

Form ADV Part 2A: Firm Brochure

Arc70 Advisers LP

345 California Street, Suite 600

6th Floor

San Francisco, California 94104

(415) 322-3260

<https://arc70.com>

March 30, 2020

This Brochure provides information about the qualifications and business practices of Arc70 Advisers LP (“**Arc70**,” the “**Adviser**,” the “**Firm**,” “**we**” or “**us**”). If you have any questions about the contents of this Brochure, please call us at (415) 322-3260 or send an email to: jason@arc70.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Additional information about the Adviser also is available on the SEC’s website at www.adviserinfo.sec.gov.

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

Item 2 – Material Changes

Arc70 is a newly registered investment adviser, and this is Arc70's initial narrative Brochure prepared in accordance with Part 2A of Form ADV. As this is Arc70's initial narrative Brochure, there are no material changes from a prior Brochure to report in this Item 2A.

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Item 4 – Advisory Business

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

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

Advisory Services offered to the Flagship Funds

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

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

It is also expected that the Flagship Funds and the Arc-Managed Securitized Products may from time to time enter into one or more interest rate swaps or other instruments (the “**Hedge Agreements**”) in order to manage certain risks, including interest rate risks associated with the Multi-Family Mortgage Bonds to which the Bond Financing Transactions provide exposure, any Multi-Family Mortgage Bonds held directly by the Flagship Funds, and the Portfolio Collateral (as defined below) (collectively, the “**Referenced Portfolio**”) or any specific Multi-Family Mortgage Bond therein.

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

Fund I’s investment period has currently ended, and it will not be making any additional investments in Multi-Family Mortgage Bonds directly or through Bond Financing Transactions. However, Fund I still has exposure to some Multi-Family Mortgage Bonds and Arc70 expects that many of such Multi-Family Mortgage Bonds will eventually be sold to an Arc--Managed Securitized Product.

Advisory Services Offered to Opportunities Fund

The strategy of Opportunities Fund is to invest in equity securities (the “**Certificates**”) issued by FRETE 2019-ML05 Trust (“**FRETE Trust**”), which is a securitization vehicle that securitizes Multi-Family Mortgage Bonds similar to the manner in which the Arc-Managed Securitized Product securitizes Multi-Family Mortgage Bonds (FRETE Trust and the Arc-Managed Securitized Products collectively, the “**Securitization Vehicles**,” and the Multi-Family Mortgage Bonds to which a Securitization Vehicle is exposed, the “**Portfolio Collateral**”). The Certificates represent the subordinated tranches of equity securities of the FRETE Trust (“**Frete Subordinated Equity**” and collectively with the SP Subordinated Equity, the “**Subordinated Equity**”). The FRETE Trust also issues senior tranches of equity securities (“**SP Senior Equity**”) to third-party investors (“**Frete Senior Equity**” and collectively with the SP Senior Equity, the “**Senior Equity**”).

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

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

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

As of December 31, 2019 the Adviser managed approximately \$324,000,000.00 in assets on a discretionary basis.

Item 5 – Fees and Compensation

Fees

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

Expenses

In addition to the Fees paid to Arc70, each Fund will bear costs and expenses incurred in connection with its organization and operations as described below.

Flagship Funds

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

In addition to Organizational Expenses, each Flagship Fund will all of pay all of its ordinary and extraordinary expenses (including those incurred through any investment vehicle created to facilitate the Flagship Funds' investments), including (i) costs and expenses incurred in connection with investment activities of the Flagship Fund including, without limitation, evaluating Multi-Family Mortgage Bonds and other assets, evaluating and implementing financing options (including the Bond Financing Transactions), filing fees, legal, bookkeeping, accounting, auditing, recordkeeping, administration, computer and clerical expenses (including expenses incurred in preparing reports and tax information to the limited partners and expenses for specialized administrative services); (ii) regulatory compliance costs; (iii) costs and expenses incurred in connection with establishing the Arc-Managed Securitized Products and the issuance of any equity and/or debt securities thereby; (iv) costs of evaluating and contracting with a servicer to any securitization, and fees payable to any such servicer or other agent of the securitization; (v) costs and expenses of any third party valuation agent; (vi) printing and duplication expenses; (vii) investment-related travel expenses; (viii) investment research; (ix) investment research-related travel expenses; (x) costs incurred with entering into and maintaining compliance with side letters; (xi) costs incurred with amending or amending and restating the Flagship Fund's operating agreement; (xii) costs incurred in connection with a wind down of the Flagship Fund or any other investment vehicle through which the Flagship Fund invests; (xiii) consulting and/or statistical services expenses; (xiv) market data, newswire and data processing expenses (including those associated with investigating potential investments or maximizing return on existing investments); (xv) software and connectivity charges; (xvi) brokerage commissions, bank charges, custody fees and borrowing costs; (xvii) the cost of maintaining the Flagship Fund's legal existence and

expenses; (xviii) liability insurance (including errors & omissions insurance) costs; (xix) investment and operating expenses; (xx) the Flagship Fund's pro-rata portion of the regulatory and compliance costs of Arc70 arising out of its management of the Flagship Fund, such as legal, administrative, and filing costs and expenses relating to the Investment Adviser's SEC Form ADV and Form PF, if applicable; (xxi) such other expenses necessary to perform the operation of the Flagship Fund as determined by the Flagship Fund's General Partner; and (xxii) extraordinary expenses, which may include, without limitation, taxes, indemnification costs, litigation costs, trade errors or damages (collectively, the "**Flagship Fund Expenses**").

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

Opportunities Fund

The Opportunities Fund shall bear and be charged with all costs and expenses of its operations, including, without limitation the following: (i) all costs and expenses incurred in connection with the organization of the Opportunities Fund and the offering of its interests, including without limitation any related legal and accounting fees and expenses, printing costs, and travel and out of pocket expenses up to a maximum of \$75,000; (ii) costs and expenses incurred in connection with the investment activities of the Opportunities Fund including, without limitation, evaluating the Certificates, filing fees, legal, bookkeeping, accounting, auditing, recordkeeping, administration, computer and clerical expenses (including expenses incurred in preparing reports and tax information for its members and expenses for specialized administrative services); (iii) regulatory compliance costs; (iv) costs of evaluating and contracting with a servicer to any securitization, and fees payable to any such servicer or other agent of the securitization; (v) costs and expenses of any third party valuation agent; (vi) printing and duplication expenses; (vii) investment-related travel expenses; (viii) investment research; (ix) consulting and/or statistical services expenses; (x) costs incurred in connection with a wind down of the Opportunities Fund; (xi) market data, newswire and data processing expenses (including those associated with investigating potential investments or maximizing return on existing investments); (xii) software and connectivity charges; brokerage commissions, bank charges, custody fees and borrowing costs; (xiii) the cost of maintaining the Opportunities Fund's legal existence and expenses; (xiv) liability insurance (including errors and omissions insurance) costs and indemnification expenses; (xv) the Opportunities Fund's pro-rata portion of Arc70's regulatory and compliance costs, such as legal, administrative, and filing costs and expenses relating to any Form PF, if applicable, but not, for the avoidance of doubt, including any costs related to SEC Form ADV; (xvi) costs incurred in connection with amending or amending and restating Opportunities Fund's operating agreement from time to time; (xvii) such other expenses reasonably necessary to perform the operation of the Opportunities Fund as determined in good faith by its members; and (xviii) extraordinary expenses, which may include, without limitation, taxes, indemnification costs, litigation costs, trade errors or damages.

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

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

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

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

In addition, Arc70 affiliates, officers and/or employees and Arc 70 itself (collectively “**Related Persons**”) invest varying amounts in the Funds. Like performance-based compensation accounts, Arc70 has an incentive to favor Funds that have a higher amount of Related Person investments over Funds that have a lower amount of Related Person investments.

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

The Investment Adviser is responsible for the valuation of the Partnership’s assets and liabilities and has an inherent conflict of interest in performing this function. It is in the Investment Adviser’s interest to value the assets of the Partnership at as high a level as possible, as the Performance Allocation and Performance Fee are calculated based on the Net Asset Value of the Partnership. To address this conflict, the Investment Adviser has adopted valuation policies and procedures that require it to rely on prices or ranges of prices provided by independent third parties.

Item 7– Types of Clients

Arc70 provides investment advisory services to three Delaware organized Funds. The Funds offer and sell their respective interests and shares solely to accredited investors that are qualified clients and qualified purchasers or are certain employees of Arc70 Adviser and its

affiliates. The minimum initial capital commitment for investors in the Funds is \$5 million which may be waived by the Funds' general partner or manager.

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

Methods of Analysis and Investment Strategies

Strategy for Flagship Funds

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

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

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

Due Diligence. Upon execution of the term sheet for a proposed Multi-Family Mortgage Bonds offering, due diligence information is compiled. The relevant bond underwriter will visit properties (site and competing properties) and interview the property manager and developer. The underwriter creates a real estate underwriting memorandum that includes an analysis of the economic condition and overall quality of the property and market. Arc70 will compile and review all due diligence materials.

Preliminary Approval. One of the principals of Arc70 will serve as deal lead on each potential fund investment. All investment commitments will be presented in written form to the Advisory Board, which will assist Arc70 in making a reasoned investment decision with respect to the proposed investment opportunity.

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

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

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

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

Investments by Funds in Securitization Vehicles

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

Material Risks

Leverage. The low margin and collateral deposits required to trade certain financial instruments may permit a high degree of leverage. The Funds may "leverage" investment returns with derivative instruments such as total return swaps. The degree of leverage that the Funds may utilize is not limited to any predetermined level, but is subject to applicable lender and counterparty imposed leverage limitations, to the extent applicable. The amount of leverage the Funds may employ at any time may be large in relation to their capital. Consequently, the level of interest rates, generally, and the rates at which the Funds can borrow, in particular, affects the operating results of the Funds.

As a result of trading with a high degree of leverage, a relatively small price movement in a financial instrument may result in immediate and substantial losses to the Funds. Thus, like other

leveraged investments, any investment may result in losses in excess of the amount invested. The Funds may lose more than their initial margin deposit on a trade. In addition, if the Funds are in a leveraged position, any losses would be more pronounced than if leverage were not used and, under particularly adverse circumstances, could exceed their capital.

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

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

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

General Economic and Market Conditions. The success of the Funds' investment activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, and changes in laws. These factors may affect the level and volatility of securities prices and the liquidity of the Funds' investments. Unexpected volatility or illiquidity could impair the Funds' profitability or result in losses.

General Investment and Trading Risks. All financial instrument investments present a risk of loss of capital. Such investments are subject to investment-specific price fluctuations as well as to macro-economic, market and industry-specific conditions, including, but not limited to, national and international economic conditions, domestic and international financial policies and performance, conditions affecting particular investments such as the financial viability, sales and product lines of corporate issuers, national and international politics and governmental events, and changes in income tax laws. Moreover, the Funds may have only limited ability to vary their

investment portfolio in response to changing economic, financial and investment conditions. The Funds' investment programs may utilize a wide variety of investment techniques, including option transactions, limited diversification, margin transactions, short sales, forward contracts and other derivative transactions, which practices can, in certain circumstances, substantially increase the adverse impact to which the Funds may be subject. No guarantee or representation is made that the Funds' programs will be successful. The market price of financial instruments owned by the Funds may go up or down, sometimes unpredictably.

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

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

Availability and Accuracy of Information. The Adviser selects investments for the Funds on the basis of information and data derived from firsthand research by the Adviser and publicly-available research reports by various analysts. Although the Adviser intends to evaluate all such

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

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

Disaster Recovery and Data Security. In managing the assets of the Funds, the Adviser relies on information technology and data management systems, which can fail or be subject to interruption or destruction caused by natural or man-made occurrences such as extreme weather, fires, earthquakes, power loss, telecommunications failures, terrorist attacks, hacking, break-ins, sabotage, intentional acts of destruction, vandalism, or similar events or misconduct. Any failure, interruption, or destruction of the Adviser's information technology systems or data could have a material adverse impact on the operations of the Adviser and/or the Funds. In addition, a breach in the security of the Adviser's systems could result in theft, disclosure, or loss of investor, proprietary, and other sensitive information relating to the Adviser and/or the Funds, which in turn could lead to litigation in which the Funds could incur liability.

The Adviser has in place information security, incident response, backup, and disaster recovery procedures intended to prevent or mitigate damage if such an event occurs. However, a breach could nevertheless occur, and such procedures could fail or be insufficient to avoid, mitigate, or remedy the breach. Moreover, the ever-changing methods and technologies used to obtain unauthorized access to systems through means such as third-party acts, computer error, malicious code, employee error, or malfeasance often are not known until used against a potential target. Therefore, the Adviser may be unable to anticipate the destructive or invasive methods and technologies that could be used against its systems or to implement adequate protections.

The Markets and Financial Instruments Traded by the Funds May be Illiquid. At various times, the markets for financial instruments purchased or sold by the Funds may be "thin" or illiquid, making purchase or sale at desired prices or in desired quantities difficult or impossible.

As part of its emergency powers, an exchange or regulatory authority can suspend or limit investment in a particular instrument, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. The possibility also exists that governments may intervene to stabilize or fix exchange rates, restricting or substantially eliminating trading in the affected currencies.

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

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

There are a Number of Risks Related to the Construction of Residential Properties That May Affect the Multi-Family Mortgage Bonds. The Funds may invest in Multi-Family Mortgage Bonds secured by residential housing properties which are still under construction. The principal risk associated with construction lending is that construction of the property will be substantially delayed or never completed. This may occur for a number of reasons including (i) insufficient financing to complete the project due to underestimated construction costs or cost overruns; (ii) failure of contractors or subcontractors to perform under their agreements;

(iii) inability to obtain governmental approvals; (iv) labor disputes; and (v) adverse weather and other unpredictable contingencies beyond the control of the developer. While the Funds may be able to protect themselves from some of these risks by obtaining construction completion guarantees from developers, agreements of construction lenders to purchase Multi-Family Mortgage Bonds if construction is not completed on time, and/or payment and performance bonds from contractors, the Funds may not be able to do so in all cases or such guarantees or bonds may not fully protect the Funds in the event a property is not completed. In other cases, the Adviser may decide to forego certain types of available security if it determines that the security is not necessary or is too expensive to obtain in relation to the risks covered. If a property is not completed, or costs more to complete than anticipated, it may cause the Funds to receive less than the full amount of interest owed to them on the Multi-Family Mortgage Bonds financing such property or otherwise result in a default under the mortgage loan that secures the Multi-Family Mortgage Bond on the property. In such case, the Adviser may be forced to foreclose on the incomplete property and sell it in order to recover the principal and accrued interest on the Multi-Family Mortgage Bond and the Funds may suffer a loss of capital as a result. Alternatively, the Adviser may decide to finance the remaining construction of the property, in which event the Funds will need to invest additional funds into the property, either as equity or as a taxable property loan. Any return on this additional investment would be taxable. Also, if the Funds foreclose on a property, they will no longer receive interest on the Multi-Family Mortgage Bond issued to finance the property. The overall return to the Funds from their investment in such property is likely to be less than if the construction had been completed on time or within budget.

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

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

have suffered, if any, had these instruments not been in place. Use of derivative instruments presents various risks, including the following:

- (i) **Tracking** — When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Adviser from achieving the intended hedging effect or expose the Funds to the risk of loss.
- (ii) **Liquidity** — Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets the Adviser may not be able to close out a position without incurring a loss for the Funds.
- (iii) **Leverage** — Investment in derivative instruments can result in large amounts of leverage. Thus, the leverage offered in connection with derivative instruments may magnify the gains and losses experienced by the Funds and could cause their assets to be subject to wider fluctuations than would be the case if the Funds did not use the leverage feature in derivative instruments.
- (iv) **Over-the-Counter Trading** — Certain derivative instruments may not be traded on an exchange. Over-the-counter financial instruments that may be purchased or sold by the Funds may include swap transactions. Over-the-counter financial instruments, unlike exchange-traded financial instruments, are two-party contracts with price and other terms negotiated by the buyer and the seller. The risk of nonperformance by the counterparty on such an instrument may be greater and the ease with which the Funds can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. Because performance of over-the-counter financial instruments is not guaranteed by any exchange or clearinghouse, the Funds will be subject to the risk of the inability or refusal to perform with respect to such financial instruments on the part of the counterparties with which they trade. Any such failure or refusal, whether due to insolvency, bankruptcy or other causes, could subject the Funds to substantial losses.
- (v) **Lack of Regulation** — Financial instruments not traded on exchanges are also not subject to the same type of government regulation as exchange-traded financial instruments and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions. The counterparty to an over-the-counter financial instrument entered into by the Funds may not be subject to the same credit evaluation and regulatory oversight as are members of exchange based markets. The same may be true with respect to financial instruments traded on certain types of alternative exchanges (e.g., exempt commercial markets) that are less regulated than traditional securities, commodities and futures exchanges.
- (vi) **Market Conditions** — Recent events in the financial markets resulting in the failure of large institutions that serve as counterparties to many over-the-counter financial

instruments have resulted in greater illiquidity of such instruments and heightened concern for counterparty risk.

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

The Funds from time to time expect to enter into total return swaps. As a buyer of total return swaps, the Funds will be obligated to make certain periodic payments in exchange for the total return on a referenced asset (in this case, Multi-Family Mortgage Bonds), including coupons, interest and the gain or loss on such asset over the term of the swap. The Funds will be required to maintain collateral with the total return swap counterparty(ies). If the Funds were to fail to fulfill their payment obligations or fail to post any required collateral under a total return swap, the relevant counterparty may declare an event of default and, as a result, the Funds may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipts from the counterparty of further total return swap payments.

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

The Adviser is not subject to any specific risk management or portfolio diversification policies in managing the Referenced Portfolio and the FRETE Trust. To the extent that the Adviser engages

in transactions intended to hedge certain of the Funds' market risks, the Funds may have exposure to movements of indices, economies or other market characteristics. The Adviser does not expect to attempt to hedge all, or even most, of such risks. In fact, a number of the risks to which the Referenced Portfolio and the FRETE Trust are subject cannot be effectively hedged.

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

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

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

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

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

- (i) **Nature and Risks of Subordinated Equity.** The Subordinated Equity represents the most junior interest in the capital structure of a Securitization Vehicle, is not expected to be rated by any rating agency and may not be secured by the underlying assets held by such Securitization Vehicle, which generally secure the classes of the Senior Equity issued by the Securitization Vehicle. As such, the holders of the Subordinated Equity will rank behind all of the creditors, whether secured or unsecured and known or unknown, of a Securitization Vehicle, including, without limitation, the holders of all the classes of the Senior Equity issued by the Securitization Vehicle. Consequently, the Subordinated Equity of a Securitization Vehicle will be subject to the greatest risk of loss, will be the first part of the capital structure of the related Securitization Vehicle to incur losses, and will be directly affected by any losses or delays in payment on the related Portfolio Collateral. The performance of the Subordinated Equity of any particular Securitization Vehicle will depend, among other things, on the level of defaults experienced on the related Portfolio Collateral, as well as the timing of such defaults and the timing and amount of any recoveries on such defaulted Portfolio Collateral and the impact of any trading of the related Portfolio Collateral.
- (ii) **Leveraged Investment.** Because the payments on the Subordinated Equity are subordinated to payments on the senior obligations of a Securitization Vehicle, the Subordinated Equity represents a subordinated, leveraged investment in the Portfolio Collateral. Due to the existence of leverage, changes in the value of the Subordinated Equity are anticipated to be greater (on a percentage basis) than the change in the market value of the Portfolio Collateral owned by such Securitization Vehicle, which is subject to, among other things, credit, liquidity and interest rate risk. The presence of leverage will increase the cash flow available to the holders of the Subordinated Equity as compared with the cash flow that would be available for a comparable investment in a non-leveraged transaction, if the Portfolio Collateral performs as expected. This increased cash flow will directly affect the yield on the Subordinated Equity. However, the use of leverage also creates risk for the holders of Subordinated Equity, such as the Funds, because the leverage increases such holders' exposure to losses with respect to the underlying assets. As a result, the occurrence of defaults with respect to only a small portion of the Portfolio Collateral held by such Securitization Vehicle could result in a substantial or complete loss of the Funds' investment in the Subordinated Equity.
- (iii) **The Receipt of Interest and Principal Payments on Multi-Family Mortgage Bonds Will Be Affected by the Economic Results of the Underlying Properties.** Although Multi-Family Mortgage Bonds are issued by state or local housing authorities, they are not obligations of these governmental entities and are not backed by any taxing authority. Instead, each of these revenue bonds is backed by a non-recourse loan made to the owner of the underlying property. Because of the non-recourse nature of the underlying mortgage loans, the sole source of cash to pay base and contingent interest on the Multi-Family Mortgage Bonds, and to ultimately pay the principal amount of the Multi-Family Mortgage Bonds, is the net cash flow generated by the operation of the financed property and the net proceeds from the ultimate sale or refinancing of the property, (except in cases

where a property owner has provided a limited guarantee of certain payments). This makes investments in Multi-Family Mortgage Bonds subject to risks usually associated with direct investments in real estate. If a property is unable to sustain net cash flow at a level necessary to pay its debt service obligations on Multi-Family Mortgage Bonds on the property, a default may occur. Net cash flow and net sale proceeds from a particular property are applied only to debt-service payments of the particular mortgage revenue bond secured by that property and are not available to satisfy debt-service obligations on other Multi-Family Mortgage Bonds held by the Funds or a Securitization Vehicle. In addition, the value of a property at the time of its sale or refinancing will be a direct function of its perceived future profitability. Therefore, the amount of interest that the Funds or a Securitization Vehicle earns on Multi-Family Mortgage Bonds, and whether or not the Funds or a Securitization Vehicle will receive the entire principal balance of the Multi-Family Mortgage Bonds as and when due, will depend to a large degree on the economic results of the underlying properties.

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

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

- (i) Changes in short-term interest rates can adversely affect the cost of an asset securitization financing. Because the Senior Equity typically may allow for tendering back to the Securitization Vehicles, causing the Securitization Vehicles to remarket the Senior Equity from time to time, an increase in interest rates may require an increase to the interest rate paid on the Senior Equity in order to successfully remarket these securities. Any increase in interest rate payable on the Senior Equity will result in more of the underlying interest being used to pay interest on the Senior Equity leaving less interest available for the Subordinated Equity. As a result, higher short-term interest rates will reduce, and could even eliminate, the Funds' return on a residual interest in this type of financing.
- (ii) Payments on the Subordinated Equity are subordinate to payments on the Senior Equity and to the payment of expenses, and there are no party guarantees to the payment of any amounts under the residual interests. The Funds will hold residual interests in the Securitization Vehicles. These residual interests are subordinate to the Senior Equity sold to investors. As a result, none of the interest received by the

Securitization Vehicles will be paid to the Funds as the holders of Subordinated Equity until all payments then due on the Senior Equity have been paid in full and other expenses satisfied. As the holders of the Subordinated Equity, the Funds can look only to the assets of the Securitization Vehicles remaining after payment of Senior Equity for payment. No third party guarantees the payment of any amount on the Subordinated Equity.

- (iii) Termination of a Securitization Vehicle can occur for a number of reasons which could cause the Funds to lose the assets and other collateral pledged for such financing. In general, a Securitization Vehicle can terminate for a number of different reasons relating to problems with the Portfolio Collateral or problems with the Securitization Vehicle itself. Problems with the Portfolio Collateral that could cause a Securitization Vehicle to be terminated include payment or other defaults or a determination that the interest on the Portfolio Collateral is taxable. Problems with a Securitization Vehicle include a downgrade in the investment rating of the Senior Equity, a ratings downgrade of any liquidity provider, increases in short-term interest rates in excess of the interest paid on the Portfolio Collateral, an inability to remarket the Senior Equity or an inability to obtain credit or liquidity for a Securitization Vehicle. In each of these cases, a Securitization Vehicle will be terminated and the Portfolio Collateral held by such Securitization Vehicle will be sold.

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

Investors May Incur Tax Liability if Any of The Interest from Multi-Family Mortgage Bonds Is Determined to be Taxable. The governmental issuer and the underlying borrower of each Multi-Family Mortgage Bond have covenanted and agreed to comply with all applicable legal and regulatory requirements necessary to establish and maintain the tax-exempt status of interest earned on the Multi-Family Mortgage Bond. Failure to comply with such requirements may cause interest on the Multi-Family Mortgage Bonds to be includable in gross income for federal income tax purposes retroactive to the date of issuance, regardless of when such noncompliance occurs. Should the interest income on a Multi-Family Mortgage Bond be deemed to be taxable, the bond documents include a variety of rights and remedies that are intended to help mitigate the economic impact of taxation of the interest income on the affected bonds including often a step-up in interest rate of the Multi-Family Mortgage Bonds. Under such circumstances, the Funds intend to enforce such rights and remedies as set forth in the related bond documents as well as any other rights and remedies available under applicable law. In addition, in the event the tax-exemption of interest income on any Multi-Family Mortgage Bond is challenged by the Internal Revenue Service, the

Funds intend to be actively involved in the tax and legal proceedings to contest any such challenge. The loss of tax-exemption for any particular issue of Multi-Family Mortgage Bonds would not, in and of itself, result in the loss of tax exemption for any unrelated issue of Multi-Family Mortgage Bonds. However, the loss of such tax-exemption could result in the allocation to investors of the Funds of taxable income relating to such bonds.

Item 9– Disciplinary Information

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

Item 10 – Other Financial Industry Activities and Affiliations

The Firm’s affiliate, Arc70 Capital, acts as general partner to the Flagship Funds. Arc70 Capital has hired the Firm to act as the investment adviser to the Flagship Funds. Consequently, Arc70’s performance as investment adviser is not subject to review and oversight by an independent party.

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

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

Item 11 – Code of Ethics

Arc70 has adopted a Code of Ethics (the “**Code**”) for all supervised persons of the firm which sets forth the ethical and fiduciary principles and related compliance requirements under

which Arc70 operates and the procedures for implementing those principles. The Code includes provisions that:

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

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

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

Arc70’s Code is available to any client or prospective client upon request by contacting Jason Reynolds, Arc70’s Chief Compliance Officer, at (415) 322-3260.

Arc70 does not engage in principal transactions with Client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or certain related accounts, buys from or sells any security to any advisory client. Furthermore, Arc70 does not anticipate in engaging in cross transactions between client accounts. Cross transactions are generally defined as transactions where an adviser causes one client to purchase a security from a different client. If Arc70 does engage in cross transactions in the future, it will adopt policies and procedures to address such cross transactions.

Item 12 – Brokerage Practices

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

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

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

Item 13– Review of Accounts

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

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

Item 14– Client Referrals and Other Compensation

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

With respect to Fund I and the Opportunities Fund, Arc70 does not compensate any outside party for investor or client referrals. With respect to Fund II, Arc70 compensates a third party registered as a broker-dealer for making introductions of investors to Fund II. Such compensation is a percentage of total committed assets introduced by the third party broker-dealer to Fund II. Such compensation comes from Arc70's revenues and investors in Fund II will not pay any additional fees as a result of Arc70's payments to the third party. The third party has an incentive to

recommend the investment in Fund II due to its receipt of such compensation. For additional information about the arrangement with the third-party broker dealer, you may contact Arc70.

Item 15 – Custody

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

Item 16 – Investment Discretion

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

Item 17 – Voting Client Securities

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

Item 18– Financial Information

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

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

Item 19 – Requirements for State-Registered Advisers

This Item 19 is not applicable to the Adviser.