the Restructure Agreement, all of the members of KCM exchanged their interest in exchange for membership interest in the Holdco.

The members of Holdco are Kah, LLC, a Delaware limited liability company (the “Kah Member”), Woodmont Mortgage Investment TRS, LLC a Delaware limited liability company (the “AGNC Member”), and Anacostia LLC, a Delaware limited liability company (the “Chimera Member”). The Kah Member directly owns 60% of the membership interests in KCM Holdings. The AGNC and Chimera Members each own 20% of the membership interests in KCM Holdings.

KCM has no other material relationships with respect to other investment advisers or regulated entities that could precipitate a conflict of interest. Chimera and AGNC may directly invest in the same securities and other investments made by one or more Clients. These investments might constitute a potential conflict of interest.

KCM's Relationship with Collateral Administrators

As described in Item 5 above, Kah Capital, Holdings, LLC, the parent of KCM, has established Teranga Asset Services, LLC as a holding company for collateral administrator subsidiaries. As of the date of this filing, there are three such subsidiaries, Kah Capital Collateral Admin 1, LLC, Kah Capital Collateral Admin 2, LLC and Kah Capital Collateral Admin 3, LLC, (collectively, the “Collateral Managers”) performing collateral administration services for loan portfolios of the Fund and other Clients. Collateral management consists of administrative and ministerial tasks related to certain mortgage related services and does not entail providing advice with respect to the purchase, sale or holding of any securities. Accordingly, the Collateral Managers are related entities to KCM, but they do not provide investment advice.

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

Pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended (“Advisers Act”), KCM has adopted a written code of ethics (“Code of Ethics”), which is designed to address and avoid potential conflicts of interest and is applicable to all employees of KCM (“Staff Members”). The Code of Ethics may also be applied to any other person designated by the Chief Compliance Officer of KCM (“CCO”).

A summary of the Code of Ethics is provided below. A full copy of the Code of Ethics will be made available to investors in each Client upon written request.

The Code of Ethics addresses KCM’s Code of Conduct, personal trading of “reportable securities” (as such term is defined in Rule 204A-1 of the Advisers Act), and the administration and enforcement of the Code of Ethics.

The personal trading policy and procedures place restrictions on personal trading of reportable securities by KCM’s Access Persons, including that they disclose to KCM on a periodic basis all security accounts and reportable security holdings and transactions, in which an Access Person has a direct or indirect beneficial ownership. KCM, its affiliates and Access Persons may only trade shares of ETFs and mutual funds unless otherwise permitted in advance by the CCO. Access Persons are required to obtain pre-approval by the CCO for other transactions involving reportable securities (except for certain exempt transactions, such as non-volitional transactions).

The Code of Ethics has specific provisions relating to identifying potential conflicts of interest. KCM will document its review of conflicts of interest and the measures taken to mitigate such conflicts.

All violations of the Code of Ethics must be promptly reported to the CCO, who is primarily responsible for administering and enforcing KCM’s Code of Ethics. A violation of the Code of Ethics may result in the imposition of disciplinary and remedial measures, including, without limitation, disgorgement or termination.

In addition to the Code of Ethics, KCM has developed policies and procedures to address conflicts that arise from receiving or giving gifts and entertainment, engaging in outside activities, making political contributions, and making other donations.

ITEM 12

BROKERAGE PRACTICES

KCM will seek “best execution” for Client trades. Best execution generally refers to the execution of portfolio transactions in such a manner that total cost or proceeds in each transaction is the most favorable under the circumstances. The SEC defines best execution as “best qualitative execution,” not merely the lowest possible execution cost.

KCM will seek to satisfy its best execution obligation with respect to the Clients by taking into account a number of the following factors when selecting broker-dealers, including among others: price, timeliness of execution, the availability of financing, the financial stability and reputation of a broker, the value of research, brokerage and other services provided, the responsiveness of a broker-dealer, a broker-dealer’s financial resources, counterparty credit risk, and access to liquidity for certain less liquid products.

KCM does not engage in so-called “soft dollar” agreements with broker-dealers to pay for research-related expenses. However, KCM does intend to cause or allow Clients to take advantage of certain services offered directly to them by brokers and dealers (*e.g.*, exchange connectivity and certain execution applications), which KCM will review under an overall “best execution” analysis. In addition, KCM may receive periodic client updates, capital introduction “market color” reports, seminar invitations, or consulting services relating to technology and office space and other services from service providers (including brokers, counterparties, law firms and auditors) by virtue of being a client or prospective client of such providers (and/or by virtue of being an advisor to a client or prospective client of such providers).

KCM does not direct brokerage activity to specific broker-dealers in exchange for client referrals. KCM does, however, intend to utilize certain capital introduction services offered by a number of its brokers-dealers, pursuant to which KCM receives introductions to qualified prospective investors in its Clients. We will review the performance and costs of the brokerage services provided by these brokers-dealers as part of our “best execution” analysis.

KCM’s has developed an investment allocation policy that it believes treats Client accounts fairly. In certain circumstances, a proposed investment opportunity may meet the investment objectives of multiple Clients. KCM’s investment allocation process will consider each participating account’s size, diversification, cash availability, investment objectives, and any other relevant factors. In particular, KCM may provide a greater than pro rata allocation of aggregated trades to new Client accounts that are not yet fully invested, as well as preexisting accounts that have received additional uninvested Client capital. The allocation will consider arrangements that KCM has in place with investors that could cause the allocation of investments to be on a non-pro rata basis.

KCM may, but is not obligated to, aggregate sale and purchase orders of securities placed for one Client with the same or similar orders being made simultaneously by KCM for one or more other Clients, if in KCM's sole judgment, such aggregation would be consistent with its goal of best execution and if permitted by applicable law or regulation. All accounts participating in a block trade must receive the average price and pay a proportional share of any commission, subject to minimum ticket charges. KCM will seek to allocate trades in a manner that is fair to all Clients and will not allocate trades on the basis of an account's performance or fee structure.

ITEM 13

REVIEW OF ACCOUNTS

KCM intends to perform periodic reviews of a Client's portfolio. Such reviews will be conducted by KCM's chief investment officer. A specific review of a Client's account may be triggered by any unusual activity or special circumstances.

Clients, or investors in Clients that are pooled investment vehicles, will receive a quarterly statement of account from KCM documenting the net asset value and quarterly performance of their investment. Clients that are pooled investment vehicles will receive audited financial statements that will be sent to the investors in such Client in accordance with such Client's constituent documents, but in no case longer than 120 days after the end of such Client's fiscal year, consistent with the Custody Rule described in Item 15.

ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to Clients

KCM does not receive economic benefits from non-Clients for providing investment advice and other advisory services. However, as detailed in Item 12, KCM may receive certain benefits from service providers by virtue of being a client or potential client of such providers.

B. Compensation to Non-Supervised Persons for Client Referrals

KCM has utilized, and in the future, may utilize placement agents in the offering of interests in future funds and will disclose that such placement agents will receive compensation for referring investors to the Clients.

Furthermore, as stated in Item 12 above, from time to time, broker-dealers and other counterparties may assist a Client for which KCM or an affiliate acts as General Partner in raising additional funds from investors by introducing such Client to prospective investors, including participating in capital introduction programs provided by the broker-dealer or its affiliates. Subject to best execution, KCM may direct brokerage through such broker-dealers or may engage such broker-dealers for the provision of brokerage services. While KCM confirms that no additional brokerage compensation is charged in respect of such services and no requirements are imposed regarding any particular level of business, KCM may nevertheless face a conflict of interest in that it may have an incentive to select a broker-dealer for a Client based on KCM's interest in receiving investor referrals, rather than on such Client's interest in receiving most favorable execution.

ITEM 15 CUSTODY

Rule 206(4)-2 promulgated under the U.S. Investment Advisers Act (the “Custody Rule”) imposes certain obligations on registered investment advisers that have custody or possession of any fund or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client fund or securities if the adviser directly or indirectly holds client fund or securities or has the authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful).

The Custody Rule imposes on advisers with custody of clients’ fund or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients’ fund or securities. However, an adviser need not comply with such requirements with respect to limited partnerships or pooled investment vehicles, if each limited partnership or pooled investment vehicle: (i) is audited at least annually by an independent public accountant, and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to its investors within 120 days of its fiscal year-end. KCM relies upon this audit exception with respect to Clients that are pooled investment vehicles. All Clients will maintain their assets in organizations that are “qualified custodians” as defined in the Custody Rule.

ITEM 16
INVESTMENT DISCRETION

As described in Item 4 above, KCM exercises investment discretion regarding Fund investments. In the future KCM expects to provide discretionary and non-discretionary management services depending on the services requested by each Client.

ITEM 17

VOTING CLIENT SECURITIES

To the extent KCM is delegated proxy voting authority on behalf of its Client accounts, KCM will comply with its proxy voting policies and procedures. Such policies and procedures are designed to verify that such proxies are voted in the best interest of the Client. The investors in a Client may not direct voting of proxies.

In furtherance of KCM's goal of voting proxies in the best interests of Client accounts, KCM will follow its policies and procedures designed to identify and address material conflicts that may arise. If KCM determines that it may have, or be perceived to have, a conflict of interest when voting proxies, KCM will vote in accordance with its proxy voting policies and procedures and accordingly may refrain from voting certain proxies.

Upon request, KCM will provide Client investors with a copy of its proxy voting policies and procedures and/or a record of all proxy votes cast by KCM on behalf of the respective Client.

Due to the nature of KCM's current investment strategy, equity securities generally will not be a large portion of the investments of any Client. However, from time to time, class action lawsuits involving securities that may be held by one or more of Clients may result in notices being sent to class members for participation in a lawsuit. KCM may submit certain proofs of claims for payment against settlements or awards in actions for which the Client(s) have received notice. Amounts received as a result of a participation in class actions will be credited to the participating Client(s). It should be noted that the Clients bear the cost (i.e. receive a reduced amount of the class action proceeds) of any third party vendor used for class action recovery services. KCM does not anticipate serving as the lead plaintiff in class actions.

ITEM 18
FINANCIAL INFORMATION

KCM is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.