

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

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This brochure provides information about the qualifications and business practices of Ovation Partners, LP (the “Adviser”). If you have any questions about the contents of this brochure, please contact us at (512) 647-6060. 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.

The Adviser is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). However, such registration does not imply a certain level of skill or training.

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

## **Item 2 – Material Changes**

The Adviser filed its most recent Form ADV Part 2 on March 30, 2020. This other than annual amendment updates the Adviser's address.

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## **Item 4 – Advisory Business**

Ovation Partners, LP (the “Adviser”, “Ovation”, “we”, “us” or “our”), a Texas limited partnership, was established in 2010, was registered with the SEC in 2015 as an investment adviser, and, together with its affiliates, provides investment management services to the following privately offered pooled investment vehicles:

- Ovation Alternative Income Fund LP, a Delaware limited partnership (the “AIF Fund”); Ovation Alternative Income Fund-A LP, a Delaware limited partnership (the “AIF Corporate Feeder” and, collectively with the AIF Fund, the “AIF Feeder Funds”); and Ovation Alternative Income Master Fund LP, a Delaware limited partnership (the “AIF Master Fund” and, collectively with the AIF Feeder Funds, “AIF”), which serves as the master fund into which the AIF Feeder Funds invest all or substantially all of their assets through a “master-feeder” fund structure;
- Ovation Tax Lien Fund, LP, a Texas limited partnership (“TLF”);
- Kress OZ LP, a Delaware limited partnership (“Kress QOF”); and
- Derby RR OZ LP, a Delaware limited partnership (“Derby RR QOF” and, together with Kress QOF, the “OZ Funds”)

(each, a “Fund,” and together with any future privately offered pooled investment vehicle to which the Adviser or its affiliates provide investment advisory services, the “Funds”).

The general partner or managing member, as applicable, of each Fund (each a “General Partner,” and together, the “General Partners”) is as follows:

- Ovation Fund Management II, LLC (“OFM II”), a Delaware limited liability company, acts as general partner of AIF;
- Ovation Fund Management I, LLC (“OFM I”), a Texas limited liability company, acts as general partner of TLF;
- Derby RR OZ GP LLC (“Derby RR GP”), a Delaware limited liability company, acts as general partner of Derby RR QOF; and
- Kress OZ GP LLC (“Kress GP”), a Delaware limited liability company, acts as general partner of Kress QOF.

Unless otherwise noted, references herein to the “Adviser”, “Ovation”, “we”, “us” or “our” include the General Partners. A special purpose entity through which each OZ Fund indirectly owns real property (each an “OZ SPV”) is managed by the relevant OZ Fund’s General Partner and one or more third party managers (each such third party manager, an “OZ Manager”). The OZ Managers have real estate development experience, have joint authority over the management of the relevant OZ SPV and the relevant underlying property with the relevant OZ Fund’s General Partner and are responsible for the day-to-day real estate management and operation of the relevant OZ SPV and the relevant underlying property. This Brochure does not describe the business practices of each of such OZ Managers.

Each General Partner is an affiliate of and under common control with the Adviser. Each General Partner is subject to the Advisers Act pursuant to the Adviser’s registration in accordance with

SEC guidance. This brochure also describes the business practices of the General Partners, which operate as a single advisory business together with the Adviser.

The principal owners of the Adviser are Jeffrey R. Serra and Michael J. Rovner. Mr. Serra and Mr. Rovner each own 50% of the Adviser through their limited partnership interests in the Adviser. The general partner of the Adviser, Ovation Management LLC, is wholly-owned and managed by Michael Rovner.

The Adviser's investment advisory services to the Funds consist of identifying and evaluating investment opportunities, managing and monitoring investments and achieving dispositions of such investments. The Adviser's specific advisory services with respect to each Fund are detailed in the applicable private placement memoranda or other offering documents (each, a "Memorandum"), investment management agreements, limited partnership or other operating agreements or governing documents (each, an "Agreement of Limited Partnership" and, as applicable, together with any relevant Memorandum, the "Governing Documents"). The Adviser presently provides investment advice only to the Funds and, as such, does not tailor its advisory services or investment objectives or strategies to the requests or needs of individual investors in the Funds, nor does it generally accept underlying investment restrictions from individual investors in the Funds, although certain investors in certain circumstances are permitted to be excused from a particular investment due to legal, regulatory or other agreed upon circumstances in Ovation's sole discretion pursuant to the Governing Documents; for the avoidance of doubt, such arrangements do not and will not create an adviser-client relationship between Ovation and any investor. Each Fund's Memorandum lays out the respective Fund's investment strategy and guidelines, including any restrictions and the ability to vary therefrom, and the Adviser then seeks to locate assets for each Fund that are within such guidelines and consistent with the overall portfolio needs of each Fund. For more detailed information regarding such restrictions, please refer to the Funds' respective Governing Documents.

As of December 31, 2019 the Adviser has approximately \$751,026,902 in regulatory assets under management, all of which are managed on a discretionary basis.

The Adviser's advisory employees are primarily employed through Ovation Management Services, LLC, a subsidiary of the Adviser.

The respective General Partners of AIF, TLF, Derby RR QOF and Kress QOF have each established a Limited Partner Advisory Committee (the "LPAC") for its respective Fund that (i) provides advice to the applicable General Partner and Fund with regard to matters submitted to the LPAC by the General Partner of such Fund, and (ii) reviews all transactions between the applicable Fund and affiliates of its General Partner in which potential conflicts of interests exist. The results of the reviews undertaken by the LPAC with respect to matters submitted to it by the applicable Fund's General Partner shall be considered by such General Partner but will not be binding on such General Partner or the Fund. Each General Partner will retain ultimate responsibility and authority for all decisions relating to the operation and management of its respective Fund.

## **Item 5 – Fees and Compensation**

Fees generally are paid to each Fund's respective General Partner as set forth in each Fund's Governing Documents. Capitalized terms used in this section that are not otherwise defined herein will have the meanings assigned to such terms in the applicable Governing Documents.

### **AIF Fees:**

With respect to AIF, the General Partner charges a Management Fee that consists of two components – a “Base Management Fee” and an “Incentive Fee”:

*Base Management Fee:* The Base Management Fee for the AIF Fund is calculated and accrued on a monthly basis and is due and payable quarterly in arrears, and represents an amount equal to (i) 0.125% multiplied by (ii) net assets of AIF as of the close of business on the last day of the preceding month.

The Base Management Fee for the AIF Corporate Feeder is calculated and accrued on a monthly basis and is due and payable monthly in arrears, and represents an amount equal to (i) 0.125% multiplied by (ii) the sum of (A) net assets as of the close of business on the last day of the previous month, plus (B) capital contributions by limited partners during the period beginning on the first (1st) day of the calendar month in which the Base Management Fee is being calculated and ending on midnight of the tenth day of the calendar month in which the Base Management Fee is being calculated, plus (if positive) or minus (if negative), as applicable (C) any accrued and unpaid corporate tax expense as of the last day of the previous month.

Each limited partner's share of the Base Management Fee is apportioned *pro rata* based on his or her capital account in AIF or the AIF Corporate Feeder, as applicable.

*Incentive Fee:* The Incentive Fee for the AIF Fund and the AIF Corporate Feeder, as applicable, is calculated and accrued on a monthly basis and is due and payable quarterly in arrears. The Incentive Fee is equal to 10% of Pre-Incentive Fee Income Amounts. Each limited partner's share of the Incentive Fee is apportioned *pro rata* based on his or her capital account in AIF or the AIF Corporate Feeder, as applicable. If Pre-Incentive Fee Income Amounts do not exceed 0% in any quarter, this creates a high watermark shortfall that will carry forward to subsequent quarters. No Incentive Fee is payable to the General Partner in any quarter in which a high watermark shortfall exists.

### **TLF Fees:**

With respect to TLF, the General Partner charges a Management Fee that consists of two components – a “Base Management Fee” and an “Incentive Fee”:

*Base Management Fee:* The Base Management Fee is calculated monthly and paid quarterly in arrears. For each month it is an amount equal to (i) 0.0833% multiplied by (ii) total assets under management on the last day of the previous month and the fee for any partial month is appropriately prorated as determined by the General Partner. Each limited partner's share of this fee shall be apportioned *pro rata* based on his or her Capital Account in TLF.

*Incentive Fee:* The Incentive Fee is calculated on a monthly basis and is payable quarterly in arrears, as outlined below.

(i) Monthly Pre-Incentive Fee Distributable Income Amounts will be compared to a hurdle amount of 0.667% (8.0% annually) times the total of all investors' previous month's ending Unreturned Capital Amount.

(ii) 30% of Pre-Incentive Fee Distributable Income Amounts, if any, that exceeds the hurdle amount in any quarter, is payable to the General Partner.

(iii) If Pre-Incentive Fee Distributable Income Amounts do not exceed the hurdle amount in any Fiscal Quarter, a hurdle shortfall is created that will carry forward to subsequent quarters. No Incentive Fee is payable to the General Partner in any quarter in which a hurdle shortfall exists.

#### **Derby RR QOF Fees:**

With respect to Derby RR QOF, (i) a quarterly "Asset Management Fee" is paid to each of Derby RR GP and the relevant OZ Manager equal to 0.125% (which is equivalent to 1% per year in the aggregate for Derby RR GP and the relevant OZ Manager) of the total estimated cost of the underlying real estate project, and (ii) an incentive allocation of 30% subject to a 6% preferred return, all of which are further described in the Governing Documents.

#### **Kress QOF Fees:**

With respect to Kress QOF, (i) commencing on the 18th month after the initial closing of Kress QOF, a quarterly "Asset Management Fee" is paid to each of Kress GP and the relevant OZ Managers equal to 0.125% (which is equivalent to 1% per year in the aggregate for Kress GP and the relevant OZ Managers ) of the total estimated costs of the underlying real estate project; and (ii) a "Development Fee" totaling \$1,000,000 is paid pro-rata to each of Kress GP and the relevant OZ Managers subject to the terms of the Governing Documents, which Development Fee may be reduced in accordance with the Governing Documents; and (iii) an incentive allocation of 30% subject to a 7% preferred return, all of which are further described in the Governing Documents.

#### **Other Information**

The Adviser and/or the General Partners are permitted to exempt certain investors in the Funds from payment of all or a portion of Management Fees and/or incentive fees, including the General Partners, their affiliates and any other person designated by the Adviser such as "friends and family" of the Adviser or its personnel, or other investors meeting certain qualification requirements based on investment size or other strategic or relationship factors.

Principals or other current or former employees of the Adviser generally receive salaries and other compensation derived from, and in certain cases including a portion of the Management Fee, incentive fees or other compensation received by the Adviser or its affiliates.

## **Fund Expenses**

Each General Partner is responsible for all expenses relating to its own operations, including ordinary administrative and overhead costs and expenses, including salaries, benefits, rent and utilities.

In addition to management fees, incentive fees and/or allocations, development fees and organizational expenses incurred for a Fund (as such expenses are limited by the applicable Fund's Agreement of Limited Partnership), each Fund is generally responsible for fees, costs, expenses, liabilities and obligations incurred by its General Partner, the Adviser or any affiliate thereof on behalf of the Fund (or its subsidiaries or intermediate entities), including, without limitation: the costs and expenses related to such Fund's operations, including, without limitation, expenses incurred in connection with the evaluation, audit and verification, structuring, organization, negotiation, financing, refinancing, acquisition, bidding on, consummation, owning, managing, monitoring, operation, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding up, liquidation or other disposition, as applicable, of the Fund's actual and potential investments, (including follow-on investments) including: legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, investment bankers, lenders and, third-party diligence software and service providers, consultants and similar professionals in connection therewith and any fees and expenses related to transactions that may have been offered to co-investors, whether or not any contemplated transaction or project is consummated and whether or not such activities are successful; reverse breakup, topping, termination and other similar fees; auditing expenses; accounting, tax, tax preparation (including in connection with the preparation and audit of the Fund's financial statements, tax returns and Schedule K-1s (or other investor tax reporting forms)) and legal fees, costs and expenses, including those provided by an affiliate or a person affiliated with an employee of the Adviser, an affiliate of the Adviser or a third-party; consulting and professional fees, costs and expenses (including, without limitation, retainers, fees (or other compensation), costs and expenses of consultants and experts); fees, costs and expenses of any bankruptcy proceedings in connection with Fund investments; fees, costs and expenses relating to software licensing, data, service and market information; expenses incurred in connection with entering into and maintaining any credit facility; financing, commitment, origination and similar fees and expenses; hedging costs; travel expenses including, where appropriate, lodging, meal and entertainment expenses (including such expenses incurred by the General Partner or the Adviser in connection with the review of consummated and unconsummated investment and disposition opportunities for the Fund); printing and postage expenses; developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other information technology, administrative or reporting tools for the benefit of the Fund or its limited partners; appraisal or valuation (including third-party valuation service expenses); fees, costs and expenses associated with any broker, dealer, finder (and other similar deal sourcing payments), underwriting (including both commissions and discounts), loan administration, private placement, sales commissions, investment banker and similar services; clearing and settlement charges; custodial fees; depository fees; bank service fees; other interest expenses and transaction fees; blue sky and corporate reporting or filing fees and expenses; insurance expenses (including directors' and officers' and errors and omissions and fidelity insurance covering the General Partner, the Adviser, their affiliates and any other person acting on behalf of the Fund); ongoing offering expenses and payments for custody of the Fund's assets; regulatory or compliance expenses (and damages); fees



and expenses of fund administration (including any third-party fund administrator); any extraordinary expenses *e.g.*, litigation expenses, incurred by the Fund (whether or not required by GAAP); any and all expenses related to the Fund's indemnification obligations; expenses not otherwise reimbursed relating to defaults by limited partners in the satisfaction of any draw down of their capital commitment(s); expenses incurred in connection with any past or anticipated restructuring or amendments to the constituent documents of the Fund and related entities, (excluding constituent documents of the General Partner); expenses incurred in connection with distributions to the investors (if any); expenses incurred in connection with the transfer of any investor, to the extent not borne by the relevant investor; fees and expenses payable to servicers, including affiliates of the General Partner under the terms of agreements entered into in connection with the servicing of the Fund's assets (as further described below in Item 8 – "Methods of Analysis, Investment Strategies and Risk of Loss" and Item 10 – "Other Financial Industry Activities and Affiliations"); all out-of-pocket fees, costs and expenses incurred by the Fund, the General Partner or the General Partner in connection with any conference or meeting with any limited partner(s) (including related travel, lodging, meal and entertainment expenses), including any annual limited partner meeting; taxes, fees and other governmental charges levied against the Fund (other than certain amounts specified in the Fund's Governing Documents); the out-of-pocket expenses of a Limited Partner Advisory Committee and its members serving in their capacity in connection therewith pursuant to the Fund's Governing Documents; third-party expenses related to hosting or attending training programs, and conducting meetings related to portfolio investments; third-party expenses incurred in connection with the winding up or liquidation of the Fund; and any other Fund expenses as incurred by the Fund, the General Partner or the Adviser on behalf of the Fund. Generally included in the expenses permitted to be borne by a Fund are the fees, costs, expenses, liabilities and obligations of legal counsel, consultants and/or other service providers to procure, develop, establish, review, revise, customize, upgrade and/or negotiate relationships relating to the foregoing items, which generally are expected to be significant. In certain cases, these or similar expenses are expected to be charged to a Fund's underlying investments, capitalized into the cost basis of a transaction or, to the extent necessary or desirable for operational, administrative, tax or other reasons, charged at the level of an intermediate holding company between the relevant Fund and the investment.

As set forth in the Governing Documents of the OZ SPVs, each OZ SPV pays an administrative fee of \$10,000 to Derby RR GP and Kress GP respectively as compensation for managing the distribution process of the relevant OZ SPV and providing the relevant OZ SPV administration and GAAP record-keeping and services.

As is typical for privately offered pooled investment vehicles, the Funds likely bear additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds, and there can be no assurance that the benefits to investors will be commensurate with such expenses.

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

The performance-based fees payable to the General Partner that are described in Item 5 above have the potential to create an incentive for the Adviser to make investments that are riskier or more speculative than those which would be made under a different fee arrangement, although the

Adviser generally considers performance-based compensation to better align its interests with those of the Funds' investors. Additionally, to the extent that the Adviser has Funds with varying performance-based fee terms and/or the Adviser's personnel are assigned varying percentages of such performance-based fees from the Funds, the Adviser and such personnel are subject to potential conflicts of interest, to the extent they are involved in identifying investment opportunities as appropriate for Funds from which they are entitled to receive a higher percentage of such performance-based fees.

The Adviser seeks to address the potential for conflicts of interest in these matters with allocation policies and practices that provide that transactions and investment opportunities will be allocated to the Funds in accordance with each Fund's investment guidelines and Governing Documents, as well as other factors that do not include the amount of performance-based compensation received by the Adviser or any personnel.

## **Item 7 – Types of Clients**

The Adviser provides investment advice to its Fund clients, and references throughout this Brochure to "clients" and to the Adviser's related duties to and practices on behalf of its clients and/or investors should be construed accordingly. The Funds generally include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended (the "Company Act"). The investors participating in the Funds generally include individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and from time to time include, directly or indirectly, principals or other employees of the Adviser and its affiliates and members of their families, or other service providers retained by the Adviser.

The relevant General Partner also generally is permitted from time to time to establish Funds that are alternative investment vehicles in order to permit certain investors to participate in one or more particular investment opportunities in a manner desirable for tax, regulatory or other reasons. Alternative investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles independent of limitations or other procedures set forth in the organizational documents of such vehicles and the related Fund.

Each of AIF and TLF generally have a minimum investment amount of \$100,000 for third-party investors, and interests in AIF and TLF are offered and sold solely to "accredited investors," within the meaning of Rule 501(a) of Regulation D under the Securities Act of 1933, as amended, or qualified knowledgeable employees of the Adviser or its affiliates.

Each OZ Fund generally has a minimum investment amount of \$250,000 for third-party investors, and interests in an OZ Fund are offered and sold solely to "accredited investors" and "qualified clients" as defined in Rule 205-3 of the Advisers Act.

The minimum investment amounts described above are permitted to be waived by the Adviser.

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

AIF invests directly and indirectly in private credit and specialty finance assets with shorter duration and contractual cash flows, including but not limited to the following target assets:

- Commercial Finance Assets;
- Consumer Finance Assets;
- Litigation Finance Assets; and
- Real Estate Assets.

TLF invests directly and indirectly in Tax Lien Transfers.

Each OZ Fund invests in real property in a census tract that has been designated by the U.S. Secretary of the Treasury as a “qualified opportunity zone” pursuant to the Tax Cuts and Jobs Act of 2017 as set forth in Governing Documents of each Fund.

The investment strategies of each Fund are more fully described in the respective Memorandum of such Fund.

### **Risks of Investment**

#### ***Future and Past Performance***

The performance of the Adviser’s principals’ prior investments is not necessarily indicative of a Fund’s future results. While the Adviser intends for the Funds to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

#### ***Certain Risk Considerations***

Investing in securities involves risk of loss that investors should be prepared to bear, ***including the risk of loss of the entire investment***. The following does not purport to be a complete explanation of the risks involved in an investment in any of the Funds. No assurance exists that the Funds will achieve their respective investment objectives. Purchase of interests in any of the Funds is not intended as a comprehensive investment program.

#### ***Lack of Sufficient Investment Opportunities***

It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying, structuring and consummating investment opportunities of the types invested in by the Funds is highly competitive and involves a high degree of uncertainty. However, the limited partners will be required to bear Management Fees and other expenses as set forth in the applicable Governing Documents.

### ***Illiquidity; Lack of Current Distributions***

An investment in a Fund should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a Fund (including any Management Fee payable to the General Partner) may exceed its income, thereby requiring that the difference be paid from the Fund's capital.

### ***Limited Transferability of Fund Interests***

There will be no public market for a Fund's interests, and none is expected to develop. There are substantial restrictions upon the transferability of Fund interests under each Fund's Governing Documents and applicable securities laws. In general, withdrawals of Fund interests are limited.

### ***Restricted Nature of Investment Positions***

Generally, there will be no readily available market for Fund investments, and hence, most Fund investments will be difficult to value. Certain investments are permitted to be distributed in kind to the investors and it may be difficult to liquidate the securities received at a price or within a time period that is determined to be ideal by such investors. After a distribution of securities is made to a Fund's investors, many investors may decide to liquidate such securities within a short period of time, which could have an adverse impact on the price of such securities. The price at which such securities may be sold by such investors may be lower than the value of such securities determined pursuant to the applicable Fund's Governing Documents, including the value used to determine any performance compensation available to a General Partner with respect to such investment.

### ***The Interests Are Not Freely Tradable, And as a Result the Liquidity of Such Interests Is Materially Impacted.***

Investors may not be able to obtain cash for a Fund's interests on a timely basis, or at all. There are a number of restrictions on the Funds' interests, including the ability to sell or transfer the interests or to have them repurchased by the Fund. An investor is not permitted to sell, assign, or transfer any interest, except under certain limited circumstances and, in each instance, with the prior written consent of the Fund's General Partner. Further, withdrawal of a Fund's interests is subject to certain limitations, including limitations on the amount of withdrawal requests the General Partner is obligated to grant and the aggregate amount of withdrawals that may occur at a given withdrawal date.

Additionally, a Fund's interests are restricted as to free tradability under U.S. federal income tax laws. In order to preserve certain Funds' status as a limited partnership and prevent being taxable as a corporation, investors are not free to sell or transfer their Fund interests at will, and they are likely not to be accepted by a lender as security for borrowing.

### ***Uncertain Economic, Social and Political Environment***

Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global

financial crises, virus or disease epidemics or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of a Fund and its portfolio investments to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. This may slow the rate of future investments by such Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn generally is expected to have an adverse effect upon such investments.

### ***Coronavirus and Other Public Health Emergencies***

As of the date of this Brochure, there is an outbreak of a novel and highly contagious form of coronavirus (“COVID-19”), which the World Health Organization has declared to constitute a “pandemic.” The outbreak of COVID-19 has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.

Any public health emergency, including any outbreak of COVID-19, SARS, H1N1/09 flu, avian flu, other coronavirus, ebola or other existing or new epidemic diseases, or the threat thereof, could have a significant adverse impact on a Fund and its investments and could adversely affect a Fund’s ability to fulfill its investment objectives.

The extent of the impact of any public health emergency on a Fund’s and its investments’ financial performance will depend on many factors, including the duration and scope of such public health emergency, the extent of any related travel advisories and restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. The effects of a public health emergency may materially and adversely impact the value and performance of a Fund’s investments, a Fund’s ability to source, manage and divest investments and a Fund’s ability to achieve its investment objectives, all of which could result in significant losses to a Fund. In addition, the operations of the Adviser, a Fund or its investments may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, voluntary and precautionary restrictions on travel or meetings and other factors related to a public health emergency, including its potential adverse impact on the health of any such entity’s personnel. A Fund’s ability to determine the fair value of its underlying investments, particularly Level III assets (which do not have a ready market), is especially impaired during the period of extreme volatility caused by the COVID-19 outbreak.

There is expected to be a considerable lag between the actual impairment and the determination of fair value due to the changing number of intrinsic factors going into such calculation.

### ***Reliance on the General Partner***

The Funds are dependent on their respective General Partner. Control over the operation of a Fund will be vested with its General Partner, and a Fund's future profitability will depend largely upon the business and investment acumen of the principals of such General Partner. The loss or reduction of service of one or more of the principals of a General Partner or the Adviser could have an adverse effect on a Fund's ability to realize its investment objectives. In addition, certain principals currently, and expect to in the future, manage other investment funds besides the Funds and the principals may need to devote substantial amounts of their time to the investment activities of such other funds, which generally is expected to pose conflicts of interest in the allocation of the time of the principals from time to time. Fund investors generally have no right or power to take part in the management of a Fund, and as a result, the investment performance of such Fund will depend on the actions of its General Partner. In addition, certain changes in a General Partner or the Adviser, or circumstances relating to a General Partner or the Adviser may have an adverse effect on the applicable Fund(s) or one or more of its investments including potential acceleration of debt facilities.

### ***Investors Have No Right To Control the Funds' Operations***

Investors will have no opportunity to control the day-to-day operations, including investment and disposition decisions, of the Funds. Similarly, Investors will not have the opportunity to take part in or direct the management of any investments of the Funds. Investors will rely entirely on the Funds' General Partners to conduct and manage the affairs of the Funds.

### ***Master-Feeder Structure***

Certain Funds intend to invest through a "master-feeder" fund structure, which can present certain risks. For example, if one feeder fund in the structure experiences withdrawals, the other feeder fund in the structure would experience higher *pro rata* operating expenses relating to the relevant master fund. Further, a master fund's portfolio may become less diverse due to liquidations of positions needed to fund withdrawals of interests in a feeder fund, resulting in increased portfolio risk. Moreover, the General Partner's ability to suspend withdrawals or delay or suspend distributions of withdrawal proceeds may be triggered by the occurrence of certain events that affect one feeder fund in the structure, which may not otherwise have impacted the other feeder fund in the structure. Moreover, certain conflicts of interest in determining whether to hold or dispose of an asset may exist due to different tax considerations applicable to the funds in a "master-feeder" fund structure.

### ***Investment Returns Dependent on Master Fund***

The AIF Fund and the AIF Corporate Feeder invest all (or substantially all) of their capital in a master fund (including alternative investment vehicles utilized by a master fund), and, as a result, such Funds' investment returns are expected to depend to a significant extent upon the investment returns of the corresponding master fund.

### ***Conflicting Investor Interests***

Fund investors will, from time to time, have conflicting investment, tax, and other interests with respect to their investments in a Fund, including conflicts relating to the structuring of investment acquisitions and dispositions. Potential conflicts will arise from time to time in connection with decisions made by a Fund's General Partner regarding an investment that may be more beneficial to one investor than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, a Fund's General Partner generally will consider the investment and tax objectives of such Fund and its investors as a whole, not the investment, tax, or other objectives of any investor individually.

### ***Limited Access to Information***

Investors' rights to information regarding a Fund, the relevant General Partner or the Adviser generally will be specified, and in many cases strictly limited, by the Governing Documents. In particular, it is anticipated that the General Partner and its affiliates will obtain certain types of material information from or relating to a Fund's investments that will not be disclosed to investors because such disclosure is prohibited, including as a result of contractual, legal or similar obligations outside of the Adviser's control. Decisions by the Adviser or its affiliates to withhold information may have adverse consequences for investors in a variety of circumstances. For example, an investor that seeks to transfer its interest in a Fund may have difficulty in determining an appropriate price for such interest. Decisions to withhold information may also make it difficult for an investor to monitor the Adviser and its performance. Additionally, it is anticipated that investors that designate representatives to participate on a Fund's LPAC generally may, by virtue of such participation, have more or earlier information about a Fund and its investments in certain circumstances than other investors. Investors generally will bear the expenses of responding to disclosure requests, including in connection with state public records, similar freedom of information and other laws, whether or not the relevant Fund succeeds in asserting confidentiality for requested documents and other materials, and the Adviser reserves the right to withhold certain information from investors subject to such laws for reasons relating to the Adviser's public reputation, business strategy or other reasons.

### ***Indemnification***

To the extent permitted by applicable law, the Funds are required to indemnify the relevant General Partner and its affiliates and each of their respective members, officers, directors, employees, stockholders, shareholders or partners and their affiliates, the members of the LPAC, and any other person who serves at the request of the relevant General Partner on behalf of the Fund as an officer, director, employee, stockholder, shareholder, member or partner of any other entity, for liabilities incurred in connection with the affairs of the Fund. The indemnification obligations of the Fund would be payable from the assets of the Fund, including the unpaid capital commitments of the investors.

### ***Market Conditions***

The capital markets have experienced great volatility and financial turmoil. Moreover, governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) may have a negative effect on market conditions. General fluctuations in the market prices

of securities and economic conditions generally may reduce the availability of attractive investment opportunities for the Funds and may affect the Funds' ability to make investments. Instability in the securities markets and economic conditions generally (including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates) may also increase the risks inherent in a Fund's investments and could have a negative impact on the performance and/or valuation of the portfolio investments. A Fund's performance can be affected by deterioration in the capital markets and by market events, such as the onset of the credit crisis in the summer of 2007 or the downgrading of the credit rating of the United States in 2011, which, among other things, can impact the public market comparable earnings multiples used to value privately held portfolio investments and investors' risk-free rate of return. Movements in foreign exchange rates may adversely affect the value of investments in portfolio investments and a Fund's performance. Volatility and illiquidity in the financial sector may have an adverse effect on the ability of the Fund to sell and/or partially dispose of its investments. Such adverse effects may include the requirement of a Fund to pay break-up, termination or other fees and expenses in the event such Fund is not able to close a transaction (whether due to the lenders' unwillingness to provide previously committed financing or otherwise) and/or the inability of such Fund to dispose of investments at prices that the Adviser believes reflect the fair value of such investments. The impact of market and other economic events may also affect a Fund's ability to raise funding to support its investment objective.

### ***Deterioration of Credit Markets***

A deterioration of the credit markets could result in delays in longer development times, increases in overall costs, and possibly a greater reliance on subscription-backed financing to fund development of a portfolio investment until the debt market stabilizes. This could lead to increased risk as a result of a Fund having a longer-term investment than expected or the inability of potential buyers of a portfolio investment to procure acceptable financing.

### ***Inflation/Deflation Risk***

Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of payments at future dates. As inflation increases, the real value of a Fund's investment in a portfolio investment could decline and the interest payments on any related borrowings may increase. Deflation risk is the risk that prices throughout the economy decline over time. Deflation may have an adverse effect on the creditworthiness of issuers, increase the real value of debts owed, and may make issuer default more likely, which may result in a decline in the value of the portfolio investment and the Fund.

### ***Cyclical Nature of Debt Markets***

From time to time, the markets have been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, sometimes in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. A general downturn in the debt markets can create a situation in which investments suffer rising default rates. Such rising default rates may further tighten the lending environment, leading to a cycle of default and increasing interest rates. The inability of the sponsor to secure debt financing at reasonable interest rates may adversely affect an investment's profitability and financial stability, and will subject such investment to increased exposure to adverse economic factors such as a significant



rise in interest rates, a severe downturn in the economy or deterioration in the condition of that investment.

### ***Leverage Risks (For TLF and AIF)***

The Funds and their underlying investments generally are permitted to use leverage in their investment strategies. Leverage may take the form of loans of borrowed money or derivative instruments that are inherently leveraged. The use of leverage can substantially increase the market exposure (and market risk) to which the Funds' investments may be subject. Leverage generally magnifies both the Funds' opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. The use of leverage by a Fund or its underlying investments will also result in interest expense and other costs to the Fund that may not be covered by distributions made to the Fund or appreciation of its investments. Depending on the amount of leverage, such charges or costs could be substantial. The use of leverage also imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future operations and capital needs. The level of interest rates at which a Fund (and its underlying investments) can borrow will (especially given the variable rate inherent in AIF's leverage) materially affect the operating results of such Fund. The leveraged capital structure of portfolio investments will increase the exposure of the Fund's investments to any deterioration in such investments' condition or industry, competitive pressures, an adverse economic environment or rising interest rates. Such conditions also could accelerate and magnify declines in the value of the Fund's investments in leveraged investments in a down market. In addition, a Fund may in some cases be added as a guarantor, in whole or in part, to credit facilities associated with an investment strategy.

Currently, AIF Master Fund and TLF, in addition to Ovation Financial Services, LP ("Ovation Financial Services") and the Servicer (as defined herein), guarantee the outstanding balance on a revolving credit facility in the principal amount of up to \$110,000,000 for the FGMS SPV (as defined herein) associated with the tax lien strategy. Each of the AIF Master Fund's and TLF guaranty is an amount determined by its *pro rata* investment in the FGMS SPV. If the FGMS SPV defaults on its repayment obligation under such credit facility, AIF and TLF will be materially adversely affected. Additionally, if any of AIF Master Fund, TLF, Ovation Financial Services and/or the Servicer do not have sufficient assets to support their portion of the guarantee relating to the credit facility upon the FGMS SPV's default, the other guarantors will be materially adversely affected. Separately, if the credit party providing such credit facility does not renew the credit facility at the end of its predetermined term and the credit facility cannot otherwise be refinanced and the FGMS SPV is unable to repay the outstanding balance, AIF and TLF will be materially adversely affected.

AIF Master Fund provides a 25% limited guarantee of the revolving credit facility in the principal amount of up to \$55,000,000 for Asbury Management Group, Inc. ("AMG") which AIF Master Fund has a 25% common equity ownership interest in through one of its special purpose vehicles. If AMG defaults on its repayment obligation under such credit facility, AIF will be materially adversely affected. Additionally, if any of AIF Master Fund or other guarantors do not have

sufficient assets to support their portion of the guarantee relating to the credit facility upon AMG's default, the other guarantors will be materially adversely affected. Separately, if the credit party providing such credit facility does not renew the credit facility at the end of its predetermined term and the credit facility cannot otherwise be refinanced and AMG is unable to repay the outstanding balance, AIF will be materially adversely affected.

AIF Master Fund has obtained a \$30,000,000 revolving line of credit secured by capital commitments to the AIF Feeder Funds and guaranteed by the applicable General Partner. The AIF Master Fund may seek to increase its leverage at either the fund level or at the individual strategy level in the future. If the AIF Master Fund or the applicable General Partner do not have sufficient assets to support their portion of the loan or the guarantee, as applicable, relating to the credit facility upon a default, the AIF Feeder Funds will be materially adversely affected. Separately, if the credit party providing such credit facility does not renew the credit facility at the end of its predetermined term and the credit facility cannot otherwise be refinanced and the AIF Master Fund or the applicable General Partner is unable to repay the outstanding balance, the AIF Feeder Funds will be materially adversely affected.

AIF Master Fund, through one of its special purpose vehicles engaged in AIF's consumer finance strategies (the "Consumer Finance SPV") has obtained a \$30,000,000 revolving line of credit secured by the assets of the Consumer Finance SPV and guaranteed by the AIF Master Fund. If the Consumer Finance SPV or the AIF Master Fund do not have sufficient assets to support their portion of the loan or the guarantee, as applicable, relating to the credit facility upon a default, the AIF Feeder Funds will be materially adversely affected. Separately, if the lender providing such credit facility does not renew the credit facility at the end of its predetermined term and the credit facility cannot otherwise be refinanced and the Consumer Finance SPV or the AIF Master Fund is unable to repay the outstanding balance, the AIF Feeder Funds will be materially adversely affected.

AIF Master Fund, through its special purpose vehicles engaged in AIF's real estate strategies, and more specifically its single family rental strategy (the "SFR SPVs"), have obtained term loans in an aggregate principal amount of \$12,597,625 secured by the real estate assets of the SFR SPVs and guaranteed by the AIF Master Fund. If the SFR SPVs or the AIF Master Fund do not have sufficient assets to support their portion of the loan or the guarantee, as applicable, relating to the credit facility upon a default, the AIF Feeder Funds will be materially adversely affected. Separately, if the lender providing such credit facility does not renew the credit facility at the end of its predetermined term and the credit facility cannot otherwise be refinanced and the SFR SPVs or the AIF Master Fund is unable to repay the outstanding balance, the AIF Feeder Funds will be materially adversely affected.

If a Fund enters into any indebtedness with another Fund on a joint and several basis, the applicable General Partner may enter into one or more agreements that provide each Fund with a right of contribution, subrogation or reimbursement. In administering, or seeking to reinforce, these agreements, the Adviser generally will be subject to potential conflicts of interest from time to time, for example, between a Fund with a reimbursement obligation and a Fund seeking reimbursement. The Adviser intends to mitigate any potential conflicts by structuring such

agreement in a manner intended to cause each Fund to bear its proportionate share of the applicable indebtedness, without undue favoritism over time.

### ***Tax Law Changes***

Recent or future changes in U.S. federal income tax law could materially affect the tax consequences of an investor's investment in a Fund, and the tax treatment of a Fund's investments. While some of these changes could be beneficial, others could negatively affect the after-tax returns of the Funds and their investors. Accordingly, no assurance can be given that the currently anticipated tax treatment of an investment in a Fund, or of investments made by the Fund, will not be modified by legislative, judicial, or administrative changes, possibly with retroactive effect, to the detriment of investors.

Recently enacted legislation changes the U.S. taxation of U.S. taxable investors, tax-exempt investors and non-U.S. investors. Among other changes, this legislation modifies the taxation of investments in flow-through entities conducting an operating business, imposes new limitations on various types of deductions (particularly for U.S. individual taxpayers), limits the deductibility of interest expense for investors in flow-through entities, and imposes new limits on the use by tax-exempt investors of losses from unrelated business activities.

The full implications of the recent legislation for Fund investments and investors are not yet clear. Accordingly, there can be no assurance that the recent legislation or subsequent legislation, regulations and interpretations thereof will not have an adverse effect on a Fund's investment performance or any investor's after-tax returns from the Fund. All statements contained herein concerning the U.S. federal income tax (or other tax) consequences of an investment in the Funds are based on existing law and interpretations thereof.

### ***Potential Involvement in Litigation***

In the ordinary course of a Fund's business, a Fund and/or an investment could potentially be subject to litigation from time to time. In addition, the acquisition, ownership and disposition of certain investments (including loans and debt securities) entail certain litigation risks. For example, buyer(s) of an investment may later sue a Fund under various damage theories. The outcome of any such proceedings may materially adversely affect the value of a Fund and its investments and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the time and attention of the General Partners, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

In 2019, the Adviser discovered that AIF was invested in a fraudulent lending scheme. As of the date of this brochure, the Adviser is pursuing legal action against the perpetrators of the fraudulent lending scheme to seek to recover the stolen funds.

### ***Distressed Investments***

Certain Funds will invest in the securities and obligations, including debt obligations that are in covenant or payment default, of companies experiencing significant financial difficulties and material operating issues, including companies that may have been, are or will become involved in bankruptcy proceedings or other restructuring, recapitalization or liquidation processes.

Investments in such companies involve a substantial degree of risk that is generally higher than the risk involved in investing in companies that are not in financial or operational distress. Given the heightened difficulty of the financial analysis required to evaluate distressed companies, there can be no assurance that the Adviser will correctly evaluate the value of the assets of a distressed company securing its debt and other obligations or correctly project the prospects for the successful restructuring, recapitalization or liquidation of such company. Therefore, in the event that a portfolio company does become involved in bankruptcy proceedings or a restructuring, recapitalization or liquidation is required, a Fund may lose some or all of its investment or may be required to accept illiquid securities with rights that are materially different than the original securities in which such Fund invested.

### ***Income Producing Securities and Loans***

Certain Funds invest in bonds or other income producing securities of U.S. and non-U.S. issuers, including, without limitation, bank debt, bonds, notes, debentures and commercial paper, as well as derivatives thereon. Income producing securities pay fixed, variable or floating rates of interest. The value of income producing securities in which a Fund is permitted to invest will change in response to fluctuations in interest rates. In addition, the value of certain income producing securities and bank loans can fluctuate in response to perceptions of creditworthiness, foreign exchange rates, political stability or soundness of economic policies. Income producing securities and bank loans are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

To the extent that one or more borrowers default on a secured obligation held by a Fund, such Fund may receive equity issued by an entity reorganized through a bankruptcy or insolvency proceeding, or assets that such borrowers had pledged to secure such loans or obligations. Such assets may include real estate or other real assets, intellectual property rights, receivables, securities, other assets or direct or indirect interests therein. There is no guarantee that such assets will be liquid or of a value equivalent to the amount due and owing from the issuer or obligor of such defaulted obligation.

### ***Risks Associated with Tax Lien Transfer Investment Strategy***

TLF and AIF invest in tax lien loans via a special purpose vehicle known as FGMS Holdings, LLC (the "FGMS SPV"). Each of the AIF Master Fund and TLF have a 50% voting interest in the FGMS SPV irrespective of their respective economic interest in the FGMS SPV. This structure presents certain risks even though the AIF Master Fund and TLF are indirectly commonly controlled by the Adviser. For example, because the AIF Master Fund and TLF have different investment strategies, certain potential conflicts of interest in determining whether to purchase, hold or dispose of loans associated with tax liens (each a "Loan") will exist from time to time due to different tax or other financial considerations applicable to the FGMS SPV, the AIF Master Fund and TLF. Moreover, if either of AIF or TLF experiences withdrawals, the other Fund will experience higher operating expenses relating to the FGMS SPV, thereby affecting such other Fund's returns. Further, the FGMS SPV's portfolio may become less diverse due to liquidations of positions needed to fund withdrawals, resulting in increased portfolio risk. In addition, the General Partner's ability to effect withdrawals or distributions of proceeds for either AIF or TLF

has the potential to be impacted by events that affect the other Fund, which may not otherwise impact such other Fund. See also “Conflicting Investor Interests” above.

Additionally, losses derived from defaults on the Loans will reduce the respective Fund’s income and the distributions payable to Investors. Since a portion of AIF’s income and substantially all of TLF’s income in the near-term future is expected to be derived from beneficial ownership interests in Loans held by the FGMS SPV, the failure of a borrower to pay interest or repay a Loan generally will have adverse consequences to the respective Fund’s income. For example:

- Any failure by a borrower to repay Loans or interest on Loans would reduce the proceeds available for distribution to the respective Fund and to investors on a quarterly basis.
- The applicable Loan servicer may not be able to resolve the default prior to foreclosure of the property securing the Loan. The FGMS SPV may not receive amounts owed to it on a foreclosed property for a significant period of time following foreclosure.
- Operation or management of foreclosed property may require the respective Fund or the Servicer (as defined herein) to contribute funds to the FGMS SPV for an extended period of time to meet expenses and other debt service.
- Delays in the sale or other liquidation of foreclosed properties will reduce the liquidity and income of the Fund and distributions to investors.

The defined term “Loan” as used herein is synonymous with the term “Tax Lien Transfer,” which is the more common term for these assets in the State of Texas. Accordingly, the use of defined term “Loan” in lieu of “Tax Lien Transfer” is for convenience only.

***Geographical concentration of tax liens may result in additional delinquencies.***

Texas real estate secures many of the Loans held by the FGMS SPV. The General Partners of TLF and AIF anticipates that Texas real estate will secure many of the Loans in which the FGMS SPV will acquire in the future, and it may be that the real property securing the Loans may be primarily concentrated in certain counties of Texas, many of which are considered lower income rural areas or in counties which are close to the U.S.-Mexican border. These concentrations, by state and by county, increase the risk that the respective Fund will incur substantial losses in the event such geographic areas are affected by economic recession, natural disaster or loss of a key regional employer.

***Intense competition in the Funds’ business affects availability of suitable Loans.***

An economic downturn can create economic hardship for many homeowners. Demand for tax lien lending may increase as a result of the increased number of homeowners unable to pay their property taxes. The Funds may face competition from other entities, which could have more financial resources and experience in the tax lien lending business than do the Servicer or the Funds. The originators are subject to the same competitive pressures and may lower the interest rates on Loans as a competitive measure. As a result, the FGMS SPV may not be able to purchase Loans with interest rates at the level necessary to result in the respective Funds’ anticipated levered internal rates of return. In addition, some local taxing authorities notify delinquent tax payers of alternatives to Loans (including taxing authority-sponsored payment plans) and other

municipalities may begin to undertake such notifications as well. To the extent delinquent tax payers take advantage of alternatives offered by taxing authorities, the demand for Loans may decrease.

***Some losses incurred by borrowers may not be insured and may result in defaults on Loans.***

While borrowers are generally required to carry adequate insurance for the benefit of the respective Funds on the collateral subject to the tax lien, some events are either uninsurable or insurance coverage is not economically practicable. Losses for tornadoes, hurricanes or floods, for example, may be uninsured and cause losses to the collateral subject to the tax lien and cause the borrowers to default.

If a borrower allows insurance to lapse, an event of loss could occur before the applicable Loan servicer knows of the lapse and has time to obtain replacement insurance. Additionally, insurance may be inadequate to cover property losses, even though the Funds impose insurance requirements on borrowers that each General Partner believe is adequate.

***The Funds will not originate all Loans.***

The FGMS SPV has acquired and will continue to acquire, and the Funds expect to invest (directly or indirectly) in, Loans originated by third-party originators, and therefore such Loans will not be subject to the same level of due diligence that the Funds would have conducted had it originated the Loans. In addition, Loans originated by third-party originators may lack current financial information and may have incomplete legal documentation and outdated appraisals. Additionally, third-party originators may not provide full or accurate disclosure about all aspects of the Loan and the real property securing it. As a result, the Funds may not have information with respect to an acquired Loan that, if known at the time of acquisition, would have caused the FGMS SPV to reduce the price it offered or not offer to purchase the Loan at all. This may adversely affect the Funds' yield on Loans or cause the Funds to increase provisions for Loan losses, which may result in lower returns to Investors.

***The Funds will rely on originators to source the Loans.***

The tax lien strategy depends upon the ability of originators, including affiliates of the Adviser, to originate Loans (as discussed below). To the extent one or more of these originators fails or becomes unwilling to sell Loans to the FGMS SPV, a Fund may have difficulty in executing its strategy in a timely manner. Fees are paid to originators (including affiliates of the Adviser to originate Loans) to incentivize the origination of Loans for the FGMS SPV. The amount of these fees may increase to advance the strategy for the Funds, and such higher costs could produce lower returns for the Funds through its indirect investment in the FGMS SPV.

***The Funds will rely on an affiliated servicer to service the Loans.***

Neither the FGMS SPV nor the Funds service the Loans. Each Fund's ability to execute its strategy depends upon the ability of the Loan servicers to service the Loans. Ovation Services, LLC (the "Servicer"), an affiliate of the Adviser in which the Adviser indirectly has a majority ownership interest, is a primary originator of the Loans and services all of the Loans or contracts with third-party sub-servicers to service the Loans. It is important to note that the use of an affiliated servicer and originator such as the Servicer poses a conflict of interest, by which OFM I, OFM II, and/or

the Adviser are financially incentivized to pay greater-than-market servicing and premium fees related to the origination of the Loans to the affiliated Servicer. In order to mitigate this risk, the Adviser compares the total fees being paid to its affiliated Servicer in combination with the Servicer reimbursement of the REO Losses to the FGMS SPV described below against the market rate, to the best of its ability to do so, periodically, but no less frequently than annually, in an effort to confirm that such premium and servicing fees being paid in combination with the Servicer reimbursement of the REO Losses are generally consistent with market rates when considering the terms of the origination and servicing agreements with the Servicer. As part of the servicing agreement between the Servicer and the FGMS SPV, as well as an agreement with the General Partner of TLF, the Servicer and the General Partner of TLF have agreed to reimburse the FGMS SPV for losses (including carrying cost such as taxes, maintenance, and homeowner association (“HOA”) fees) resulting from the sales of the FGMS SPV’s real estate owned (“REO”) properties (*i.e.*, properties acquired by the FGMS SPV through foreclosure) (the “REO Losses”). The strength of this reimbursement is limited to the profitability of the Servicer and its ability to continue as a “going concern,” as well as the future management and incentive fees of the General Partner of TLF. If the REO Losses exceed the abilities of the Servicer and the General Partner of TLF to reimburse the FGMS SPV, the Fund could incur substantial losses. The FGMS SPV values its holdings on a monthly basis in compliance with its valuation methodology. Marking the portfolio to market values may, from time to time, create realized or unrealized losses associated with changing market conditions. These could include changes in overall property values, a weakening of the secondary markets for property sales, changes to the price of credit, and larger market disruptions caused by terrorist activity and/or military conflicts, localized or global financial crises, virus or disease epidemics or other political, social or economic unrest. For the sake of clarity these losses (*i.e.* portfolio mark-to-market valuation changes) are not reimbursed by the Servicer and/or the General Partner of TLF per the calculation of the REO Losses. In such cases, the FGMS SPV may establish reserves to cover significant negative impacts to property values resulting from reduced global and regional commercial activity. In the event that the General Partner of TLF determines that such reserves are necessary, there could be a negative impact to future returns of FGMS SPV.

The Funds invest in the FGMS SPV and therefore indirectly through the FGMS SPV pay the Servicer the following for origination of and servicing the Loans:

- An annual fee of 1.95% of full “legal value” of the Loan, which “legal value” includes principal, interest, and any other fees or charges capitalized within the Loan;
- When the FGMS SPV desires to pay for the acquisition of Loan portfolios, the FGMS SPV pays the Servicer an origination and analysis fee equal to: \$150 per Loan in connection with the acquisition of Loan Portfolios comprised of fewer than 75 Loans; and \$125 per Loan in connection with the acquisition of Loan Portfolios comprised of 75 or more Loans;
- 50% of any late charges collected by the Servicer in connection with a Loan; and
- A premium fee (such fee not being subsumed in the Loan amount) for originating Loans that meet the FGMS SPV’s investment criteria. This fee is paid to third-party originators (as well as the Servicer) for originating such qualified Loans.

The Servicer also receives from the tax-lien loan borrower Loan closing costs and an affiliate of the Adviser, TL Legal Services LLC, receives enforcement fees incurred in connection with

collections of the Loans, which costs and fees are ultimately subsumed in the Loan amount due at maturity but are originally advanced by the FGMS SPV. These fees increase the loan to value ratio and ultimately increase the risk that the FGMS SPV will not be able to collect on the Loan, which would adversely impact the applicable Fund.

***Borrowers may redeem foreclosed properties, thus limiting a servicer's ability to sell properties upon which it forecloses.***

Under Texas law, the borrower under a Loan secured by a residence designated as homestead property, land designated for agricultural use, or was a mineral interest ("Special Property") that is subject to a homestead exemption has a statutory right to redeem its foreclosed property for a price equal to 125% of the principal amount of the Loan and costs associated with the foreclosure and post-foreclosure costs to maintain the property thereof within 12 months following foreclosure, or 150% of the principal amount of the Loan and costs associated with the foreclosure thereof if such redemption takes place 12 to 24 months following the foreclosure sale. In addition, under Texas law, the borrower under a Loan secured by property that is not deemed Special Property has a statutory right to redeem its foreclosed property for a price equal to 125% of the principal amount of the Loan and costs associated with the foreclosure and post-foreclosure costs to maintain the property thereof if such redemption takes place within 180 days following the foreclosure sale.

The effect of a statutory right of redemption is to diminish the ability of the FGMS SPV to sell the foreclosed property. The exercise of a right of redemption would defeat the title of any purchaser from the FGMS SPV subsequent to foreclosure or sale under a deed of trust. Consequently, the practical effect of the redemption right may be to force the FGMS SPV to retain the property and pay the expenses of ownership until the redemption period has run.

The expenses of ownership of the foreclosed property prior to redemption is borne by the Servicer. However, if the Servicer is unable to cover such expenses and therefore are incurred by the FGMS SPV, such expenses could reduce the amounts available for distribution to the Funds and to Investors.

***Application of Service members' Civil Relief Act may affect Loan terms.***

Generally, under the terms of the Service members' Civil Relief Act (the "Relief Act"), a borrower who enters military service after the origination of the borrower's loan (including a borrower who is a member of the national guard or is in reserve status at the time of the origination of the loan and is later called to active duty) may not be charged interest above an annual rate of 6% during the period of the borrower's active duty status, unless a court orders otherwise upon application of the lender. It is possible that the interest rate limitation could have an effect, for an indeterminate period of time, on the ability of the Servicer or a Subservicer to collect full amounts of interest on certain of the Loans. Any shortfall in interest collections resulting from the application of the Relief Act could result in diminished quarterly distributions to Investors. The Relief Act also imposes limitations that would impair the ability of the FGMS SPV to foreclose on an affected loan during the borrower's period of active duty status. Moreover, the Relief Act permits the extension of a Loan's maturity and the re-adjustment of its payment schedule beyond the completion of military service. Thus, in the event that the Loan goes into default, there may be delays and losses occasioned by the inability to realize upon the property in a timely fashion.



### ***Investments in Other Alternative Investment Vehicles***

A Fund will, from time to time, acquire interests in other alternative investment vehicles, including alternative investment vehicles managed by affiliates of the Fund's General Partner, that are subject to contractual or other restrictions on transfer and that may only be transferred with the consent of such vehicle's general partner, manager or managing member. A Fund also may not have withdrawal or redemption rights with respect to the alternative investment vehicle in which it invests. The market prices, if any, of such investments tend to be volatile and a Fund may not be able to sell such investments when it desires or, upon sale, to realize what such Fund's General Partner perceives to be fair value. The alternative investment vehicles in which a Fund may invest may be subject to their own management fees, performance-based compensation and expenses that are expected to be similar to (but typically higher than and in addition to) those of the Funds, and the Funds will bear (and investors indirectly will bear) such amounts in connection with such investments.

The success of each alternative investment vehicle in which a Fund is permitted to invest (and, as a result, the success of such Fund) is subject to those risks which are inherent in private investment funds. These risks are generally related to (i) the ability of each alternative investment vehicle to select and manage successful investments, (ii) the quality of the management of each investment in which an alternative investment vehicle invests, (iii) the ability of the alternative investment vehicle to liquidate its investments, and (iv) general economic conditions. There can be no assurance that the investments made by alternative investment vehicles will result in attractive rates of return to the Funds. Although the Adviser will monitor the performance of each Fund investment, it will primarily be the responsibility of each alternative investment vehicle's investment team to monitor its investment performance. A Fund typically will not be able to participate in the management or control of an alternative investment vehicle nor of the investments in which such alternative investment vehicle invests. Consequently, the Funds generally will not be able to control the amount and timing of distributions from an alternative investment vehicle, which may affect an investor's returns.

### **Regulatory Risks**

#### ***Regulation of the tax lien lending industry imposes additional costs and risk on the operation of the Funds.***

The Texas legislature has established a project Tax Lender License Act, a regulatory framework for property tax lenders, governing their overall mandate, interactions with mortgage services, consumer protection and protocols for foreclosure. As of March 2, 2008, all property tax lenders must have a state-issued license. To the extent the originators from which Loans are obtained fail to comply with a project Tax Lender License Act, the Loans could be at risk for regulatory or state intervention and the cost of such violation and any related remedial action required would negatively impact the value of the Loans. Additionally, to the extent that compliance with a project Tax Lender License Act is, or due to legal changes, becomes, expensive or burdensome to originators, the cost of lending and thus purchasing Loans could increase. An increase in the price of Loans would adversely affect the returns to the Funds and its investors.

In addition, the Funds will be required to expend time and resources to ensure the Funds are aware of all applicable legal and regulatory requirements and, to the extent able, to confirm proper compliance by the third-party originators from which it will purchase Loans. These practices could cause an increase in the operating expenses of the Funds, which could adversely affect the returns to the Investors.

***Changes in law relating to the priority of tax lien loans would have a significant impact on the value of the Loans and the financial success of the Funds.***

Under current Texas law, property tax liens attach to the affected property and have automatic superiority to mortgage liens. To the extent the priority of property tax liens is subordinated or modified by law or otherwise, the ability to foreclose on tax lien loans, and thus the value of the Loans, would decline drastically. If other lien holders become *pari passu* or superior in a foreclosure action, the claims of such lien holders may be satisfied first, and the FGMS SPV may be subject to delays in recouping, or may be unable to recoup, the value of the Loans. In such event, the returns to the Funds and their investors could be adversely affected.

***The actions and legal rights of other lenders may adversely affect the value of the Loans.***

Lenders or claimants may have legal rights that in certain situations could affect the exclusive priority of the Loans secured by the affected real property. For instance, on a property there may also be claims held by mortgage lenders, federal taxing authorities, property owner or homeowner associations or other parties, as well as claims against a decedent's estate that attach to the property. If any of these claimants are able to obtain legal rights, through a change in current law or otherwise through specific actions or a specific set of facts, that are superior to the rights of the FGMS SPV with respect to any property, then the value of the Loans held by the FGMS SPV could be materially impaired, resulting in diminished returns to the Investors.

***The Funds may incur costs associated with remediation of environmental issues on the properties upon which it forecloses.***

Property pledged as security for a Loan may be subject to unforeseen environmental risks. Environmental remedial costs can be substantial and can potentially exceed the value of the property. Under the laws of certain states, contamination of a property may give rise to a lien on the property to assure the payment of the costs of clean-up. In several states that type of lien has priority over the lien of an existing mortgage against the property. In addition, under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), the Environmental Protection Agency may impose a lien on property where it has incurred clean-up costs. However, a CERCLA lien is subordinate to preexisting, perfected security interests.

Under the laws of some states, and under CERCLA, it is conceivable that a secured lender may be held liable as an "owner" or "operator" for the costs of addressing releases or threatened releases of hazardous substances at a property, even though the environmental damage or threat was caused by a prior or current owner or operator. CERCLA imposes liability for those costs on any and all

“potentially responsible parties,” including owners or operators. However, CERCLA excludes from the definition of “owner or operator” a secured creditor who holds indicia of ownership primarily to protect its security interest (the “secured creditor exemption”) but without “participating in the management” of the property. Thus, if a lender’s activities encroach on the actual management of a contaminated facility or property, the lender may incur liability as an “owner or operator” under CERCLA. Similarly, if a lender forecloses and takes title to a contaminated facility or property, the lender may incur CERCLA liability in various circumstances, including, but not limited to, when it fails to market the property in a timely fashion.

If a lender is or becomes liable, it may be able to bring an action for contribution under CERCLA or other statutory or common laws against any other “potentially responsible parties,” including a previous owner or operator, who created the environmental hazard, but those persons or entities may be bankrupt or otherwise judgment proof. The costs associated with environmental cleanup may be substantial. It is conceivable that the costs arising from the circumstances set forth above would result in liabilities to the FGMS SPV and diminish the returns of the Funds and their investors.

In general, at the time the Loans are originated no environmental assessment, or a very limited environmental assessment, of the underlying properties is undertaken.

## **Risks Associated with Other Types of Asset Classes of AIF**

### ***Commercial Finance Assets***

#### **Equipment Finance**

The equipment financing industry is highly competitive and competitive forces could adversely affect AIF’s lending rates as well as resale prices AIF may realize on equipment that has to be repossessed and sold in the case of borrower delinquency. Equipment manufacturers, corporations, partnerships and others offer users an alternative to the purchase of most types of equipment with payment terms that vary widely depending on the type of financing, the lease or loan term and type of equipment.

Deteriorating economic conditions or insufficient underwriting during originations may cause borrowers to default at higher than projected rates, causing AIF to miss return targets and potentially experience principal loss. Equipment may be damaged or lost, or due to age or technological advances may have little to no value if repossessed. Fire, weather, accident, theft or other events can cause the damage or loss of equipment. Not all potential casualties can be insured, and, if insured, the insurance proceeds may not be sufficient to cover a loss.

#### **Direct Lending and Working Capital Loans**

AIF may be exposed to losses resulting from default and foreclosure of loans in which AIF has a direct or indirect interest. The value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance for any loan in which AIF acquires a direct or indirect interest. AIF may not be able to guarantee the adequacy of that

protection, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests.

Furthermore, AIF cannot assure that claims may not be asserted that might interfere with enforcement of those rights, including the right of the borrower to declare bankruptcy, which may significantly reduce the proceeds from such loan. In the event of a foreclosure, the holder of a loan may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to AIF. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

### Debtor-in-Possession Financing

The debtor may be unable to negotiate a viable Chapter 11 restructuring plan. If the debtor is liquidated, AIF may have to make significant efforts to maximize the value and achieve the disposition of the collateral. It is possible that the value of the collateral will be insufficient to repay AIF in full. Legal proceedings are inherently unpredictable, and the Chapter 11 proceedings may not result in the desired outcome of restoring the debtor to a going concern and repay AIF. The judge may not issue a final financing order that is satisfactory to AIF and/or may decide to not enforce pro-lender provisions. AIF may also incur liability from the debtor's actions if it is considered to have controlled the debtor.

### ***Consumer Finance Assets***

Laws and regulations applicable to loan originators may preclude AIF and its affiliates from collecting on loans made directly or indirectly by AIF, regardless of any act or omission on AIF or its affiliate's part as existing or new laws, rules or regulations could limit AIF's or its affiliates' ability to recover on loans made directly or indirectly by AIF.

The collections industry is heavily regulated under various federal, state and local laws, rules and regulations. Failure to comply with government regulation could result in the suspension or termination of AIF's affiliates engaged in consumer finance to conduct business or may require it to pay significant fines and penalties or require other significant expenditures.

A portion of AIF's revenue derived from its consumer finance strategy relies on collecting on judgments that are granted by courts in lawsuits filed against consumers. A decrease in the willingness of courts to grant such judgments, a change in the requirements for filing such cases or obtaining such judgments, increases in attorneys' fees or a decrease in Fund's affiliate's ability to collect on such judgments could have a material and adverse effect on AIF. As AIF directly or indirectly increases its use of the legal channel for collections, short-term margins may decrease as a result of an increase in upfront court costs and costs related to counter claims.

Consumer finance is extremely litigious and therefore AIF or affiliates of AIF currently are, and may in the future be, named as defendants in litigation, including individual and class actions under consumer credit, consumer protection, theft, privacy, data security, the use of automated dialing equipment, debt collections, employment, and other laws. In addition, AIF and its affiliates may

become subject to regulatory investigations, inquiries and other actions relating to consumer finance activities. Given the complex and ever changing regulatory regime in the consumer finance industry legal precedents have not been clearly established in many areas applicable to this strategy.

### Auto Finance Assets

The “Buy Here, Pay Here” industry is highly competitive, and these competitive forces could adversely affect the terms of underlying consumer loans originated by auto dealerships that AIF directly or indirectly funds. For example, certain dealerships may be forced to lower interest rates to their borrowers, lower down payment requirements, or reduce their underwriting standards in order to compete with other dealerships. Dealerships have the ability to shift the economics in their favor by marking up the vehicle’s sales price in order to effectively earn an upfront commission on the transaction, causing the dealership to profit significantly on the front-end of the transaction and create little incentive for the dealership to originate quality loans or attempt to collect payment during the life of the loan. Additionally, dealerships can originate fictitious loans to receive advance amount from their senior and subordinated lines of credit.

Borrowers in this segment tend to be lower-income individuals with low-tier credit history. Macro shifts in economic trends such as higher unemployment or increases in interest rates could have a material effect on these borrowers and may cause increases in delinquencies and defaults.

AIF (and AIF’s partners in this strategy) mitigates these risks by imposing certain controls, processes, and covenants, including:

- Monitoring the underlying customer interest rate and down payment requirements for fluctuations.
- Monitoring delinquencies and charge-offs on a monthly basis. Negative trends in these areas will decrease the dealership’s borrowing base, which is calculated on a daily basis.
- Limiting vehicle markups. Vehicle costs are validated against published NADA values. Amounts advanced from lines of credit are typically limited to the dealership’s cost in the deal, thereby minimizing the chance of dealerships extracting disproportionate profits at the outset of the loan. The majority of the dealership’s profits come from the customer’s P&I payment over their term, thus maintaining a high-quality loan portfolio, which serves as our collateral.
- Contacting customers after the transaction by AIF’s partners to ensure the loans were originated to real customers.

AIF’s primary partner in this strategy requires significant leverage to operates its business. In the event such partner is not able to service its debts, AIF’s investment could be materially impaired.

### Non-Performing Debt

Credit card receivables are essentially unsecured consumer loans for which collection is difficult and not assured. Increased regulation on both a federal and state level have resulted in changes to consumer protection laws, which impede collection efforts, increase costs of collection, alter timing and amount of collections and reduce the yield on credit card receivables. Practices with

respect to revolving credit card accounts that do not comply with consumer protection laws may result in certain credit card receivables not being valid or enforceable in accordance with the terms of such accounts against the obligors of those credit card receivables. Federal and state consumer protection laws regulate the creation and enforcement of consumer loans, including credit card receivables.

The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the “CARD Act”), as modified by a series of implementing rules, amended the Truth in Lending Act by mandating various new and additional standards and practices with respect to the marketing, underwriting, pricing, billing and other aspects of the consumer credit card business.

If a cardholder sought protection under federal or state bankruptcy or debtor relief laws, a court could reduce or discharge completely the cardholder’s obligations to repay amounts due on the cardholder’s credit card account and, as a result, the related credit card receivables arising in that credit card account would be uncollectible. Please also see “Consumer Finance” above.

### ***Litigation Finance Assets***

AIF is subject to various risks in connection with medical receivable funding and litigation finance strategies. Risks include (i) the potential regulation or limitation of interest rates and other fees under federal and/or state regulation, (ii) a change in statutory or case law which limits or restricts AIF’s ability to engage in such business or recover against an insurance company or limits the recovery with respect to a medical receivable purchased, (iii) AIF’s reliance on third-party servicers to originate and effectively service the medical receivables or litigation finance opportunities, this includes the Medical Provider servicing its own receivables, which presents cash control issues and litigation against the medical provider when it takes actions in contravention to AIF, and (iv) in the case of the litigation finance strategy, the failure by the claimant, in whole or in part, to prosecute or be successful in the personal injury claim that relates to the treatment provided by the Medical Provider from whom the medical receivable was directly or indirectly purchased by or financed by AIF. The claimant’s failure to prevail in whole or in part in its personal injury case in the litigation finance strategy would likely make the Medical Receivable unrecoverable. Similarly, in the case of other litigation finance strategies, the plaintiff’s failure to prevail in whole or in part in its claim will likely lead to a loss of invested dollars associated with such litigation claim. Finally, there are risks associated with Medical Providers failing to remit payments to AIF (or the Medical Receivable Servicer (as defined herein)) that they receive directly from insurance companies or counsel and risks associated with charges not being deemed collectible due to not being customary and reasonable, or, in Michigan, the charges deemed not recoverable from the insurance company due to the date of service being subject to a statute of limitation. In these instances, AIF will seek (or will seek to cause the Medical Receivable Servicer to seek) remedies against the Medical Providers which may be difficult to recover.

In addition, to the extent a plaintiff or medical provider files for bankruptcy during the proceedings of the legal claim or while AIF is waiting for repayment after a legal claim is settled, AIF would become a creditor to the bankruptcy estate. The amount owed associated with the medical receivable could be reduced or delayed.

In most instances the expected litigation proceeds associated with a legal claim will be paid by the insurance company. As a result, the transaction is exposed to the financial strength of the insurance carriers associated with each legal claim.

### Affiliated Servicer

A wholly-owned subsidiary of AIF (the “Medical Receivable Servicer”) acquires and services medical receivables and litigation finance assets for AIF. While AIF is typically involved in the strategy and oversight of the Medical Receivable Servicer, the Medical Receivable Servicer has retained its own management to operate, administer and manage the subsidiaries on a daily basis. AIF generally bears the expenses related to operating the Medical Receivable Servicer, including overhead expenses (such as technology, salaries and bonuses), diligence, origination and servicing expenses, transaction-related fees and other related expenses. Such expenses do not offset any Management Fee paid by AIF.

AIF’s ownership of the Medical Receivable Servicer creates potential conflicts of interest. For example, the Medical Receivable Servicer’s management team may provide services that are similar to, and that may overlap with, services provided by the Adviser and its personnel to AIF. Because the Adviser (and not AIF) otherwise generally pays the salaries of its employees, the Adviser has an incentive to cause the Medical Receivable Servicer to retain its own management team instead of relying on the Adviser’s employees to provide managerial services, or to deploy existing Adviser employees as members of such Medical Receivable Servicer’s management team. In addition, the Adviser generally will have the ability to influence significantly the form and amount of compensation paid to such management teams. Members of the management team of the Medical Receivable Servicer also may render services exclusively to the Medical Receivable Servicer or provide the same or similar services to other Funds managed by the Adviser.

### ***Real Estate Assets***

Certain Funds hold direct and indirect investments in certain real estate-related debt instruments. In addition to the risks of borrower default (including loss of principal and nonpayment of interest) and the risks associated with real estate investments generally, real-estate related debt investments are subject to a variety of risks, including: illiquidity; lack of control, mismanagement, or decline in the value of the underlying collateral; contested foreclosures; bankruptcy of the debtor; claims for lender liability; violations of usury laws; and the imposition of common law or statutory restrictions on the exercise of contractual remedies for defaults of such investments.

Certain of the real estate loans in which a Fund invests may be structured so that all or a substantial portion of the principal will not be paid until maturity, which increases the risk of default at that time. Investing in real estate-related loans will subject AIF to many of the risks of investment in real estate generally, especially where the loans are acquired in distressed or “loan to own” situations.

Real estate loans by a Fund may be at the time of origination, participation or acquisition, or thereafter may become, non-performing for a wide variety of reasons, many of which are outside the control of the Adviser, AIF or their affiliates. Non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of

such loans. To the extent that a Fund purchases partial interests in non-performing loans, such Fund may not have control over the workout process or the management of the real estate assets after such a workout.

Debt investments have special inherent risks relative to collateral value. In the event of default, the source of repayment is limited to the value of the collateral and may be subordinate to other lien holders (and the collateral value of the property may be less than the outstanding amount of the investment). The Adviser may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased or originated by a Fund. The foreclosure process varies jurisdiction by jurisdiction and can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a real estate loan, including lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. Foreclosure actions can sometimes take up to several years or more to conclude. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

### Single Family Rental Assets

Acquisition and holding costs for single family may rise to levels that make it harder to achieve AIF's target returns. The availability of financing is dependent on healthy financial markets. Softness in the real estate market may cause rents (and rent multiples) and pricing comparables to decrease and make it more difficult to finance properties which leverage is important to provide adequate yields to meet AIF's investment objectives. Weaknesses or substantial macroeconomic changes causing the value of single family real estate values to fall may result in substantial realized or unrealized losses to AIF. On the demand side, a shrinking pool of potential renters may lead to higher vacancies and reduced cash flows. If local employment opportunities fall, AIF may experience an increase in tenant delinquencies. Although AIF carries insurance, the properties can be subject to damage from natural disasters as well as liability lawsuits.

## **Risks Associated with "Qualified Opportunity Zone" Investments**

### ***General Real Estate Risks***

An investment in an OZ Fund is subject to certain risks, including those associated with the direct ownership of real estate and with the real estate industry in general. These risks include, among other things: (i) adverse changes in local, national or international economic or other conditions, including those relating to potential terrorist activities and U.S. involvement in armed conflicts, (ii) the financial condition of tenants, buyers and sellers of properties, (iii) environmental laws and regulations, (iv) zoning and land use laws and other governmental rules, (v) environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which inadequate reserves had been established, (vi) costs resulting from the clean-up of, and liability to third parties for damages resulting from, whether known or unknown, environmental problems, casualty or condemnation losses, and/or uninsured damages from, whether as a result of acts of God or man, floods, hurricanes, fire, natural disasters, or other uninsurable losses, (vii) possible declines in the value of real estate, (viii) delays in the acquisition of properties and costs



associated with failed acquisition transactions of properties, including, but not limited to, those that do not have satisfactory due diligence reviews, (ix) possible lack of availability of mortgage financing funds, (x) overbuilding, (xi) increases in competition; (xii) property taxes and operating expenses; (xiii) changes in interest rates, and (ix) other factors beyond the control of the Adviser.

A project's profitability could go down if operating costs, such as property taxes, utilities, maintenance and insurance costs, go up in relation to gross rental income, or the property needs unanticipated repairs and refurbishments. The sale price of the project might differ from its estimated or appraised value, leading to losses or reduced profits to the OZ Fund. Because of the nature of real estate, the OZ Fund might not be able to sell the project at a particular time for its full value, particularly in a poor market. This might make it difficult to raise cash quickly and also could lead to losses for the OZ Fund. The OZ Fund may need to provide financing if no cash buyers are available. Certain catastrophic losses (*e.g.*, from earthquakes, wars, terrorist acts, nuclear accidents, hurricanes, floods, or environmental or industrial hazards or accidents) are uninsurable or so expensive to insure against that it does not make sense to buy insurance for them. If a disaster not insured against occurs, the OZ Fund could lose both its original investment and any future profits from the project. In addition, some leases related to the project may permit a tenant to terminate its obligations in certain situations, regardless of whether those events are fully covered by insurance. In that case, the OZ Fund would not receive rental income from that portion of the project while that tenant's space is vacant, which may negatively affect the cash flow to, and the profitability of, the OZ Fund.

### ***Competition***

The OZ Funds compete for real estate market share with many entities, including individuals and private and publicly traded companies. Many of these competitors have substantially greater financial resources than the OZ Funds. In addition, these competitors may be willing to accept lower returns on their investments. Competitors will be building additional properties in the markets in which the project will be located. Some of these competing properties may be newer or have more desirable locations than the project. If the market does not absorb newly constructed space, market vacancies will increase, and market rents and values may decline. Competition generally may reduce the amount of land available as well as increase the bargaining power of property owners seeking to sell. The project may be unable to attract and retain tenants, which means that rental income would decline. An OZ Fund could lose revenue if tenants don't pay rent, or if the OZ Fund is forced to terminate a lease for nonpayment. Any disputes with tenants also could involve costly litigation.

### ***Lack of Diversification***

The OZ Funds are not diversified by geographic region or asset class. The OZ Funds will invest only in certain federal opportunity zone projects, which are intended to develop economically depressed areas. Any factors that negatively impact the value of a project or its ability to generate revenue will have an adverse impact on the OZ Funds' performance.

### ***Uninsured Losses***

There can be no assurance that insurance will be available or sufficient to cover the risks associated with the ownership and operation of the project by an OZ Fund. Insurance against certain risks,

such as earthquakes, floods, or terrorism may be unavailable, unavailable at a reasonable cost, available in amounts that are less than the full market value or replacement cost of investments or subject to a large deductible. In addition, there can be no assurance that the particular risks which are currently insurable will continue to be insurable at a reasonable cost. If the OZ Fund suffers an uninsured loss, all or a substantial portion of the OZ Fund's relevant investment in the project may be lost. In addition, all of the assets of the OZ Fund may be at risk in the event of an uninsured liability to third parties.

### ***Risks That the Project may Contain Defects***

Real estate investments will, from time to time, have design, construction or other defects or problems that require unforeseen capital expenditures, special repair or maintenance expenses or the payment of damages to third parties. Engineering, seismic and other reports on which an OZ Fund may rely in order to effect a project may be inaccurate or deficient, at least in part because defects in the property and the work performed by the project's third party service providers in connection with the project may be difficult or impossible to ascertain. Statutory or contractual representations and warranties made in connection with the sale by the OZ Fund of the property may not protect the OZ Fund from liabilities arising from property defects. Furthermore, after selling the project, the OZ Fund may continue to owe a statutory warranty obligation to the purchaser thereof if any latent defects in such property are subsequently discovered.

### ***Inability to Develop the Project Effectively or Efficiently***

Substantially all of an OZ Fund's assets will be invested in the project, which involve significant risks in addition to risks related to the ownership and operation of established properties. For example, financing may not be available on favorable terms and construction may not be completed on schedule or within budget, resulting in increased debt service expenses and construction costs and delays in leasing the residential and commercial spaces in the underlying property and generating cash flow. Undeveloped land and development properties do not generate operating revenue while costs are incurred to develop the properties and may also generate certain expenses including property taxes and insurance. Substantial development activities are also subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land use, building, occupancy and other required governmental permits and authorizations. Such regulations may reduce or eliminate potential returns from investments by inhibiting or preventing planned renovations, expansion or development.

### ***Leasing Problems or Tenant Bankruptcies***

An OZ Fund will derive all of its income (other than with respect to the sale of the project) as lease payments, and therefore its returns will depend on the amount of rental income generated from the properties and the expenses incurred by managing the project, as well as on changes in their market value. The market values are in turn affected by the rental incomes realizable on, and expenses associated with, the project. Rental incomes received by the OZ Fund and the value of the project may be adversely affected by the cyclical nature of the real estate market, the perceptions of prospective tenants of the attractiveness, convenience and safety of the locations, the levels of demand and supply of commercial properties, competition from other real estate owners, changes in market rental rates, the inability to collect rents because of bankruptcy or insolvency of tenants

or otherwise, the periodic need to renovate, repair and re-lease space, costs of maintenance and insurance and increased operating costs.

Upon the expiration of leases, leases may not be renewed by existing tenants, previously leased spaces may not be re-leased to new tenants or the terms of renewal or re-leasing (including the cost of required renovations or concessions to tenants) may be less favorable to the OZ Fund than previous lease conditions. If the OZ Fund or its agents are unable to re-let or renew lease contracts promptly, if the rentals upon such renewal or re-leasing are significantly lower than expected or if the OZ Fund's reserves for these purposes (if any) prove inadequate, its results from operations, financial condition and overall value could be adversely affected.

### ***Contingent Liabilities on Disposition of the Project***

In connection with the disposition of the project, an OZ Fund may be required to make representations about the business, financial affairs and other aspects (such as environmental, property, tax, insurance, and litigation) of a project typical of those made in connection with the sale of a business. The OZ Fund also may be required to indemnify the project's purchaser(s) to the extent that any such representations are inaccurate or with respect to certain potential liabilities. These arrangements may result in the incurrence of contingent liabilities for which the OZ Fund and the Adviser may establish reserves or escrow accounts. In that regard, certain members may be required to return amounts distributed to them to fund obligations of the OZ Fund, including indemnity obligations, subject to certain limitations set forth in the relevant Governing Documents.

### ***Inability to Obtain Permits or Licenses***

The ability to successfully make, develop and finance real estate investments may be subject to the issuance of permits or licenses. There can be no assurance as to whether and when such licenses or permits will be obtained. The inability to obtain necessary permits or licenses could have a material adverse effect on an OZ Fund's ability to generate returns for its members.

### ***Regulatory Constraints***

Government regulation, including zoning laws, foreclosure laws and rights, property taxes, fiscal, environmental or other government policies, could operate or change in a way that it is deleterious to the project and, in turn, on an OZ Fund's performance. For example, regulations could raise the cost of owning and maintaining the project or make it harder to sell, rent, finance, or refinance the project due to the increased costs associated with regulatory compliance. In addition, fees, some of which may be substantial, may be imposed on the project to defray the cost of providing certain governmental services and improvements. The project also may be subject to additional costs or delays because of building permit allocation ordinances, building moratoriums, restrictions on the availability of utility services or similar government regulations that could be imposed in the future. The operation of the OZ Fund and the tax consequences of an investment in the OZ Fund are substantially affected by legal requirements, the U.S. Internal Revenue Code of 1986, as amended (the "IRC"). The rules of the opportunity zone incentive, enacted pursuant to amendments to the IRC contained in Sections 1400Z-1 and 1400Z-2 and the regulations and other guidance (the "Opportunity Zone Incentive") are new and incomplete, but will substantially impact the operations of the OZ Fund and any investment in a class of interests. In addition, no assurance can be given that future regulation or legislation, administrative rulings, court decisions

or other guidance under the Opportunity Zone Incentive or otherwise will not adversely affect the operation of the OZ Fund or an investment by a member in the OZ Fund.

### ***Potential Environmental Liability***

An OZ Fund may be exposed to substantial risk of loss as a result of undisclosed or unknown environmental, health or occupational safety matters affecting the project, or inadequate reserves, insurance or insurance proceeds for such matters that have been previously identified. Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws may impose joint and several liability, which can result in a party being obligated to pay for greater than its share, or even all, of the liability involved. Such liability may also be imposed without regard to whether the OZ Fund knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the liability of the OZ Fund therefor are generally not limited under such laws and could exceed the value of the project and/or the OZ Fund's aggregate assets. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the ability of the OZ Fund to cause the sale of the project or to borrow funds using the project as collateral, which could have an adverse effect on the OZ Fund's returns. Environmental claims with respect to the project may exceed the value of such investment, and under certain circumstances, subject the other assets of the OZ Fund to such liabilities.

### ***Americans with Disabilities Act***

The project may be subject to the Americans with Disabilities Act (the "ADA"). The ADA sets forth compliance requirements for "public accommodations" and "commercial facilities." The ADA requires that facilities, including leasing offices, open to the general public be made accessible to people with disabilities. Individual apartment units are not considered "public accommodations" for purposes of the ADA. Noncompliance could result in imposition of fines by the U.S. government or an award of damages to private litigants. Compliance with ADA requirements could require removal of access barriers and other capital improvements to the public areas of some investments. The OZ Funds intend to maintain their project in compliance with the requirements of the ADA and any similar state or local requirements. No assurances can be given that additional state, local or federal requirements may not be imposed in the future which would result in a material effect on the financial condition of the investments or their operating results.

### ***Limited Rights to Manage the OZ SPV***

With respect to each OZ SPV, the relevant OZ Fund's General Partner retains certain major decision rights with respect to the relevant OZ SPV, but the relevant OZ Manager(s) that have real estate development experience are responsible for the day-to-day real estate management and operation of the OZ SPV and the relevant underlying property. Accordingly, each OZ Fund depends on the success and experience of the relevant OZ Manager(s).

### ***Leverage and Financing Risks (For the OZ Funds)***

An OZ Fund is permitted to obtain debt financing of the project (including, but not limited to, the use of a construction loan) and undrawn capital commitments to allow the OZ Fund to advance

the underlying property, to obtain better terms with the project's third party service providers (including but not limited to architects and contractors), or otherwise as the co-managers may determine. Although the use of leverage has the potential to enhance returns, it also substantially increases the risk of loss for the OZ Fund. The OZ Fund may not be able to make its loan payments, which could result in a default on its loan. The lender then could foreclose on the underlying property and the OZ Fund would lose the value of its investment in all or part of the project. If the OZ Fund obtains a mortgage loan that involves a balloon payment, there is a risk that the OZ Fund may not be able to make the lump sum principal payment due under the loan at the end of the loan term, or otherwise obtain adequate refinancing. The OZ Fund then may be forced to sell the underlying property or other properties under unfavorable market conditions or default on its mortgage. If the OZ Fund takes out variable-rate loans, the OZ Fund returns may be volatile when interest rates are volatile. If a project is sold, through foreclosure or otherwise, prior to the expiration of ten years from the OZ Fund's direct or indirect acquisition of the underlying project, the tax benefits of the opportunity zone incentive may be lost or substantially reduced.

Financing will most likely restrict junior encumbrances and be due upon the sale of a project. It is also possible that financing will restrict certain transfers of certain classes of interests, or require the consent of the lender, subject to the lender's sole and absolute discretion, for such transfers or other transactions such as prepaying the anticipated financing with refinancing or sale proceeds. Such consent may be or may not be given. In addition, financing is anticipated to contain restrictions on prepayment, which restrictions may prohibit prepayment and/or require significant prepayment penalties. Such restrictions may have the effect of requiring prospective purchasers of a project to secure independent financing in order to purchase the project or preventing the OZ Fund from refinancing the project and prepaying the anticipated financing. If, at the time the OZ Fund desires to sell the project, financing is not available to potential purchasers, or interest rates under available financing are higher than current market interest rates, the effect may be to reduce the number of prospective purchasers and/or to materially, adversely affect the purchase price which prospective purchasers might otherwise be willing to pay for the project.

In addition, restrictions on the OZ Fund, which may be contained in financing documentation, would materially and adversely affect the OZ Fund. A bank or other lender could impose restrictions on the OZ Fund affecting its ability to incur additional debt and its distribution and operating policies. Loan documents entered into by the OZ Fund may contain negative covenants limiting the OZ Fund's ability to, among other things, further mortgage a project, discontinue insurance coverage or replace the Adviser.

A project generally will stand as collateral security for the repayment of financing. In the event of any default by the OZ Fund in connection with financing, the holder thereof will be entitled, at its option, to seek payment of the entire aggregate outstanding principal balance, together with all interest, penalties and other amounts due thereon, and proceed to foreclose such mortgage. For tax purposes, a foreclosure of a project would be treated as a sale of the project for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds the OZ Fund's tax basis in the property, the OZ Fund would recognize taxable income on foreclosure but would not receive any cash proceeds. A foreclosure of a project would materially and adversely affect investors in the OZ Fund.

Financing may impose a prepayment fee if the mortgage note is prepaid. If the OZ Fund is required to pay the prepayment fee for any reason, including, without limitation, a default under the anticipated financing by the OZ Fund, such payment may materially, adversely affect the OZ Fund. Failure to secure additional financing, if and when needed, is likely to limit the OZ Fund's ability to develop a project, which could reduce results of operations and revenues.

### ***Casualty and Condemnation***

Investments in real estate are subject to the risks of partial or total condemnation in accordance with applicable law or regulation and casualty, whether arising from destruction by fire, earthquake, flood, hurricane or otherwise. In either case, an OZ Fund may be subject to one or more of the following liabilities: (i) lenders may require prepayments of outstanding loans with any proceeds arising from a casualty or condemnation recovery event (*i.e.*, insurance coverage), (ii) insurance coverage may not be sufficient to cover such prepayment obligations, and (iii) renovations of or developments to the project may be delayed.

### ***Harmful Mold and Other Air Quality Issues***

When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to radon, airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at the project could require an OZ Fund to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the project or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose, directly or indirectly, the OZ Fund and/or the project to liability from its tenants, employees of its tenants and others if property damage or health concerns arise.

### ***Risk of Activist Opposition***

It is possible that community opposition to development of the project could develop over time in the neighboring community or among adjacent property owners and, if such opposition were not adequately addressed, then the developer's ability to complete the underlying property could be adversely affected. In this regard, it is possible that such opposition could result in litigation that would delay the project or otherwise impact the timing and receipt of site plan approvals or building permits.

### ***General Leasing Risk***

The success of the project depends in large part upon the ability of an OZ Fund and its agents to find and retain tenants for the apartment and commercial units to be created as part of the underlying property. Inability to lease, lease terminations, and lease payment defaults by tenants could reduce the OZ Fund's profits or increase the OZ Fund's losses and could result in the inability of the OZ Fund to meet its obligations as they come due. A failure by the OZ Fund to maintain a paying tenant in the underlying property could result in the carrying costs for that or

other units exceeding the OZ Fund's revenues and/or cash on hand. In such event, the OZ Fund could be forced to borrow money or find alternative sources of revenue to meet mortgage payments and other carrying costs and prevent a foreclosure on the project. In the event of a tenant default or bankruptcy, the OZ Fund may experience delays in enforcing its rights as landlord, as applicable, and may incur substantial costs in protecting the project and re-letting the relevant unit(s).

### ***Risk of Damage to Units Caused by Tenants***

A tenant's act or failure to act may result in damage to its leased premises, the leased premises of other tenants or the project at large, and/or result in potential liability to the project. Such damage or liability could adversely affect an OZ Fund's operating results and financial position.

### ***Construction Risk***

Building sites are inherently dangerous and operating in the real estate development industry poses certain inherent health and safety risks. Due to regulatory requirements, health and safety performance is critical to the success of real estate development projects. Any failure in health and safety performance has the potential to result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly in terms of potential liabilities incurred as a result. Such a failure could generate significant negative publicity and have a corresponding impact on the reputation and relationships of the developer with relevant regulatory agencies or governmental authorities, which in turn could have an adverse effect on the project and the OZ Funds' operating results.

### ***Tax Risks Relating to "Qualified Opportunity Zones"***

The OZ Funds will not seek rulings from the Internal Revenue Service (the "IRS") or any legal opinion with respect to any of the federal income tax considerations discussed in the relevant Governing Documents. Moreover, an OZ Fund may take positions as to which the tax consequences are unclear. All statements contained in the Governing Documents concerning the U.S. federal income tax consequences of an investment in the OZ Fund are based upon existing law as contained in the IRC and administrative and judicial interpretations thereof. No assurance can be given that the currently anticipated income tax treatment of an investment in the OZ Fund will not be modified by legislative, judicial or administrative changes, possibly with retroactive effect, to the detriment of the investors. A brief summary of some but not all of the tax consequences and attendant risks of an investment in the OZ Fund is included in the relevant Governing Documents.

The Opportunity Zone Incentive was signed into law as part of the Tax Cuts and Jobs Act of 2017 on December 22, 2017. Proposed regulations covering certain aspects of the Opportunity Zone Incentive published by the U.S. Treasury Department on October 19, 2018 and on April 17, 2019 (the "Proposed Regulations"). The Proposed Regulations are not final and address only a limited number of matters. Additional regulations are expected to address questions not covered by the Proposed Regulations or other IRS guidance to date. As with any new law, further regulations will be needed to implement and clarify the law and to provide certainty to taxpayers.

At this time some aspects of how the Opportunity Zone Incentive is intended to work are not known. No assurance can be given that the OZ Fund will be able to comply with the requirements

of the law or that legislative, judicial or administrative rules will not be forthcoming that are contrary to the best interpretation currently available.

The Adviser intends that each OZ Fund will invest in a “qualified opportunity zone business” (“QOZB”) under the rules of the Opportunity Zone Incentive and intend to cause the OZ Fund or OZ SPV to maintain such qualification for substantially all of the period during which certain classes of interests are owned by the OZ Fund. If the OZ Fund or OZ SPV does not qualify as a QOZB or loses such qualification during the period in which the OZ Fund owns a certain class of interests, all or substantially all of the tax benefits of the Opportunity Zone Incentive may be lost and the OZ Fund may be subject to substantial penalties. Some aspects of compliance with rules of the Opportunity Zone Incentive are not clear or not known, and additional legislature or regulatory action could change the rules known to date. In addition, realizing the tax benefits of the Opportunity Zone Incentive requires that the investors satisfy certain requirements with respect to their investment and these matters are outside of the control of the OZ Fund.

Due to the requirement to comply with the Opportunity Zone Incentive, the Adviser may have to make investment decisions that may not maximize investment value or returns in a manner that would otherwise be possible if the OZ Fund did not have to comply with the Opportunity Zone Incentive.

## **Other Regulatory Risks**

### ***Regulation of Fund Strategies***

The complex regulatory environment and change in government administrations may directly or indirectly affect the Funds and their investment strategies.

In addition, the Funds will be required to expend time and resources to ensure the Funds are and remain aware of applicable legal and regulatory requirements and, to the extent able, confirm compliance by the Funds and their third-party servicers and originators with such regulatory changes. These practices could cause an increase in the operating expenses of the Funds, which could adversely affect the returns to the investors.

### ***Material Non-Public Information***

As a result of the operations of the Adviser and its affiliates, as well as in connection with officerships or directorships of Adviser personnel, the Adviser may come into possession of confidential or material non-public information. Therefore, the Adviser and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by a Fund. Consequently, a Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or the Adviser’s internal policies. Due to these restrictions, a Fund may not be able to make an investment that it otherwise might have made or sell an investment that it otherwise might have sold.

Similarly, anti-money laundering, anti-boycott and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent the Adviser or the Funds from entering into transactions with certain individuals or jurisdictions. The United States Department



of the Treasury's Office of Foreign Assets Control ("OFAC") and other governmental bodies administer and enforce laws, regulations and other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or companies owned or operated by such persons or located in jurisdictions identified from time to time by OFAC. Additionally, antitrust laws in the United States and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the United States Department of Justice and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on, or reject certain transactions. In certain circumstances, antitrust restrictions relating to one Fund's acquisition of an investment may preclude other Funds from making an attractive acquisition or require one or more other Funds to sell all or a portion of certain investments owned by them.

As a result of any of the foregoing, a Fund may be adversely affected because of the Adviser's inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Fund from pursuing investment opportunities, require the sale of part or all of certain investments on a timeline or in a manner deemed undesirable by the Adviser or may limit the ability of one or more investments from conducting their intended business in whole or in part. Consequently, there can be no assurance that any Fund will be able to participate in all potential investment opportunities that fall within its investment objectives.

### ***Cybersecurity Risks***

Investment advisers, including the Adviser, must rely in part on digital and network technologies ("cyber networks") to maintain substantial computerized data about activities for client accounts and otherwise conduct their businesses. Such cyber networks might in some circumstances be subject to a variety of possible cybersecurity incidents or similar events that could potentially result in the inadvertent disclosure of confidential computerized data or client data to unintended parties, or the intentional misappropriation or destruction of data by malicious hackers seeking to compromise sensitive information, corrupt data, or cause operational disruption. Cyber-attacks might potentially be carried out by persons using techniques that could range from efforts to electronically circumvent network security or overwhelm websites to intelligence gathering and social engineering functions aimed at obtaining information necessary to gain access. The Adviser maintains policies and procedures on information technology security, has certain technical and physical safeguards intended to protect the confidentiality of its internal data, takes other reasonable precautions to limit the potential for cybersecurity incidents, and seeks to protect data from inadvertent disclosure or wrongful misappropriation or destruction. Nevertheless, despite reasonable precautions, the risk remains that cybersecurity incidents could potentially occur, and such incidents, in some circumstances, might result in unauthorized access to sensitive information about Adviser or its clients or their investors, and/or cause damage to client accounts or Adviser's activities for clients or their investors.

### ***Privacy and Data Protection Law Compliance Risk.***

The adoption, interpretation and application of consumer protection, data protection and/or privacy laws and regulations ("Privacy Laws") in the United States, Europe and elsewhere could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and current and planned

business activities of the Adviser, the General Partners, the Funds and/or their investments, and increase compliance costs and require the dedication of additional time and resources to compliance for such entities. A failure to comply with such Privacy Laws by any such entity or their service providers could result in fines, sanctions or other penalties, which could materially and adversely affect the results of operations and overall business, as well as have a negative impact on reputation and Fund performance. As Privacy Laws are implemented, interpreted and applied, compliance costs for the Adviser, the General Partners, the Funds and/or their investments, are likely to increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

For example, California has passed the California Consumer Privacy Act of 2018, and the EU has enacted the General Data Protection Regulation (EU 2016/679), each of which broadly impacts businesses that handle various types of personal data, potentially including private fund managers and their funds and investments. Such laws impose stringent legal and operational obligations on regulated businesses, as well as the potential for significant penalties.

Other jurisdictions, including other U.S. states, have proposed or are considering similar Privacy Laws, which if enacted could impose similarly significant costs, potential liabilities and operational and legal obligations. Such Privacy Laws and regulations are expected to vary from jurisdiction to jurisdiction, thus increasing costs, operational and legal burdens, and the potential for significant liability for regulated entities, which could include the Adviser, the General Partners, the Funds and/or their investments.

## **Conflicts of Interest**

The Adviser and its related entities and principals engage in a broad range of advisory and non-advisory activities, including investment activities for their own account, for personal or employee investment vehicles, and for the account of other funds and businesses, serving on various boards and committees or advisory firms and providing transaction-related, legal, management and other services to the Funds and their investments. Such other accounts or entities will have investment objectives similar to or different from those of the Funds. See also “Certain Risks – The Funds will rely on an affiliated servicer to service the Loans” above and Item 10 – “Other Financial Industry Activities and Affiliations” below for additional details. The Adviser will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Funds in an appropriate manner, as required by the relevant Governing Documents, although the Funds and their respective investments, and such other activities, will place varying levels of demand on the Adviser’s time, personnel and internal resources over time. In the ordinary course of the Adviser conducting its activities, the interests of a Fund will, from time to time, conflict with the interests of the Adviser, one or more other Funds, Fund investments or their respective affiliates. Certain of these conflicts of interest are discussed herein. As a general matter, the Adviser will determine all matters relating to structuring transactions and Fund operations using its reasonable judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the LPAC of the participating Funds, as applicable.

The Adviser, its affiliates and/or personnel maintain relationships with and/or may invest in transactions sponsored by financial institutions, service providers and other market participants, including, but not limited to, managers of private funds, banks, brokers, advisors, consultants,

finders (including executive finders and portfolio company finders), executives, attorneys, accountants, institutional investors, family offices, lenders and current and former employees, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, the Adviser and/or its affiliates, and/or the Funds or other investment vehicles they advise. Potential conflicts are expected to arise when and to the extent a Fund invested in a transaction in which the Adviser's personnel has already made an investment. A Fund may not, for example, invest through the same investment vehicles, have the same access to credit or invest pursuant to the same terms or in the same level of the capital structure as such personnel. This likely will result in differences in price, terms, leverage and associated costs. Further, to the extent that such investments are made in different levels of the capital structure, there is a potential for conflicts of interest in the event of troubled situations where decisions including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring. Moreover, there can be no assurance that the relevant Fund and such personnel will exit such investment at the same time or on the same terms. The Adviser and its affiliates and/or personnel may from time to time express inconsistent views of commonly held investments or of market conditions more generally. There can be no assurance that the return on a Fund's investments will be the same as the returns obtained by the Adviser, its affiliates and/or personnel participating in the same investment and/or transaction.

Without limitation, the Adviser's principals, who indirectly own and control the Adviser and/or its affiliates, currently manage, and expect in the future to manage, several other investments similar to those in which a Fund will be investing, and expect to direct certain relevant investment opportunities or resources to those investments. The Adviser's principals and/or its affiliates, as well as the Adviser's investment staff will continue to manage and monitor such investments until their realization. Such other investments that the Adviser's principals and/or its affiliates expect from time to time to control or manage generally have the potential to compete with investments acquired by a Fund.

From time to time, the Adviser and/or its affiliates will be presented with investment opportunities that would be suitable not only for a Fund, but also for other Funds and other investment vehicles operated by advisory affiliates of the Adviser. In determining which investment vehicles should participate in such investment opportunities, the Adviser and its affiliates will use their judgment to be fair in allocating investments to clients but are subject to conflicts of interest among the investors in such investment vehicles. Except as required by the relevant Governing Documents, the Adviser is not obligated to recommend any investment to any particular investment vehicle. Investments by multiple clients of the Adviser and/or its affiliates in a single investment opportunity also have the potential to raise the risk of using assets of a client of the Adviser to support positions taken by other clients of the Adviser and its affiliates. See also the discussion of VCM (as defined herein) in Item 10.

The Adviser and its affiliates must first determine which Fund(s) will, or are required to, participate in the relevant investment opportunity. For each investment that is appropriate for more than one Fund, the Adviser, along with its affiliates, will seek to make allocation determinations that are fair and is permitted to use, at its sole discretion, a number of metrics, including, but not limited

to, free capital, investment objectives and strategy, diversification criteria, tax and regulatory considerations and any other factors that are relevant at the time in determining the allocation of an investment opportunity.

The Adviser's allocation of investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others. While the Adviser and its affiliates will allocate investment opportunities in a manner that it believes is fair and equitable to its clients under the circumstances over time and considering relevant factors, there can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would be if the conflicts of interest to which the Adviser and its affiliates may be subject, discussed herein, did not exist.

Potential conflicts of interest are expected to arise from time to time when a Fund makes investments in conjunction with an investment being made by another Fund or vehicle managed by the Adviser, its principals or their affiliates, or if it were to invest in the securities of a company in which another Fund has already made an investment. A Fund may not have the opportunity to, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Funds or vehicles. This likely will result in differences in price, terms, leverage and associated costs. Further, there can be no assurance that the relevant Fund and the other Fund(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. The Adviser and its affiliates may, from time to time, express inconsistent views of commonly held investments or of market conditions more generally. There can be no assurance that the return on one Fund's investments will be the same as the returns obtained by other Funds or vehicles participating in a given transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to all Funds involved. In that regard, actions may be taken for one or more Funds or vehicles that adversely affect other Funds.

It is anticipated that all or a portion of any future capital contributions to TLF by investors will be used by TLF to acquire some or all of AIF Master Fund's equity interest in the FGMS SPV at the then-current net asset value of the FGMS SPV as determined by the Adviser or its affiliates in accordance with the Adviser's valuation policy. The Transaction(s) (as defined herein) is intended to decrease the AIF Master Fund's exposure to the tax lien asset investment strategy pursued by TLF and the AIF Master Fund, which no longer meets the anticipated return objectives of the AIF Master Fund and to generate liquidity for AIF. The AIF Master Fund's equity interest in the FGMS SPV will either be acquired directly by TLF, or indirectly by contributing cash proceeds from TLF's investors' capital commitments to the FGMS SPV, which the FGMS SPV will use to redeem, in whole or in part AIF Master Fund's economic interest in the FGMS SPV (the "Transaction(s)"). If all of AIF Master Fund's equity interest in the FGMS SPV is acquired by TLF, TLF will also acquire AIF Master Fund's fifty percent (50%) voting interest in the FGMS SPV, resulting in TLF having one hundred percent (100%) of the voting interest in the FGMS SPV. The net asset value of AIF Master Fund's economic interest in the FGMS SPV in the Transaction(s) is not expected to be the subject of any third-party valuation, and is not expected to be otherwise approved or recommended by any independent third-party appraisal firm or other

valuation expert. If a third-party valuation were sought, it is possible that such third-party would determine that the valuation of AIF Master Fund's economic interest in the FGMS SPV by the Adviser or its affiliates was lower than the valuation by the Adviser. In addition, it is possible that other parties exist that would be willing to offer better and more attractive pricing and terms for the AIF Master Fund's economic interest in the FGMS SPV. Additionally, the net asset value of AIF Master Fund's economic interest in the FGMS SPV may fluctuate materially between the date of any capital commitment by a TLF investor and the date such TLF capital commitment is drawn down to effect the Transaction(s), and the value of AIF Master Fund's economic interest in the FGMS SPV being acquired by TLF (or being redeemed from the FGMS SPV in exchange for the TLF's capital contribution to the FGMS SPV) in the Transaction(s) may be more or less than the amount paid by TLF for such interest. There can be no assurance that the price at which the Transaction(s) is entered into represents what would ultimately be the underlying investments' fair value. Neither the Adviser nor any of its affiliates will receive any transaction-based compensation in connection with the acquisition of AIF Master Fund's equity interest (and potentially voting interest) in the FGMS SPV or the redemption of AIF Master Fund from the FGMS SPV. Once the Transaction(s) has been consummated, TLF intends to use additional capital contributions made by its investors to acquire tax lien assets in accordance with TLF's Governing Documents.

Subject to any relevant restrictions or other limitations contained in the Agreements of Limited Partnership, the Adviser and its affiliates will allocate fees and expenses in a manner that it believes is fair and equitable to the Funds under the circumstances over time and considering such factors as it deems relevant, but in any case in its sole discretion. In exercising such discretion, the Adviser and its affiliates expects to be faced with a variety of potential conflicts of interest.

As a general matter, Fund expenses typically will be allocated among all relevant Funds or co-investment vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions generally will be made by the Adviser or its affiliates using their reasonable judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, *e.g.*, in determining whether to allocate *pro rata* based on number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has a greater benefit to a Fund or the Adviser. The Funds generally have different expense reimbursement terms, which is expected from time to time to result in the Funds bearing different levels of expenses with respect to the same investment.

Although the Adviser generally seeks appropriate rates for services, it reserves the right to prioritize prior usage, perceived sector competence or expertise, familiarity, onboarding speed or other factors in retaining or recommending service providers. In certain circumstances where the Adviser commits or has committed to seek "market" or "arms-length" rates or terms, the Adviser will do so in its sole discretion, seeking rates that it has determined in its sole discretion to be reflective of the range of rates in the applicable or related markets. Consequently, the Adviser undertakes no minimum amount of benchmarking, and does not represent that any such benchmarking relates specifically to the assets or services to which such rates or terms relate.

From time to time, the Adviser reserves the right from time to time to cause a Fund to enter into a transaction whereby the Fund purchases securities from, or sells securities to, other funds managed by the Adviser and/or its affiliates, or co-investors or co-investment vehicles. Such transactions arise in the context of automatic or other re-balancing an investment among parallel investing entities, in contexts where an investment owned by one Fund is acquired by another fund or to gain exposure to certain assets. Certain of such transactions raise potential conflicts of interest, including where the investment of one Fund supports the value of investments owned by another fund. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represent what would ultimately be the underlying investment's fair value. To the extent required by the relevant Funds' Governing Documents or otherwise in the sole discretion of the Adviser, the Adviser reserves the right to seek to mitigate any such conflicts by obtaining the consent of the relevant Fund(s) (including, where authorized, the consent of each Fund's LPAC) to such transactions. In certain circumstances, the Adviser reserves the right to determine that the willingness of a third-party to make an investment on the same terms demonstrates the fairness of the relevant transaction to the Fund under then-current market conditions. The Adviser intends that any such transactions be conducted in a manner that it believes to be fair and equitable to each Fund under the circumstances, including a consideration of the potential present and future benefits with respect to each Fund.

The Adviser, its affiliates, and equity holders, officers, principals and employees of the Adviser and its affiliates reserve the right to buy or sell securities or other instruments that the Adviser has recommended to a Fund. In addition, officers, principals and employees reserve the right to buy securities in transactions offered to but rejected by a Fund. Any such transactions are generally subject to any restrictions in the Fund's Governing Documents and any related policies and procedures set forth in the Adviser's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments generally vary from those of any Fund. Employees and related persons of the Adviser have, and are expected to continue to have, capital investments in or alongside certain Funds, or in prospective investment opportunities directly or indirectly, as well as in investment vehicles (including private funds) sponsored by potential competitors, and therefore expects to have additional potential conflicting interests in connection with these investments.

The Adviser and/or its affiliates have in the past, and reserve the right to enter into side letter arrangements with certain investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures (including discounted or rebated compensation terms), information rights, specialized reporting, priority co-investment rights or targeted co-investment amounts, and liquidity or transfer rights. Side letters may also relate to strategic relationships under which an investor agrees to make capital commitments to multiple Funds. Except where required by the relevant Governing Documents, other investors will not receive copies of side letters or related provisions, and as a general matter, the other investors have no recourse against a Fund, the relevant General Partner or any of their affiliates in the event that certain investors have received additional and/or different rights and/or terms as a result of such side letters. As a consequence of one or more investors being excused or excluded, or from regulatory or other factors limiting their participation in investments, the

aggregate returns realized by participating investors could be adversely affected in a material manner by the unfavorable performance of particular investments.

Any of these situations subjects the Adviser and/or its affiliates to potential conflicts of interest. The Adviser attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by the Adviser's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Fund, other Funds and such investment vehicles in a manner it believes to be fair and equitable to the Funds under the circumstances over time. To the extent that an investment or relationship raises particular conflicts of interest, the Adviser will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict.

### **Item 9 – Disciplinary Information**

Neither our firm nor members of our management have ever been the subject of any legal or disciplinary event that would be material to a client's or a prospective client's evaluation of the Adviser's business or the integrity of its management.

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

Affiliates of the General Partner or the Adviser are permitted to participate on the boards of directors (or equivalent governing body) of the Funds' origination and servicing partners (or equivalent entity).

Joel Katz, the Chief Financial Officer of the Adviser, is the guarantor for a senior credit facility that was provided by a commercial banking lender to an entity that is also a borrower pursuant to a credit agreement with a special purposes vehicle that is indirectly owned and controlled in part by the AIF Master Fund. Mr. Katz is paid a guaranty fee in consideration for serving as guarantor for such senior credit facility. This arrangement predated Mr. Katz's employment relationship with the Adviser and its affiliates.

Neither the Adviser nor any of the Adviser's management persons are registered, or have an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading Adviser, or an associated person.

As noted in Item 4 above, the Adviser's advisory employees are primarily employed through Ovation Management Services, LLC, a subsidiary of the Adviser.

Acclaim Capital Group LLC f/k/a Ovation Claims Services LLC, ("Acclaim Capital Group") an entity that is wholly-owned by the AIF Master Fund, services AIF's medical receivables and litigation finance assets. The employees of Acclaim Capital Group are supervised persons of the Adviser. The fees and expenses of Acclaim Capital Group are paid by AIF.

HMR Servicing LLC ("HMR Servicing"), an entity that is wholly-owned by the AIF Master Fund, originates and services AIF's medical receivables and litigation finance assets. The employees of

HMR Servicing are supervised persons of the Adviser. The fees and expenses of HMR Servicing are paid by AIF.

Ovation Financial Services, through its wholly-owned subsidiary, the Servicer, originates and services property tax loans for the FGMS SPV, the entity through which TLF and AIF invest in tax lien loans. Please see Item 8 – “Methods of Analysis, Investment Strategies and Risk of Loss – Risks Associated with Tax Lien Investment Strategy – The Funds will rely on an affiliated servicer to service the Loans” for a description of the risks associated with using the affiliated Servicer. Ovation Financial Services is majority-owned by OFS Ovation, LP, an entity that is principally owned and controlled by the Adviser. A third-party investor also owns a significant minority interest in Ovation Financial Services and has negotiated certain minority protection and consent rights in connection with its investment. Although it intends to maintain operations, strategy and investment decisions separate from such third-party investor, the Adviser generally will have incentives to conduct operations in a manner that benefits such third-party investor. Moreover, the third-party investor receives a portion of the management fees and incentive fees paid to the General Partner of AIF that are attributable to the investment activity of the FGMS SPV. Certain employees of Ovation Financial Services are supervised persons of the Adviser. The Servicer uses the origination and servicing fees described above in “Item 8 – “Methods of Analysis, Investment Strategies and Risk of Loss – Risks Associated with Tax Lien Investment Strategy.” The Funds will rely on an affiliated servicer to service the Loans to pay its fees and expenses.

Jeff Serra serves as President of Vida Capital Management, LLC (“VCM”), which has the potential to pose a conflict of interest in the allocation of his time. However, the Adviser believes Mr. Serra’s VCM responsibilities do not materially affect his responsibilities to the Adviser or its clients. Because VCM provides advisory services relating to investment strategies and asset classes predominately different from those of the Adviser, the Adviser believes Mr. Serra is not subject to conflicts of interest related to the allocation of investments between the two investment advisers or their respective clients.

As noted in Item 4 and Item 8 above, in each OZ SPV, the relevant OZ Fund’s General Partner retains certain major decision rights with respect to the relevant OZ SPV, but the relevant OZ Manager(s) that have real estate development experience are responsible for the day-to-day real estate management and operation of the OZ SPV and the relevant underlying property. Accordingly, each OZ Fund depends on the success and experience of the relevant OZ Manager(s).

As discussed in Item 4 above, the respective General Partners of AIF, TLF and the OZ Funds have each established a LPAC for its respective Fund that (i) provides advice to the applicable General Partner and Fund with regard to matters submitted to the LPAC by the General Partner of such Fund, and (ii) reviews all transactions between the applicable Fund and affiliates of its General Partner in which conflicts of interests may exist. The results of the reviews undertaken by the LPAC with respect to matters submitted to it by the applicable Fund’s General Partner shall be considered by such General Partner but will not be binding on such General Partner or the Fund.



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

In order to detect and prevent potential conflicts of interest and mitigate risks posed by such conflicts, Adviser has adopted a written Code of Ethics (the “Code”) with written policies and procedures designed to identify, detect and prevent conflicts of interest between the Adviser, its affiliates or any affiliated employees, and its clients. The Code addresses ethical issues such as: the Adviser’s fiduciary obligation to its clients, personal trading and prevention of misuse of material nonpublic information, conflicts of interest posed by the giving and receipt of gifts or entertainment by the Adviser or affiliates, political contributions, charitable donations, outside business activities, and other important ethical scenarios which could, either consciously or unconsciously, create conflicts of interest. Procedures have been adopted to ensure compliance with the provisions of the Code, including pre-approval of certain personal securities transactions, annual affirmations of compliance, and reviews of holdings and transactions. The Code is predicated on the belief that Adviser’s clients and its investors shall be treated with honesty and good faith, and that the Adviser shall put the interests of its clients and its investors ahead of its employees and principals, particularly where the Adviser’s interests conflict with those of its clients and its investors. To that end, the Code, among other things, requires Supervised Persons to comply with all applicable federal and state laws and regulations, and further imposes certain transaction restrictions on persons who are likely to know about Adviser’s transaction activity.

A copy of Adviser’s Code of Ethics shall be provided to any investor or prospective investor upon request by contacting Melissa McCarthy at (512) 647-6060.

## **Item 12 – Brokerage Practices**

Adviser is focused on making investments in private credit and specialty finance assets. Accordingly, it does not trade in public securities and transact through broker-dealers in order to effect such investment transactions. However, the Funds acquire interests in certain assets via originators and service partners. The Funds will typically pay a market-based origination and service fee, which is ultimately borne by the respective Fund. Where the Fund uses a third-party originator or servicer, the General Partner attempts to negotiate the best possible price and transaction costs for the Fund. As noted above, where a General Partner uses an originator or servicer affiliated with the Adviser, such as the Servicer, the General Partner will seek to pay fair market value for such origination and servicing.

The General Partners are authorized to appoint broker-dealers to make offers or sales of interests in their respective Funds. As further described in Item 5 – “Fees and Compensation – Referral Fees,” and Item 14 – “Client Referrals and Other Compensation,” any compensation paid for such referrals is paid by the respective General Partner and is not borne by any investor in Funds.

The Adviser does not use “soft dollars” to receive research or other products or services other than execution in connection with client securities transactions.

The Adviser does not engage in directed brokerage.

Because of the nature of its investments, there is generally no need for the Adviser to aggregate purchases or sales of traded securities for multiple client accounts.

### **Item 13 – Review of Accounts**

The applicable General Partner will periodically monitor the financial and operating progress of the Funds' investments, with more formal reviews as necessary. Such reviews will be conducted by one or more of the Adviser's supervised persons. Each Fund is audited on a yearly basis by an independent registered public accounting firm.

Certain events may require a review other than a periodic review. Such events include a transfer or withdrawal of a limited partner of the Fund or a material change in the business of a portfolio investment.

Investors in each Fund receive periodic reports (typically quarterly and annually) consistent with the requirements of the Fund's applicable governing documents, advisory agreements and industry customs and practices. Each of the Fund's investors will receive annual audited financial statements and unaudited quarterly statements of the Fund.

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

The Adviser employs a supervised person, and may in the future have additional supervised persons, that are also registered representatives of Britehorn Securities, LLC, an SEC-registered broker-dealer, and such supervised persons generally will receive compensation for the referral of investors to certain of the Funds based on a percentage of commitments attributable to their referrals. The General Partner of the applicable Fund in which the referred investor's investment is made compensates Britehorn Securities, LLC, and any such compensation is not borne by any investor in such Fund.

This practice presents a conflict of interest and gives the supervised persons an incentive to recommend an investment in the Funds based on the compensation received, rather than on an investor's needs. All prospective investors referred by such supervised persons, however, are notified of this relationship prior to the time such investor invests in the applicable Fund.

OFM II has engaged Arete Wealth Management, LLC and Spearhead Capital LLC, each a registered broker-dealer, to make offers or sales of interests in the AIF Feeder Funds. In such arrangements, such broker-dealers generally receive compensation for the referral of investors to the AIF Feeder Funds based on a percentage of funded commitments attributable to their referrals. Such compensation is paid by OFM II and is not borne by any investor in the AIF Feeder Funds.

Derby RR GP has engaged W.G. Nielsen and Co, a registered broker-dealer, to make offers or sales of interests in Derby RR QOF. In such arrangements, such broker-dealers generally receive compensation for the referral of investors to Derby RR QOF based on a percentage of funded commitments attributable to their referrals. Such compensation is paid by Derby RR GP and is not borne by any investor in Derby RR QOF.

From time to time, the Adviser may enter into additional solicitation arrangements relating to the Funds pursuant to which it will compensate other third parties for referrals that result in a potential investor becoming an investor in a Fund. Any fees payable to any such placement agents will be borne by the Adviser or the applicable General Partner and not by any investor in the applicable Fund(s).

Aside from management and incentive fees and fees paid to Ovation Financial Services, LP for which the Adviser and its owners indirectly benefit, the Adviser does not receive any other economic benefits from non-investors in connection with the provision of investment advice to the Funds.

### **Item 15 – Custody**

The Adviser is deemed to have custody of the Funds' cash and securities. The Adviser maintains custody of such assets in accounts in the name of one or more Funds with unaffiliated qualified custodians who generate account reports and statements for the Funds. These reports are monitored by the Adviser and a third-party administrator to ensure accuracy and consistency with the reports generated by the Adviser. In addition, the Funds are subject to an annual audit, and the audited financial statements are distributed to each Fund investor in accordance with certain custody requirements under the Advisers Act. The audited financial statements will be prepared in accordance with generally accepted accounting principles and delivered to Fund investors as required under the Advisers Act and associated rulemaking.

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

The Adviser has full discretionary authority over the trading and investing activities of the Funds, subject only to any restrictions (if any) presented in the relevant Governing Documents.

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

While the Adviser does not anticipate being called upon to vote proxies given the nature of the assets in which it invests, the Adviser has adopted a Proxy Voting Policy and Procedure (the "Proxy Policy") to address how it would vote proxies in such circumstances. The Proxy Policy seeks to ensure that the Adviser votes proxies (or similar instruments) in the best interest of the Funds, including where there are potential material conflicts of interest in voting proxies. The Adviser generally believes its interests are aligned with those of each Fund's investors, for example, through the principals' beneficial ownership interests in such Fund and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy authorizes the Adviser to address the potential conflict using several alternatives. The Adviser does not consider service on portfolio company boards by the Adviser's personnel or the Adviser's receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines

followed by the Adviser when voting proxies on behalf of a Fund. Clients or investors that would like a copy of the Adviser's complete Proxy Policy or, in the event the Adviser votes proxies in the future, information regarding how the Adviser voted proxies, may contact Melissa McCarthy, the Adviser's Chief Compliance Officer, at (512) 647-6060, and it will be provided at no charge.

### **Item 18 – Financial Information**

The Adviser does not require prepayment of management fees more than six months in advance and does not have any other events requiring disclosure under this item of the brochure.