

FORM ADV, PART 2A

(commonly referred to as the “Brochure”)

Item 1 – Cover Page

Falcons I, LLC

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March 23, 2018

This Brochure provides information about the qualifications and business practices of Falcons I, LLC. If you have any questions about the contents of this Brochure, please contact us by phone at (888) 685-2915. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Falcons I, LLC is a registered investment adviser. However, registration as an Investment Adviser with the SEC does not imply that the Adviser or its employees possess a certain level of skill or training.

Additional information about Falcons I, LLC is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This Brochure dated March 20, 2018 is our initial Brochure used for registration with the SEC. In the future, this section will include a description of material changes to our advisory business since our previous Brochure.

Brochure Available Upon Request

Our current Brochure may be requested at any time free of charge by contacting us by telephone at toll free at (888) 685-2915 or via email at adam.langley@angeloakcapital.com.

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Item 4 – Advisory Business

Firm Description and Principal Owners

Falcons I, LLC (referred to throughout this Brochure as “Falcons I” or the “Adviser”), a Delaware limited liability company, was formed in February 2018. Falcons I is an investment advisor registered with the SEC which serves as general partner to a limited partnership, Angel Oak Mortgage Fund, LP (“AOMF” or “Client”). The principal owners are Mike Fierman and Sreeni Prabhu. The Adviser’s Chief Compliance Officer is Adam Langley.

Advisory Services

The Adviser’s investment advisory services are generally limited to serving as general partner to AOMF. The roles and responsibilities of Falcons I as the general partner are described in the limited partnership agreement of AOMF. AOMF and Falcons I will enter into an investment management agreement with Angel Oak Capital Advisors, LLC (“AOCA” or “Investment Manager”) pursuant to which AOCA will provide investment management services to AOMF on a discretionary basis. AOCA is under common control with Falcons I.

Falcons I initially anticipates providing services only to AOMF, but may in the future serve as the investment adviser to other limited partnerships or investment funds that employ trading and investment strategies similar to those of AOMF. Falcons I generally does not tailor advisory services for each Client, however clients may impose restrictions and investment guidelines on investing in certain types of assets or assets with specific characteristics.

Assets Under Management

As of the date of this Brochure, Falcons I had does not have any active Clients, as AOMF had not yet begun trading. Falcons I anticipates that assets of AOMF will be managed on a discretionary basis.

Item 5 – Fees and Compensation

The Client will pay Falcons I a quarterly fixed management fee equal to 0.375% (1.5% annually) of the aggregate amount of capital contributions made by partners in the limited partnership for the purpose of funding investments, including any amounts reinvested (“Actively Invested Capital”). The management fee is payable quarterly in advance based upon Actively Invested Capital as of the last day of the preceding quarter. In the event of removal of Falcons I as general partner of AOMF, fees will be prorated. Any fees paid but unearned will be promptly refunded to the Client.

The Client will also pay Falcons I carried interest equal to 20% of the total amounts distributed to limited partners representing the realized gains on investments made by AOMF.

At the Adviser's sole discretion, AOCA may receive all or a portion of the management fee received by Falcons I from AOMF. Any amount paid to AOCA will not result in any additional charge to the Client.

In addition to the management fee and carried interest, the Client is responsible for brokerage commissions, custodial fees, and administration fees paid to third parties. See additional information below under *Brokerage Practices*.

Financial statements, including the calculation of any management fees and carried interest, are prepared by the Client's administrator and provided to the Client on a quarterly basis. Payment of fees due to Falcons I is made by the Client's administrator.

Item 6 – Performance-Based Fees and Side-by-Side Management

The carried interest paid to Falcons I described above represents a performance-based fee.

“Side-by-Side Management” refers to a situation in which the same firm manages accounts that are billed based on a percentage of assets under management and at the same time manages other accounts for which fees are assessed on a performance fee basis. Because the Adviser anticipates having only one Client, AOMF, there is no side-by-side management of client accounts.

Item 7 – Types of Clients

Falcons I initially anticipates providing services only to AOMF, a limited partnership, but may in the future serve as the general partner or investment adviser to other limited partnerships or investment funds that employ trading and investment strategies similar to those of AOMF.

Falcons I provides investment advisory services to limited partnerships and other pooled investment vehicles. While the Adviser may make exceptions, the minimum portfolio value Falcons I will accept is generally \$10,000,000.

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

Methods of Analysis and Investment Strategies

In managing AOMF assets, the Adviser's primary role is to serve as general partner. AOMF and Falcons I will enter into an investment management agreement with AOCA pursuant to which AOCA will provide investment management services to AOMF on a discretionary basis. AOCA is under common control with Falcons I.

The investment strategy primarily includes residential mortgage loans and residential mortgage-related assets in the U.S. mortgage market, including, without limitation, investments in newly-originated residential mortgage loans, second liens and investment property loans purchased from Angel Oak Mortgage Solutions, LLC, Angel Oak Home Loans, LLC, and Angel Oak Prime Bridge, LLC, (“Affiliated Originators”) each of which is an affiliate of Falcons I, as

well as from unaffiliated mortgage companies. The investment strategy may also include commercial real estate loans, including senior mortgage loans, bridge loans, mezzanine loans, B-notes, construction loans and small balance commercial real estate loans secured by properties across various types of commercial property. The investment strategy may also include other real estate-related investments, including, without limitation, agency and non-agency residential mortgage-backed securities ("RMBS"), credit risk transfer ("CRT") securities, commercial mortgage-backed securities ("CMBS"), and mortgage servicing rights ("MSRs") and excess MSRs.

The investment strategy expects to finance certain of the residential and commercial loans it acquires through securitizations and expects to retain securities in the issuing entity of those securitizations.

The investment strategy may, in the Adviser's discretion, engage in hedging transactions designed to reduce exposure to interest rate and currency fluctuations, declines in market price, tenant credit deterioration or other risks related to the pricing or value of investments.

Risk of Loss

This investment strategy is speculative and involves substantial risks, including the risk of loss of an investor's entire investment, which an investor should be willing to accept. No assurance can be given that profits will be achieved or that losses will not be incurred.

Other Material Risks

Risks of Investments in Residential Mortgage Loans. Investments in residential mortgage loans will subject the Client to risks which include, among others: (i) declines in the value of residential real estate; (ii) risks related to general and local economic conditions; (iii) lack of available mortgage funding for borrowers to refinance or sell their homes; (iv) overbuilding; (v) the general deterioration of the borrower's ability to keep a rehabilitated non-performing mortgage loan current; (vi) increases in property taxes; (vii) changes in zoning laws; (viii) costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems, such as indoor mold; (ix) casualty or condemnation losses; (x) uninsured damages from floods, earthquakes or other natural disasters; (xi) limitations on and variations in rents; (xii) fluctuations in interest rates; (xiii) fraud by borrowers, originators and/or sellers of mortgage loans; (xiv) undetected deficiencies and/or inaccuracies in underlying mortgage loan documentation and calculations; and (xv) failure of the borrower to adequately maintain the property, particularly during times of financial difficulty. To the extent that assets underlying these investments are concentrated geographically, by property type or in certain other respects, the Client may be subject to certain of the foregoing risks to a greater extent. Additionally, the Client may be required to foreclose on a mortgage loan and such actions would subject the Client to greater concentration of the risks of the residential real estate markets and risks related to the ownership and management of real property. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing

the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

Risks of Investments in Second Lien Residential Mortgage Loans. The Client may invest in second lien residential mortgage loans. A second lien residential mortgage loan is a residential mortgage loan that is subordinate to the primary or first lien mortgage loan on a residential property. In the event of a default or a bankruptcy of the borrower, the second lien residential mortgage loan will not be paid off until the first lien mortgage loan is paid off, resulting in a higher likelihood that the Client will be subject to losses on such second lien residential mortgage loan.

Risks of Investments in Investment Property Loans. The Client may invest in investment property loans, which are mortgage loans made on residential rental properties. The repayment of such a loan by the property owner (i.e., the borrower) often depends primarily on its tenant's continuing ability to pay rent to the property owner. If the property owner is unable to find or retain a tenant for the rental property, the property owner would cease to have a continuous rental income stream with respect to the property and, as a result, the property owner's ability to repay the loan on a timely basis or at all could be adversely affected. In addition, the physical condition of non-owner-occupied properties can be below that of owner-occupied properties due to lax property maintenance standards, which can have a negative impact on the value of the collateral properties. Moreover, loans on non-owner-occupied residential properties generally involve larger principal amounts and a greater degree of risk than owner-occupied residential mortgage loans, resulting in a higher likelihood that the Client will be subject to losses on such investment property loans.

Risks of Investments in Commercial Real Estate Loans. Investment in commercial real estate loans, which are secured (directly or indirectly) by commercial property, are subject to risks of delinquency and foreclosure. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property and not on the existence of independent income or assets of the borrower. If the operating income of the property decreases due to a variety of factors affecting the property's commercial operations, the borrower's ability to repay the loan may be impaired. Special risks associated with commercial mortgage loan investments include changes in the general economic climate or local conditions (such as an oversupply of space or a reduction in demand for space), competition based on rental rates, attractiveness and location of the properties, changes in the financial condition of tenants and changes in operating costs. Real estate values are also affected by such factors as governmental regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of financing and potential liability under changing environmental and other laws. Of particular concern may be those mortgaged properties which are, or have been the site of manufacturing, industrial or disposal activities. Such environmental risks may give rise to a diminution in the value of property (including real property securing any investment) or liability for cleanup costs or other remedial actions, which liability could exceed the value of such property or the principal balance of the related investment. In certain circumstances, a lender may choose not to foreclose on contaminated property rather than risk incurring liability for remedial actions. In the event of any default under a commercial real estate loan held by the Client, the Client will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral

and the principal and accrued interest of the real estate loan, which could result in losses to the Client.

Risks of Investments in Mezzanine Loans. In each instance where an investment is a mezzanine loan secured by interests in a property-owning entity, the investment will be subject, directly or indirectly, to the mortgage or other security interest of a senior lender. The rights and remedies afforded a senior lender may limit or preclude the exercise of rights and remedies by the Client, with resultant loss to the Client. Further, the equity owners of properties or entities in which the Client invests may raise defenses (including protection under bankruptcy laws) to enforcement of rights or imposition of remedies by the Client. In the event such defenses were successful, or resulted in delay, loss to the Client could result.

Risks of Investments in Non-Performing Mortgage Loans. The Client may acquire distressed mortgage loans and mortgage-related assets where the borrower had failed to make timely payments of principal and/or interest or where the loan was performing but subsequently could or did become non-performing. There are no limits on the percentage of non-performing assets the Client may hold. Further, the borrowers on such loans may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due. Distressed assets may entail characteristics that make disposition or liquidation more challenging, including, among other things, severe document deficiencies or underlying real estate located in states with extended foreclosure timelines. Any loss the Client may incur on such investments may be significant.

Risks of Investments in B-Notes. Investments in B-notes may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to the Client. If a borrower defaults, there may not be sufficient funds remaining for B-note holders after payment to the A-note holders. Since each transaction is privately negotiated, B-notes can vary in their structural characteristics and risks. For example, the rights of holders of B-notes to control the process following a borrower default may be limited in certain investments. The Client cannot predict the terms of each B-note investment. B-notes are not as liquid as some forms of debt instruments and, as a result, the Client may be unable to dispose of performing, underperforming or non-performing B-note investments. The higher risks associated with the Client's subordinate position in such investments could subject it to increased risk of losses.

Risks of Investments in Construction Loans. If the Client fails to fund its entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including, without limitation: (i) a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete it from other sources; (ii) a borrower claim against the Client for failure to perform under the loan documents; (iii) increased costs to the borrower that the borrower is unable to pay; (iv) a bankruptcy filing by the borrower; and (v) abandonment by the borrower of the collateral for the loan. The occurrence of such events could result in losses to the Client. Other loan types may also include unfunded future obligations that could present similar risks.

Risks of investments in Small Balance Commercial Real Estate Loans. Non-performing small balance commercial real estate loans are subject to increased risks of credit loss for a variety of reasons, which may include that the underlying property is too highly leveraged or the borrower has experienced financial distress. Whatever the reason, the borrower may be unable to meet its contractual debt service obligation to the Client. Non-performing small balance commercial real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may divert the Investment Manager's attention from other activities and entail, among other things, a substantial reduction in the interest rate or capitalization of past due interest. However, even if restructurings are successfully accomplished, risks still exist that borrowers will not be able or willing to maintain the restructured payments or refinance the restructured mortgage upon maturity. Additional risks inherent in the acquisition of non-performing small balance commercial real estate loans include undisclosed claims, undisclosed tax liens that may have priority, higher legal costs and greater difficulties in determining the value of the underlying property.

Risks of Investments in RMBS. RMBS are subject to particular risks because they have yield and maturity characteristics corresponding to their underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity when the entire principal amount comes due, payments on certain RMBS include both interest and a partial payment of principal. This partial payment of principal may be comprised of a scheduled principal payment, as well as an unscheduled payment from the voluntary prepayment, refinancing, or foreclosure of the underlying assets. As a result of these unscheduled payments of principal, or prepayments on the underlying assets, the price and yield of RMBS can be adversely affected. For example, during periods of declining interest rates, prepayments can be expected to accelerate, and the Client would be required to reinvest proceeds at the lower interest rates then available. Prepayments of mortgages that underlie securities purchased at a premium could result in capital losses because the premium may not have been fully amortized at the time the obligation is prepaid. In addition, like other interest-bearing securities, the values of RMBS generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation is limited due to the existence of the prepayment feature.

The performance of any RMBS, and the results of hedging arrangements entered into with respect a RMBS, will be affected by: (i) the rate and timing of principal payments on the underlying assets; and (ii) the extent to which such principal payments are applied to reduce, or otherwise result in the reduction of, the principal or notional amount of such RMBS. The rate of principal payments on a pool of RMBS will in turn be affected by the amortization schedules of the assets (which, in the case of assets with an adjustable-rate feature, may change periodically to accommodate adjustments to the mortgage rates thereon) and the rate of principal prepayments thereon (including for this purpose, voluntary prepayments by borrowers and prepayments resulting from liquidations of RMBS due to defaults, casualties or condemnations affecting the related properties).

The extent of prepayments of principal of the assets underlying RMBS may be affected by a number of factors, including the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the underlying assets, possible changes in tax laws, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors. In general, any factors that increase the

attractiveness of selling a mortgaged property or refinancing such property, enhance a borrower's ability to sell or refinance or increase the likelihood of default under a mortgage-related security would be expected to cause the rate of prepayment in respect of a pool of mortgage-related securities to accelerate. In contrast, any factors having an opposite effect would be expected to cause the rate of prepayment of a pool of mortgage-related securities to slow. At any one time, a portfolio of RMBS may be backed by assets with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, RMBS may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage-related securities having more diverse property locations.

The rate of prepayment on a pool of mortgage-related securities is likely to be affected by prevailing market interest rates for mortgages of a comparable type, term and risk level. When the prevailing market interest rate is below a mortgage coupon, a borrower generally has an increased incentive to refinance. Even in the case of assets with an adjustable-rate component, as prevailing market interest rates decline, and without regard to whether the mortgage rates on such assets decline in a manner consistent therewith, the related borrowers may have an increased incentive to refinance for purposes of either: (i) converting to a fixed rate security and thereby "locking in" such rate; or (ii) taking advantage of a different index, margin or rate cap or floor on another adjustable rate note. Therefore, as prevailing market interest rates decline, prepayment speeds would be expected to accelerate.

Increases in monthly payments on adjustable rate mortgages due to higher interest rates may result in greater future delinquency rates. Borrowers with adjustable payments may be exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers subject to adjustable rates.

Borrowers seeking to avoid these increased monthly payments by refinancing may no longer be able to find alternatives at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods may find that they cannot sell their properties for an amount equal to or greater than their unpaid principal balances. These events, alone or in combination, may contribute to higher delinquency rates and therefore potentially higher losses on RMBS.

Risks of Investments in Non-Agency RMBS. Non-agency RMBS are not guaranteed by the U.S. government in any manner whatsoever and are secured only by cash flows of the underlying mortgages; in contrast, agency mortgages carry the implicit, and in some cases the explicit, guarantee of the U.S. government. Investing in RMBS involves a high degree of risk, especially in light of recent developments in the subprime mortgage lending business.

RMBS performance may be affected by the recent increase of delinquencies, defaults and foreclosures on underlying mortgages. Non-agency RMBS are generally made to borrowers with lower credit scores, incomplete application documentation, higher security balances and higher loan-to-value ratios. Also, fraudulent mortgage applications, below normal equity contributions, equity contributions with “piggy-back” mortgages and mortgages supported by properties acquired for investment may increase the likelihood of defaults, delinquencies and losses on mortgage portfolios. In addition, adjustable rate mortgages and hybrid mortgages that have or will enter their adjustable period where the borrower is likely to experience an increase in their monthly payments could increase the likelihood of default. Moreover, higher loan-to-value ratios may result in lower recoveries upon foreclosure and an increase in net losses. A decline in property values is likely to impact recoveries on any second lien position included in the mortgage pools underlying certain RMBS.

In the event of a default on a mortgage underlying a non-agency RMBS in the Client’s portfolio, it will bear the risk of loss as a result of the potential deficiency between the value of the collateral and the debt owed on the mortgage, as well as the costs and delays of foreclosure or other remedies, including the costs of maintaining and ultimately selling a property after foreclosure.

Risks of Investments in CRT Securities. CRT securities are risk-sharing instruments issued by government-sponsored enterprises (“GSEs”) (such as Fannie Mae or Freddie Mac) or similarly structured transactions arranged by third-party market participants. The securities issued in the CRT sector are designed to synthetically transfer mortgage credit risk from the GSEs to private investors, and transactions arranged by third-party market participants in the CRT sector are similarly structured to reference a specific pool of loans that have been securitized by the GSEs and to synthetically transfer mortgage credit risk related to those loans to the purchaser of the securities. The holder of CRT securities therefore bears the risk that the borrowers may default on their obligations to make full and timely payments of principal and interest. To the extent that the Client is a holder of CRT securities, it will be exposed to such risks and may suffer losses.

Risks of Investments in CMBS. CMBS are securities backed by obligations (including certificates of participation in obligations) that are principally secured by interests in real property having a multi-family or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. CMBS are issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. CMBS generally lack standardized terms, tend to have shorter maturities than RMBS and may provide for the repayment of all or substantially all of the principal only at maturity. All of these factors increase the risk involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending. Commercial mortgage lenders typically look to the debt service coverage ratio of a mortgage secured by an income-producing property as an important measure of the risk of default on a mortgage. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage at

any given time. The repayment of mortgages secured by income-producing properties is typically dependent upon the successful operation of the related real estate project as well as upon the liquidation value of the underlying real estate. The value of commercial real estate is also subject to a number of laws and regulations, such as regulations and laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Most CMBS are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgages, payments on the subordinated classes of the related CMBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of CMBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed-in-lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related CMBS. Revenues from the assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

A CMBS may pay fixed or floating rates of interest. A fixed-rate CMBS, like all fixed-income securities, generally declines in value as rates rise. Moreover, although generally the value of fixed-income securities increases during periods of falling interest rates, the inverse relationship may not be as marked in the case of CMBS due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for CMBS providing for a period during which no prepayments may be made. Certain CMBS lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

Risks of Investments in MSRs and Excess MSRs. MSRs would arise from contractual agreements between the Client and investors (or their agents) in mortgage securities and mortgage loans. The determination of the value of MSRs will require the Investment Manager to make numerous estimates and assumptions. Such estimates and assumptions include, without limitation, estimates of future cash flows associated with MSRs based upon assumptions involving interest rates as well as the prepayment rates, delinquencies and foreclosure rates of the underlying serviced mortgage loans. The ultimate realization of the fair value of MSRs may be materially different than the values of such MSRs estimated by the Investment Manager. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets, which could have a material adverse effect on those Investments.

Changes in interest rates are a key driver of the performance of MSR. Historically, the fair value of MSR has increased when interest rates rise and decreased when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. To the extent the Client does not hedge against changes in the value of MSR, Investments in MSR would be more susceptible to volatility due to changes in the value of, or cash flows from, the MSR as interest rates change.

Prepayment speeds significantly affect MSR. Prepayment speed is the measurement of how quickly borrowers pay down the unpaid principal balance of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. The Client may base the price it pays for MSR and the rate of amortization of those assets on, among other things, projections of the cash flows from the related pool of mortgage loans. The Investment Manager's expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speed expectations increase significantly, the value of the MSR could decline. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows the Client receives from MSR, and the Client could ultimately receive substantially less return on such assets. Moreover, delinquency rates have a significant impact on the valuation of any MSR. An increase in delinquencies generally results in lower revenue because typically the Client would only collect servicing fees for performing loans. The Investment Manager's expectation of delinquencies is also a significant assumption underlying projections of potential returns. If delinquencies are significantly greater than expected, the estimated value of the MSR could be diminished. When the estimated value of MSR is reduced, the Client could suffer a loss.

Furthermore, MSR and the related servicing activities are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on the holders of such investments. The Client's failure to comply, or the failure of the servicer to comply, with the laws, rules or regulations to which they are subject by virtue of ownership of MSR, whether actual or alleged, could expose the Client to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could have a material adverse effect on the Client.

Because excess MSR are a component of the related MSR, the risks of owning an excess MSR are similar to the risks of owning an MSR. The valuation of excess MSR is based on many of the same estimates and assumptions used to value MSR assets, thereby creating the same potential for material differences between estimated value and the actual value that is ultimately realized. Also, the performance of excess MSR is impacted by the same drivers as the performance of MSR assets, including interest rates, prepayment speeds and delinquency rates.

Risks of Hedging Transactions. The Client may from time to time enter into forward contracts, options and swaps (such as credit default swaps, interest rate swaps or other swaps) as a way to mitigate risk associated with its Investments; however, it is impossible to fully hedge the Client's Investments. Furthermore, to the extent that any hedging strategy involves the use of over-the-counter ("OTC") derivatives transactions, such a strategy would be affected by implementation of various regulations adopted pursuant to the Dodd-Frank Act. OTC derivative dealers are now required to register with the Commodities Futures Trading Commission (the "CFTC") and will

ultimately be required to register with the SEC. Registered swap dealers will also be subject to new minimum capital and margin requirements and are subject to business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented. The overall impact of the Dodd-Frank Act on the Client remains highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime, along with additional, sometimes overlapping, regulatory requirements imposed by non-U.S. regulators.

Although the Dodd-Frank Act will require many OTC derivative transactions previously entered into on a principal-to-principal basis to be executed through a regulated securities, futures or swap exchange or facility and/or submitted for clearing by a regulated clearinghouse, not all of the Client's derivative transactions will be subject to the clearing requirements. The risk of counterparty nonperformance can be significant in the case of these OTC instruments, and "bid-ask" spreads may be unusually wide in these heretofore substantially unregulated markets. While the Dodd-Frank Act is intended to bring more stability and lower counterparty risk to the derivatives market by requiring central clearing of certain standardized derivatives trades, not all of the Client's trades will be subject to a clearing requirement because the trades are grandfathered or because they are bespoke, or because they are within a class that is not currently subject to mandatory clearing. Furthermore, it is yet to be seen whether the Dodd-Frank Act will be effective in reducing counterparty risk or if such risk may actually increase as a result of market uncertainty, mutuality of loss to clearinghouse members, or other reasons.

Risks Associated with the Inability to Profitably Execute Securitization Transactions. A number of factors may determine whether a securitization transaction that the Client executes or participates in is profitable. One such factor is the price at which the Client acquires the mortgage loans that it intends to securitize, which may be impacted by, among other things, the level of competition in the marketplace or the relative desirability to originators of retaining mortgage loans as investments versus selling them to third parties such as the Client. Another factor that impacts the profitability of a securitization transaction is the cost of the short-term debt used to finance the Client's holdings of mortgage loans after acquisition and prior to securitization. This cost may vary depending on the availability of short-term financing, interest rates, the duration of the financing, and the extent to which third parties are willing to provide such financing. Additionally, the value of mortgage loans held by the Client prior to securitization may vary over the course of the holding period due to changes in interest rates or the credit quality of the mortgage loans. To the extent the Client seeks to hedge against interest rate fluctuations that affect loan value, the cost of any hedging transaction will decrease returns on the respective securitization transaction. The price that investors pay for securities issued in the Client's securitization transactions will also significantly affect the profitability margin to the Client. Additionally, in effecting the securitization transactions, the Client may incur transaction costs or may incur or be required to make reserves for any liability in connection with executing a transaction, and such costs can also reduce the profitability of a transaction. To the extent that the Client is not able to profitably execute securitizations of mortgage loans, the Client's Investments could be materially and adversely impacted.

Rating agencies have historically played a central role in the securitization markets. Many purchasers of asset-backed securities require that a security be rated by the agencies at or above a specific grade before they will consider purchasing it. The rating agencies could adversely affect the Client's ability to execute securitization transactions by deciding not to publish ratings for the securitization transactions of the Client, deciding not to consent to the inclusion of those ratings in the prospectuses the Client may file with the SEC relating to securitization transactions, or assigning ratings that are below the thresholds investors require. Further, rating agencies could alter their ratings processes or criteria after the Client has accumulated loans for securitization in a manner that reduces the value of previously acquired loans or that requires the Client to incur additional costs to comply with those processes and criteria.

Risks Related to Loans Purchased from Affiliate Originators. A significant portion of the Client's portfolio is expected to consist of mortgage loans and other assets acquired from the affiliates of Falcons I and AOCA, as well as RMBS and CMBS acquired from securitization vehicles affiliated with the Client, which creates significant conflicts of interest.

The Client's portfolio may consist of a significant amount of loans and other assets purchased from the Affiliate Originators. As the Affiliate Originators are affiliates of Falcons I and AOCA, each of the Adviser, Investment Manager, and the Affiliate Originators will receive benefits, including compensation, payable by the Client, for their activities related to the origination, issuance and sale of the loans or other assets. As the Investment Manager directs the investment activities of the Client, there may be conflicts of interest related to the fact that the Affiliate Originators are also affiliates of the Investment Manager.

The Client may purchase RMBS or CMBS that are collateralized by loans originated by Affiliate Originators and the Client's portfolio may consist of a significant amount of such securities. The Investment Manager and certain affiliates thereof may receive benefits, including compensation, for their activities related to the creation of the securitization and the issuance and sale of such securities. The Client will also bear all or a significant portion of the expense incurred in connection with the securitization vehicle to which the Client sells the loans it has acquired. Such expenses include, but are not limited to, the costs and expenses related to structuring the securitization vehicle and the transactions related to the purchase and sale of the loans by the Client to the securitization vehicle.

The Investment Manager has in place policies and procedures that it believes are reasonably designed to facilitate arms' length transactions between the Client and the Affiliate Originators with respect to such loans or other assets purchased from the Affiliate Originators; however, there can be no assurance that such policies and procedures will be successful. Transactions by the Client with the Affiliate Originators and any other affiliates of the Investment Manager must be approved by the Client's Board of Trustees, including a majority of the independent Board members. However, if the Board does not have a majority of independent Board Members, then any such transactions must be approved by a majority in Interest of the Limited Partners.

In addition, the Affiliate Originators may earn origination or other fees from borrowers on loans they originate that are acquired by the Client from such Affiliate Originators.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Adviser or the integrity of the Adviser's management. The Adviser has had no disciplinary events.

Affiliate Disciplinary Information

On February 16, 2017, the U.S. Securities and Exchange Commission (the "SEC" or "Commission") accepted an offer of settlement from Angel Oak Capital Partners, LLC ("AOCP"), an affiliate of Falcons I, and entered an administrative order against it.

The order, while recognizing that AOCP did not admit or deny any findings, concluded that AOCP operated as a broker-dealer from March 2010 until October 2014 without registering with the Commission. The SEC found that AOCP entered into an agreement with Peraza Capital & Investment, LLC ("Peraza") in late 2009 for the purpose of conducting a securities business, without registering as a broker-dealer. Traders employed by AOCP in its securities business were registered with the Financial Industry Regulatory Authority ("FINRA") as registered representatives of Peraza, and AOCP and Peraza split the commission revenue generated as a result of AOCP trading activities.

The SEC determined that AOCP and its owners or employees – who were not registered as broker-dealers or associated with a registered broker-dealer – were involved in the operations of the securities business and made key decisions regarding the business. As reflected in the order, the Commission accepted AOCP's offer to disgorge profits received from the operation of \$3,054,288 plus interest, to pay a penalty of \$375,000 and to cease and desist from that activity.

The SEC further accepted an offer of settlement from Sreeniwas Prabhu, Managing Director and co-founder of Angel Oak Capital Advisors, LLC ("AOCA"), and an employee of AOCA, based on the allegations of the SEC that they caused AOCP to operate as an unregistered broker dealer. They both agreed to a cease and desist order and an administrative penalty of \$40,000 each.

Item 10 – Other Financial Industry Activities and Affiliations

The Adviser has several affiliated businesses that are involved in a variety of activities. A description of each affiliate is provided below along with conflicts of interest that are not discussed elsewhere.

- *Angel Oak Capital Advisors, LLC ("AOCA")* is under common control with Falcons I, and provides investment advisory services to Clients of Falcons I. AOCA is an SEC-registered investment adviser. AOCA provides investment advisory services to registered investment

companies and other pooled investment vehicles such as hedge funds, as well as institutional investors and high net-worth individuals.

Because AOCA is under common control with the Adviser, the Adviser has an incentive to recommend AOCA over other potential investment managers. This conflict is addressed by having the Client's Board of Trustees, which is comprised of a majority of Trustees not affiliated with AOCA, regularly review the activities of AOCA to determine that the selection of AOCA as Investment Manager is appropriate for the Client. In addition, the Client is a party to the investment management agreement appointing AOCA as investment advisor.

- *Angel Oak Mortgage Solutions, LLC* is an affiliate of the Adviser by common control, and is a wholesale mortgage company. *Angel Oak Home Loans, LLC* is an affiliate of the Adviser by common control, and is a residential mortgage company. *Angel Oak Prime Bridge, LLC* is an affiliate of the Adviser by common control, and provides short term loans to construct, refurbish and improve real estate properties in the southeastern United States.

Conflicts of interest involving these entities have been disclosed in response to Item 8 above.

- *Angel Oak Capital Partners II, LLC* and *Buckhead One Financial, LLC* are registered investment advisors under common control with Falcons I, however there is no business relationship between Falcons I and these entities.

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

Falcons I has adopted a Code of Ethics (the "Code") for all supervised persons of the firm describing its high standards of business conduct and fiduciary duty to its Clients. The Code includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment provided, limits and procedures regarding personal securities trading, among other things. Falcons I also maintains additional policies and procedures related to making political contributions and engaging in outside business activities.

Under the Code, supervised persons are required to place the interests of Clients first, ahead of their own personal interests, and generally seek to treat Clients fairly. In addition, supervised persons are prohibited from engaging in any practice that defrauds or misleads any Client or investor, or engaging in any manipulative or deceitful practice with respect to Clients, investors or securities. All supervised persons at the Adviser must acknowledge the terms of the Code annually, or as amended.

The Adviser anticipates that, in appropriate circumstances, consistent with Clients' investment objectives, it will cause accounts over which it has management authority to purchase or sell

securities in which the Adviser, its affiliates and/or Clients, directly or indirectly, may have a position of interest. The Adviser anticipates that in such circumstances it may also recommend such purchases or sales of securities to Clients. Subject to satisfying such practice and applicable laws, officers, directors, and employees of the Adviser and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Clients. The Code is designed to ensure that the personal securities transactions, activities, and interests of the employees of the Adviser will not interfere with (i) making decisions in the best interest of Clients, and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

The Code requires pre-clearance of certain securities transactions, and restricts trading in close proximity to Client trading activity. Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as Clients, there is a possibility that employees might benefit from market activity by a Client in a security held by an employee. Employee trading is continuously monitored under the Code to reasonably prevent conflicts of interest between the Adviser and its Clients.

Item 12 – Brokerage Practices

Falcons I does not engage in brokerage activities, aggregate trades, select brokers for Client accounts or participate in soft dollar arrangements. Clients and prospective Clients should review the Form ADV Part 2A for information regarding their investment adviser's applicable brokerage practices.

Item 13 – Review of Accounts

Management personnel of the Investment Manager will review Client portfolios no less than quarterly, and in most cases monthly. Portfolio managers review portfolios on an ongoing basis and all portfolios are reviewed by AOCA's investment committee at least monthly.

Prior to each trade being executed and at the end of each day, Client portfolios are continuously monitored to ensure compliance with the guidelines of the investment strategy and any trading limitations imposed by the Client. Trade monitoring is conducted primarily through the Investment Manager's trade order management systems and other tools.

Financial statements and reports of portfolio performance are generally provided monthly to the Client by the Client's administrator. In addition, Clients will receive account statements from their custodians. Upon request, the Investment Manager will provide additional analyses and written reports to Clients.

Item 14 – Client Referrals and Other Compensation

Falcons I does not pay solicitors who refer clients to the Adviser. AOCA may solicit clients on behalf of Falcons I, however no compensation is paid for such referrals. Should the Adviser pay

referral fees in the future, they will be paid solely from the Management Fee, and do not result in any additional charge to the client.

Item 15 – Custody

Falcons I will not maintain custody of Client assets. The Client will establish a custody account with a “qualified custodian” as that term is defined under Rule 206(4)-2 of the Advisers Act of 1940. The Client should request statements from the custodian at least quarterly, with paper or electronic copies provided to the Adviser. Clients should review these statements carefully and promptly notify the Adviser if they do not receive a quarterly statement from their custodian.

Although Falcons I does not maintain custody of Client assets, it is deemed to have custody because it serves as general partner of the Client. Therefore, in order to comply with rules regarding custody of client assets, an independent public accountant will audit the Client annually and distribute audited financial statements to all investors within 120 days of the Client’s fiscal year end.

Item 16 – Investment Discretion

As general partners, Falcons I has discretionary authority over the Client portfolio that it manages pursuant to the terms of the Client’s limited partnership agreement. In addition, the Investment Manager has discretionary authority pursuant to the terms of the Client’s investment management agreement.

Item 17 – Voting Client Securities

Falcons I does not vote proxies related to securities held in Client accounts. Rather, responsibility for voting proxies lies with the Investment Manager. Falcons I has confirmed that the Investment Manager has adopted policies and procedures related to the voting of proxies in Client accounts. In most cases, the securities traded on behalf of the Client do not implicate the ability to vote proxies.

Item 18 – Financial Information

Registered investment advisers are required to provide Clients with certain financial information or disclosures about the adviser’s financial condition under certain circumstances. Falcons I does not require or solicit prepayment of fees six months or more in advance and is, therefore, not required to include a balance sheet. In addition, Falcons I does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to Clients.

Additional Information

Anti-Money Laundering Program

Falcons I has implemented an anti-money laundering program to prevent the funding of terrorism and money laundering activities. Through unaffiliated third-party service providers, Falcons I has confirmed that existing and prospective investors are checked against lists, including the Department of the Treasury's Office of Foreign Assets Control ("OFAC") list, to determine whether they appear on such lists. The Client's administrator requests certain information and documentation from prospective investors in order to confirm their identity. Depending on the circumstances, applicable law, rules or regulations may require or allow Falcons I to provide certain information (e.g., currency transaction reports or suspicious activity reports) to governmental agencies, and may prevent Falcons I from disclosing its actions to its clients and prospective investors.

Privacy Notification

Falcons I firmly believes that our clients are entitled to the very best service we can offer – and that includes the right to feel comfortable about the personal non-public information you share with us. We respect every individual's right to privacy. We understand the importance you place on the privacy and security of information that personally identifies you or your account information.

The Securities and Exchange Commission has implemented Regulation S-P, which relates to the privacy of consumer financial information, and has established rules in response to Section 504 of the Gramm-Leach-Bliley Act. Regulation S-P and the Gramm-Leach-Bliley Act limit investment companies, broker-dealers, and registered investment advisers in their disclosure of consumers' and customers' nonpublic personal information. Regulation S-P also requires that financial institutions provide privacy notices in various instances and to adopt policies and procedures to protect the personal information of its customers. This statement describes our firm's privacy policy and how we handle your personal information. This policy applies to former, current, and prospective customers.

This notice is intended to tell you where we obtain information about you, how we use that information and who has access to the information. This notice applies to and includes all subsidiaries, parent or sister companies, limited liability companies, partnerships, or other entities controlling, controlled by, or under common control with Falcons I.

Why and How We Collect Personal Information. We are required by guidelines of our industry to obtain personal information about you in the course of providing investment solutions to you. We use this information to manage your account, direct transactions, and provide you with valuable information. We may collect this information mainly from documents you provide to us through forms, personal interaction, and contract negotiations. The information includes your name, address, telephone number, social security number, transactional and financial information, as well as other personal nonpublic information we may need to service your account. In addition, we may

access or generate information to service your account, such as account statements and portfolio holdings. Finally, we may receive information from third parties with respect to your account, such as accounts you may have with other financial institutions.

How We Protect the Confidentiality of Your Personal Information. Falcons I does not provide, for sale or otherwise, personal information about you to outside firms, organizations, or individuals except as required by law or as requested by you. In the course of regular business, Falcons I may share relevant information with regulators, financial institutions and other service providers that support our service of your account. These companies may use this information only for the services for which we hire them, and are not permitted to use or share this information for any other purpose. There are times when we may distribute information about your account to regulators, financial institutions, and service providers electronically which may include transmitting information via email or by other means over unsecure networks.

We use your personal information in ways that are compatible with the purposes for which we originally requested it. For example, we will use the information you give us to process your requests for transactions, to meet regulatory requirements, to provide you with additional information about products and services, or to share information with you about your account. We may also be required to share information by law due to a subpoena, court order, or regulatory requirements. At all times, we will limit the collection and use of personal information to that which is necessary to administer our business and to deliver the best possible service to you.

Falcons I restricts access to nonpublic personal information about our customers to employees who need to know such information in order to provide products or services to you. We maintain strict safeguards – physical, electronic, and procedural – designed to protect your personal information and comply with federal standards. If you decide to close your account(s) or become an inactive customer, we will continue to adhere to the privacy policies and practices as described in this notice.

We are Committed to Protecting Your Privacy. Falcons I and its affiliates have built a reputation for integrity and professionalism among our clients. We value the confidence and trust you have placed in us and strive to protect that trust. We value your business and are committed to giving you the best possible service. If you have questions regarding our customer privacy policy, or any aspect of service we provide, please contact us at (888) 685-2915.

Business Continuity Plan Summary Statement

Falcons I has developed a Business Continuity Plan to be able to continue conducting business in the event of a significant business disruption or disaster. As the timing and frequency of disasters and disruptions are both unpredictable, we will exercise flexibility in responding to actual events as they occur. This Summary Disclosure Statement provides a summary detail of Falcons I's risk mitigation strategy in the event of an interruption to its daily conduct of business.

Falcons I's Business Continuity Plan is aimed at responding to a significant business disruption by protecting its employees and assets, assessing its financial and operational capability, and

rapidly instituting recovery measures to resume operations – and therefore allowing our customers to conduct business as soon as possible – while protecting the firm's books and records. The plan is intended to comply with regulatory requirements and sound business practices.

Our Business Continuity Plan anticipates two kinds of potential disruptions, internal and external. Internal disruptions affect only our firm's ability to communicate and do business, such as a disastrous event that would occur within our business premises. External disruptions prevent the operation of the securities markets for a number of firms, such as a terrorist attack, or a wide-scale, regional disruption. Our response to an external disruption relies more heavily on other organizations and systems, and other entities with which we have agreements.

In the event of a business disruption, either external or internal, Falcons I will begin immediately communicating relevant information to our clients, investors, employees, critical business constituents, banks, counter-parties, and regulators. The communication options we will employ may include telephone, fax, email, overnight courier, U.S. postal mail service, and our website.

All mission-critical systems are backed up daily and a copy is stored offsite. Mission-critical systems are defined by Falcons I accordingly in the Business Continuity Plan. In the event of a significant business disruption, these backups will be obtained and restored as quickly as possible.

Despite our efforts to create an ideal response plan, and therefore be able to address a significant business disruption with a greater degree of preparation, we acknowledge the unpredictable nature of disasters and the impossibility of anticipating every possible catastrophic scenario. We are confident that our measures will allow us to continue conducting business with minimum impact to our clients and business partners; however, the possibility of an adverse effect to our operations by a third-party's inability to cope with a disruption beyond our knowledge or control cannot be totally disregarded.

Our firm does not maintain custody of customers' funds or securities. In the event of an internal or external disruption, if telephone service is available, our staff will respond to customer inquiries via telephone; and if our Internet access is available, our firm will post on our website a notice that customers may access their account information or inquire about their account by contacting us at a provided phone number. We will take steps to ensure that customers have access to their funds and securities at all times as described in the investment funds' offering documents.

To obtain a full copy of the Business Continuity Plan, please contact Falcons I at (888) 685-2915.

Cybersecurity Risk

With the increased use of technologies such as the internet to conduct business, Falcons I is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events.

Cyberattacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or

sensitive information, corrupting data, or causing operational disruption. Cyberattacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users).

Cyber incidents affecting Falcons I or its service providers have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with trading, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Similar adverse consequences could result from cyber incidents affecting issuers of securities in which a portfolio invests, counterparties with which Falcons I engages in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and service providers for Falcons I's Client and other parties. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future.

Falcons I maintains a cybersecurity incident response plan designed to provide a quick, organized and effective response to computer-related and physical breach incidents. The incident response plan's mission is to prevent a serious loss of information, information assets, property, and customer confidence by providing an immediate, effective and informed response to any event involving Falcons I's information systems, networks or workplace.

While Falcons I and its critical service providers have established business continuity plans in the event of, and risk management systems to prevent, such cyber incidents, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Furthermore, Falcons I cannot control the cybersecurity plans and systems put in place by its service providers or any other third parties whose operations may affect Falcons I or its Client. Falcons I and its Client could be negatively impacted as a result.

Class Action Lawsuits

From time to time, Falcons I receives notification of class action lawsuits wherein its Clients may have a claim of monetary relief. Although Falcons I does not actively seek out such notifications, Falcons I sometimes receives instructions for making claims in such lawsuits' settlements. Falcons I will notify its existing clients regarding the existence of potential class action claims when all of the following criteria have been met: (i) Falcons I receives notification of the class action lawsuit; (ii) the class has been certified; (iii) a monetary settlement has been reached in the lawsuit and approved by the Court; and (iv) the settlement involves an existing client of Falcons I. In these cases, Falcons I will notify the appropriate party representing the client. Falcons I does not make claims on behalf of its clients.