

**FORM ADV PART 2A: FIRM BROCHURE**

**Poetic Group LLC**

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This brochure (this “Brochure”) provides information about the qualifications and business practices of Poetic Group LLC. If you have any questions about the contents of this Brochure, please contact us by phone at (212) 643-8999 or by e-mail at [dsandler@poeticgroup.com](mailto:dsandler@poeticgroup.com). 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.

Registration as an investment adviser does not imply that Poetic Group LLC or any of its principals or employees possess a particular level of skill or training in the investment advisory business or any other business.

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

**Item 2. Material Changes**

Poetic Group LLC filed its initial Brochure on August 22, 2019. This Brochure has been updated to include information about an additional private fund that it manages, information about the key risks associated with its strategies and certain clarifications to its policies and procedures. While Poetic Group LLC does not believe that these changes are materials, clients are encouraged to read this document in its entirety.

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**Item 4. Advisory Business**

Poetic Group LLC (“we,” “us” or “our”) is a New York limited liability company that was formed on February 6, 2018. We are ultimately principally owned by Poet Advisors LLC, 10 Northeast II LLC, and Rouen LLC, which are, in turn, principally owned by Adam Berkowitz, Samuel Mark and Daniel Li (our “Principals”), respectively.

We provide discretionary investment advice to each of the following funds (together, the “Funds”): (i) Poetic Holdings 8 LP (“Poetic 8”) and (ii) Poetic Holdings IX LP (“Poetic IX”). Poetic 8 currently offers a single class of interests, but may issue additional classes in the future, each of which will correspond to its own portfolio.

References throughout this document to “Client” refers to the Funds and any other private fund or other account that may be managed by us in the future. We also advise two entities that are primarily owned by the Principals and their family members (the “Poetic Proprietary Accounts”), which are not making new investments in securities or other financial instruments that would be appropriate for the Fund.

The Funds are managed in accordance with their investment and trading objectives, as described in their offering documents, governing agreements or investment management agreements (collectively, the “Governing Documents”). We do not permit investors in the Funds to impose limitations on the investment activities described in such documents. (*See Item 16 - Investment Discretion*)

Poetic Holdings 8 GP, LLC (“Poetic 8 GP”) serves as the general partner to Poetic 8 and Poetic Holdings IX GP LLC serves as general partner to Poetic IX (“Poetic IX GP,” and together with Poetic 8 GP, the “General Partners”).

We do not participate in wrap fee programs.

As of December 31, 2019, we managed \$225,512,088 of regulatory assets under management on a discretionary basis. We do not manage any assets on a non-discretionary basis. Note that Poetic IX launched on March 16, 2020, so it did not have any assets as of December 31, 2019.

Poet Advisors LLC, a registered investment adviser (“Poet”), and 10 Northeast II LLC, a relying investment adviser of Poet (“10 Northeast”), are ultimately controlled by Adam Berkowitz and Samuel Mark, respectively. Poet provides discretionary investment advice to, and serves as managing member of, private funds. In addition, each of our Principals is an owner of one of Poet, 10 Northeast or Rouen LLC (collectively with Poet and 10 Northeast, the “Advisor Affiliates”) and our Advisor Affiliates provide discretionary investment advice to one or more entities that are primarily owned by the relevant Principal and his family members. Each of the Advisor Affiliates is and/or may be compensated for providing such investment services to these entities. (*See Item 10 - Other Financial Industry Activities and Affiliations*)

**Item 5. Fees and Compensation***Management Fees*

Our fees and compensation are described in the Fund’s Governing Documents.

Poetic 8 pays us a monthly management fee of 0.083% (1% on an annualized basis) of the aggregate capital contributions by investors (on a class by class basis). Poetic IX pays us a quarterly management fee equal to a percentage of funded investor commitments. Poetic IX’s investors are all “qualified purchasers” (as

defined in the Investment Company Act of 1940, as amended (the “1940 Act”) or knowledgeable employees (as defined under the 1940 Act).

The Funds’ management fees are paid in advance. Management fees will be refunded if the advisory contract is cancelled before the end of the relevant payment period. In the case of Poetic 8, we may, in our sole discretion, defer payment of the management fee for any calendar month, in which case it will be payable to us at a future date at the interest rate specified our agreement with the Fund. We may, in our sole discretion, waive or reduce our management fee for investors in any Fund who are members of a General Partner.

Each General Partner is also entitled to receive carried interest from the relevant Fund, as further described in *Item 6 – Performance-Based Fees and Side-By-Side Management*.

#### *Expenses*

The expenses paid by the Funds are set forth in detail in their Governing Documents. Such expenses differ between the Funds. Thus, although the following is a summary of expenses the Funds will generally bear, it is not an exhaustive or complete list with respect to both Funds. Investors and prospective investors in a Fund should therefore review the relevant Fund’s Governing Documents carefully because such documents describe more precisely the expenses such Fund will bear.

The Funds will generally be responsible for all expenses incurred in connection with their businesses, affairs and operations, which are expected to include but not limited to the following: management fees; indemnification expenses; commissions; clearing fees; fees, interest and other costs on margin accounts or other financings or re-financings; any taxes, duties or other governmental charges payable in any jurisdiction in connection with the operation of the Funds; accounting and legal fees and disbursements (including legal fees related to the acquisition, protection and distribution of the Funds’ investments and the costs of prosecuting and defending legal actions involving the Funds); accounting, audit and tax preparation expenses; third-party administrator fees; investment-related expenses, including Bloomberg terminals and other investment management software, research, subscriptions, quotation services and data feeds; borrowing charges on securities sold short; custodial fees; bank service fees; third-party valuation and servicing agents; brokerage and finder fees and expenses, including (without limitation) those incurred in connection with transactions directed to broker-dealers in part in recognition of investment research and information furnished or expenses for services rendered by broker-dealers in the execution of such orders and the use of such research and other services provided by such broker-dealers; expenses related to the implementation and maintenance of information technology systems utilized by the Funds, including (without limitation) cloud data; expenses incurred in connection with the retention of third-party consultants and advisors providing services to the Funds; investment-related travel and entertainment expenses; expenses in connection with proposed investments (including investments that fail to close); portfolio management software; expenses related to reporting to and communicating with limited partners (including the maintenance of any data rooms); expenses related to regulatory compliance, filings and reporting, including (without limitation) Form PF filings; liability insurance premiums with respect to us and the General Partners; expenses related to the registered office of the Funds; expenses of winding up and dissolving the Funds; expenses incurred in connection with any tax audit, settlement or review of the Funds or their investment vehicles; expenses incurred in connection with any restructuring or amendments to the constituent documents of the Funds and their related entities, including the General Partners; expenses incurred in connection with the formation of special purpose investment vehicles; costs related to the holding of meetings of the Fund investors; and any other expenses related to the purchase, sale, holding or transmittal of the Funds’ assets or liabilities or the business or affairs of the Funds.

Expenses generated through the engagement of independent contractors or consultants specializing in professional services such as accounting, compliance, investor relations or operations can be borne directly

by the Funds. We believe that the role of employees and independent contractors of the foregoing types are typically substantively different, and we intend to make the choices of whether such persons are hired as employees or engaged as independent contractors or consultants in good faith.

To the extent any of the foregoing expenses are common to multiple clients managed by us or any of the Advisor Affiliates, such expenses will be shared *pro rata* on an equitable basis.

Our expense allocations often depend on inherently subjective determinations, but we will make such determinations in good faith. Consequently, the portion that we allocate any Client for a particular expense may not reflect the relative benefit derived by such Client in any particular instance. To the extent expenses are allocated in accordance with the foregoing, we have the right to cause such expenses to be paid or incurred by the entity to which such expenses are allocated.

For a more detailed discussion of brokerage and transaction costs, see *Item 12 - Brokerage Practices*.

#### **Item 6. Performance-Based Fees and Side-By-Side Management**

Each General Partner is entitled to receive carried interest from the relevant Fund, which is performance-based compensation that is distributed as the Fund's investments are monetized. Each Fund's carried interest will be equal to a percentage of profits after a return of contributed capital and a preferred return. In the case of Poetic 8, such carried interest will be charged on a class-by-class basis and will be equal to 20%.

As noted above, we manage the Poetic Proprietary Accounts. We do not currently receive any compensation for our management of these vehicles.

Performance-based compensation arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those that would be recommended under a different compensation arrangement. Performance-based compensation arrangements could also create an incentive for us to favor accounts with higher performance-based compensation rates over other accounts when allocating investments. We have adopted and follow procedures designed and implemented to ensure that our Clients are treated fairly and equitably. (See *Item 12 – Broker Practices*)

#### **Item 7. Types of Clients**

Investors in the Funds are generally high net worth individuals and family offices that qualify as “accredited investors” (as defined in Rule 501 under the Securities Act of 1933, as amended). In the case of Poetic 8, such investors must be “qualified clients” (as defined under the Investment Advisers Act of 1940, as amended (the “Advisers Act”)) if they are subject to performance-based compensation. In the case of Poetic IX, such investors must be qualified purchasers or knowledgeable employees.

Poetic 8 does not require a minimum initial investment amount. The minimum commitment for Poetic IX is \$1,000,000, but Poetic IX GP reserves the right to accept commitments of lesser amounts in its sole discretion.

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

The descriptions set forth in this Item 8 generally relate to the investment strategies pursued by the Funds and the key risks associated with such strategies. Although the Funds pursue similar strategies, their strategies differ slightly from one another. Accordingly, prospective investors in a Fund should review such Funds' Governing Documents carefully before investing in such Fund.

*Methods of Analysis and Investment Strategies Generally*

Each Fund's investment objective is to generate attractive risk-adjusted returns by investing in residential mortgage-backed securities ("RMBS") and other assets, claims, debts and rights associated with such securities and residential mortgages. While the majority of each Fund's assets will be allocated to RMBS, we expect that up to 25% of Poetic IX's invested cost basis may be invested in securities not backed by residential mortgages. The Funds may also invest in cash equivalents, short-duration bonds, investment-grade structured credit bonds and hedging instruments to the extent we deem such investments advisable, which, in the case of Poetic IX, will not be counted towards the 25% non-RMBS limit. The Funds may use debt financing in connection with the acquisition, ownership and management of the investments in such amounts and on such terms as we may determine.

RMBS are created by assembling a pool of mortgages that have a mix of risk characteristics from loan originators or other loan note holders. These characteristics include loan size, lien seniority, term to maturity, loan rates, prepayment terms, adjustment terms, loan-to-value ratios, geographic location, servicing rates and collateralization levels. The pools are divided into different security interests.

RMBS, in general, will not be rated by credit rating agencies or will have below investment-grade ratings. Additionally, neither the RMBS nor the underlying mortgages themselves are guaranteed by government-sponsored agencies such as the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. As such, RMBS to be purchased by the Funds are considered higher-risk, and typically have higher interest rates associated with them, than more highly-rated securities or residential mortgage-backed securities collateralized by agency-guaranteed mortgages. The Funds will acquire RMBS that in our judgment offer the correct balance of risk and return when accounting for the underlying risk characteristics of the mortgages and the mix of RMBS in their respective portfolios.

The Funds will generally invest in bonds of differing seniority, various types of structures and secured by several types of collateral, including sub-prime, Alt-A, second lien, and home equity collateral in an effort to diversify their holdings. However, there may exist circumstances in which we decide to focus investments in one particular bond, issuer, or collateral type, or type of pool structure.

The Funds intend to purchase and hold a mix of RMBS and other assets. The schedule for repayment of principal is dependent on the specific mix of RMBS purchased by each Fund, and may be intermittent, depending heavily on the pace of RMBS cash flows. The exact makeup of the pool will only be determined after the end of the investment period and reinvestment period for each Fund.

Additionally, note that each Fund may borrow, including through the use of Re-REMIC trusts, to leverage its portfolio. This means, effectively, that we may use the Funds' securities as collateral for one or more loans used to purchase more investments. Such leveraging increases both the risk and potential return of each Fund's portfolio. Subject to the rights and obligations enumerated in the Funds' Governing Documents, we also plan to use the ongoing cash flow generated by the assets purchased, as well as the proceeds from sales and financing activity, by the Funds to purchase additional assets during the investment period and reinvestment period of the Funds.

**Investing in securities involves risk of loss that Clients and investors should be prepared to bear.***Risk Factors*

Economic Conditions. Changes in economic conditions, including changes in interest rates, inflation rates, industry conditions, government regulation, competition, technological developments, political events and trends, tax laws and many other factors can affect substantially and adversely the business and prospects of the Funds and of the issuers or properties underlying the securities in which they may invest. None of these conditions is within our control.

Available Information. We select investments for the Funds in part on the basis of information and data filed by the issuers of securities with various government regulators or made directly available to the us by such issuers, or through sources other than the issuers. Although we evaluate all such information and data and seek independent corroboration when we consider it appropriate and when it is reasonably available, we are not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases complete and accurate information is not readily available.

Market Disruptions. The Funds may incur substantial losses in the event of disrupted markets or other extraordinary events in which historical pricing relationships (on which we base a number of our trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving.

Competition. The securities industry generally, and the varied strategies and techniques to be engaged in by us in particular, are extremely competitive. The Funds will be competing for investments against various other investors, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs. Accordingly, there can be no assurance that a Fund will be able to identify and complete suitable investments, acquire them for an appropriate level of consideration, achieve any particular rate of return, or be able to invest fully its committed capital.

Nature of Investments. We have broad discretion in making investments for the Funds and expect to utilize highly speculative investment techniques, including leverage. There can be no assurance that we will correctly evaluate the nature or magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile. A variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may detrimentally impact issuers and securities in which the Funds invest. These factors and others may significantly affect the results of the Funds' activities and the value of their investments. In addition, the value of each Fund's portfolio may fluctuate in response to fluctuations in the general level of interest rates.

Financial Model Risk. Each Fund's investment strategies may utilize (in varying degrees) various quantitative and qualitative models developed by us and third parties. As market dynamics shift (for example, due to changed market conditions and participants) over time, a previously highly successful model may become outdated or inaccurate, perhaps without our recognizing the change before significant losses are incurred. In addition, although most investments have market prices, in the absence of any readily determinable market value, certain investments may be valued based partially or entirely on our internal models. For such investments, the valuations so determined may differ materially from realized values.

Liquidity of Investments. Many of the Funds' investments will be subject to liquidity-related risks, particularly the risk that the Funds will be unable to dispose of such investments by sale or other means at attractive prices or will otherwise be unable to complete any exit strategy. Among others, these risks include changes in the financial condition or prospects of the properties underlying the Funds' investments.



It is not generally expected that private securities acquired by the Funds will eventually be registered and listed on a securities exchange. Absent registration, the Funds will not be able to sell such securities unless an exemption from such registration requirements is available. In addition, in some cases the Funds may be prohibited by contract or regulatory restrictions from selling such securities for a period of time. To the extent that there is no liquid trading market for an investment, the Funds may be unable to liquidate that investment or may be unable to do so at a profit. Moreover, there can be no assurances that private purchasers for the Funds' investments will be found.

Reserves. As is customary in the private funds industry, we may establish reserves for follow-on investments by the Funds, operating expenses, margin calls on leverage, and other potential liabilities, as set forth in greater detail in the Funds' Governing Documents. Estimating the appropriate amount of such reserves is difficult. Inadequate or excessive reserves could impair the investment returns to investors. If reserves are inadequate, the Funds may be unable to take advantage of attractive follow-on or other investment opportunities or to protect their existing investments from dilutive or other punitive terms associated with "pay-to-play" or similar provisions. If reserves are excessive, the Funds may decline attractive investment opportunities.

Currency Exposure. The Funds' interests are issued in U.S. Dollars. The assets of the Funds may, however, be invested in securities and other investments which are denominated in currencies other than U.S. Dollars. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. We may seek to hedge the foreign currency exposure of the Funds. However, the Funds necessarily are subject to foreign exchange risks. In addition, prospective investors whose assets and liabilities are predominately in other currencies should take into account the potential risk of loss arising from fluctuations in value between the U.S. Dollar and other currencies.

Foreign Securities. The Funds may invest in securities and other instruments backed by non-U.S. assets. Investing in such securities involves certain considerations not usually associated with investing in securities backed by U.S. assets, including, among other things, political and economic considerations, such as greater risks of expropriation, nationalization and general social, political and economic instability; the small size of the market for such securities and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion, imposition of withholdings and other taxes and certain government policies that may restrict the Funds' investment opportunities. In addition, accounting and financial reporting standards that prevail in many foreign countries are not equivalent to U.S. standards. There is also less regulation, generally, of the securities markets in many foreign countries than there is in the United States.

Hedging Transactions. The success of each Fund's hedging strategy is subject to our ability to assess correctly the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of each Fund's hedging strategy is also subject to our ability to recalculate, readjust, and execute hedges continually and 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. For a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the risks being hedged. Such imperfect correlation may prevent a Fund from achieving the intended hedge or expose the Fund to risk of loss. In addition, we may not hedge a risk inherent in a Fund's portfolio because a hedge may not be available or is too costly in light of the likelihood of the possible risk actually occurring or because the risk simply was not anticipated.

Derivatives. The Funds may use various derivative financial instruments, for hedging and other purposes, that may be volatile and speculative. Certain positions may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. Use of derivative financial instruments presents various risks, including: (i) 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 Funds from achieving the intended hedging effect or expose the Funds to greater risk of loss; (ii) derivative financial instruments may not be liquid in all circumstances and a Fund may not be able to close out a position without incurring a substantial delay or loss; and (iii) derivative financial instruments can result in large amounts of leverage which may magnify the gains and losses experienced by the Funds and could cause its investments to be subject to wide fluctuations in value. Swaps and other derivative instruments are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty.

Leverage. The Funds expect to employ leverage. The use of leverage creates special risks and may significantly increase the Funds' investment risk. Leverage creates an opportunity for greater yield and total return but, at the same time, increases the Funds' exposure to capital risk and interest costs. Any investment income and gains earned on investments made through the use of leverage that are in excess of the interest costs associated therewith may cause the value of the Funds' interests to increase more rapidly than would otherwise be the case. Conversely, where the associated interest costs are greater than such income and gains, the value of the Interests may decrease more rapidly than would otherwise be the case.

Any material indebtedness of the Funds could limit their ability to respond to changing business conditions. Any agreements relating to any leverage that a Fund may enter into with its creditors will likely contain provisions that may limit the Fund's operations by imposing operating and financial restrictions on the Fund. Therefore, if indebtedness is obtained, no assurance can be given that a Fund will be able to take advantage of favorable conditions or opportunities as a result of covenants under any such indebtedness or that additional debt or equity financing will be available when needed or, if available, will be obtainable on terms that are favorable to the Fund.

Due Diligence. Before making an investment, we intend to conduct due diligence to the extent we deem reasonable and appropriate based on the applicable facts and circumstances. When conducting due diligence, we generally will evaluate a number of important business, financial, tax, accounting, regulatory and legal issues in determining whether or not to proceed with an investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we will be required to rely on resources available to it. The due diligence process may at times be required to rely on limited or incomplete information. Accordingly, we cannot guarantee that the due diligence investigation carried out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Our failure to identify relevant facts through the due diligence process may cause it to make unfavorable investment decisions, which could have a material adverse effect on the Funds. Due diligence may also be costly, which will decrease the Funds' overall returns.

Custodial Risk. The Funds could suffer losses if there were a default or bankruptcy by any bank or brokerage firm that holds their securities or other assets. Securities and other assets of the Funds may be deposited with banks or brokers as collateral to secure borrowings and other obligations of the Funds, and accordingly will not be entitled to the same protection in the event of the insolvency of the bank or brokerage firm as assets held in the name of the Funds by a bank or brokerage firm. Assets of a Fund held with a broker or bank may be held with subsidiaries or affiliates of such financial institution in one or more jurisdictions outside the United States. While care is taken in selecting reputable financial institutions to trade with and hold custody of the assets of each Fund, any such financial institutions could become insolvent. In the event of the failure of a brokerage firm holding assets of a Fund, the Fund might not have

the right to recover all securities held by the broker, and might under certain circumstances instead have only a claim (which may be unsecured) against the broker for the net value of the assets of the Fund held by the broker.

Litigation. From time to time, in the ordinary course of their operations, we and our affiliates may be subject to litigation and arbitration, which can be costly and divert significant portions of our available staff time and resources. There can be no assurance that any such litigation or arbitration, once begun, would be resolved in favor of the Funds. Any litigation or arbitration could have a materially adverse effect on the Funds.

Absence of Insurance and Regulation. Fund interests are not insured by any governmental or private agency, nor are they guaranteed by any public or private entity. Likewise, the Funds are not regulated or subject to examination in the same manner as commercial banks and thrift institutions. The Funds are not commercial banks or thrift institutions. Each Fund is dependent upon proceeds from its investments to make distributions to the investors and to conduct its ongoing operations. Each Fund's revenues from operations, including the acquisition, servicing and management of its investments and the Fund's working capital represent the sole sources of funds for distributions to the investors.

Risk Identification and Management. Although we attempt to identify, monitor and manage significant risks, such efforts cannot take all risks into account and there can be no assurance that such efforts will be effective. Moreover, many risk management techniques, including those we employ, are based on historical market behavior; future market behavior can be unpredictable and, accordingly, the risk management techniques employed on behalf of the Funds that were effective historically may prove to be incomplete or altogether ineffective. Similarly, we may be ineffective in implementing or applying our risk management techniques. Any inadequacy or failure in our risk management efforts could result in material losses to the Funds.

General RMBS Risks. RMBS are assets created from pools of individual residential mortgages. When market interest rates decline, more mortgages are refinanced and the securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. When market interest rates increase, the market values of RMBS generally decline. At the same time, however, mortgage refinancings and prepayments slow, which lengthens the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of RMBS is usually more pronounced than it is for other types of fixed income securities.

In addition, RMBS are susceptible to the risks inherent in the mortgage industry, including but not limited to the risks of: borrower default, foreclosure, prepayment rates, loan modification, loss severity on liquidated home sales, reduced collateral values, loan servicer errors, loan servicer advance rates, government intervention, changes in servicing practices and lawsuits related to fraudulent mortgage creation. These risks, which may reduce the value of pooled residential mortgages and therefore of RMBS, are especially high in an economic environment in which housing prices fall resulting in an increasing number of defaults and lawsuits asserting fraudulent mortgage lending practices and defective foreclosure procedures. Such defaults and lawsuits would cause the value of the RMBS to fall and may lower the ability of a Fund to resell its RMBS investments. A decrease in the value or ability to resell RMBS could cause a Fund to lose money on its investment and could cause investors to lose money on their investment in the Fund.

Non-Agency RMBS.

*Generally.* The vast majority of each Fund's portfolio will be invested in non-agency RMBS. Non agency RMBS are securities issued by non-governmental issuers, the payments on which

depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) primarily on the cash flow from residential mortgage loans made to borrowers that are secured (on a first priority basis or second priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (one to four family properties), the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used). Non-agency RMBS have no direct or indirect government guarantees of payment and are subject to various risks as described herein.

*Credit-Related Risk.* Credit-related risk on non-agency RMBS arises from losses due to delinquencies and defaults by the borrowers in payments on the underlying mortgage loans and breaches by originators and servicers of their obligations under the underlying documentation pursuant to which the non-agency RMBS are issued. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of delinquencies and defaults on residential mortgage loans and the aggregate amount of the resulting losses is affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located, the level of the borrower's equity in the mortgaged property and the individual financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure on the related residential property may be a lengthy and difficult process involving significant legal and other expenses. The net proceeds obtained by the holder on a residential mortgage loan following the foreclosure on the related property may be less than the total amount that remains due on the loan. The prospect of incurring a loss upon the foreclosure of the related property may lead the holder of the residential mortgage loan to restructure the residential mortgage loan or otherwise delay the foreclosure process.

*Prepayment Risks.* Non-agency RMBS are susceptible to prepayment risks. The mortgage loans underlying legacy non-agency RMBS generally no longer contain prepayment penalties and a reduction in market interest rates will increase the likelihood of prepayments on the related non-agency RMBS, resulting in a reduction in yield to maturity for most holders of such securities. In the case of certain home equity loan securities and certain types of non-agency RMBS, even though the underlying mortgage loans often contain prepayment premiums, such prepayment premiums may not be sufficient to discourage borrowers from prepaying their mortgage loans in the event of a reduction in market interest rates, resulting in a reduction in the yield to maturity for holders of the related non-agency RMBS. In addition to reductions in the level of market interest rates and the prepayment provisions of the mortgage loans, repayments on the residential mortgage loans underlying an issue of non-agency RMBS may also be affected by a variety of economic, geographic and other factors, including the size difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgage loans, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of non-agency RMBS.

Non-agency RMBS typically contain provisions that require repurchase of mortgage loans by the originator or other seller in the event of a breach of a representation or warranty regarding loan quality and characteristics of such loan. Any repurchase of a mortgage loan as a result of a breach has the same effect on the yield received on the related issue of non-agency RMBS as a prepayment of such mortgage loan. Any increase in breaches of representations and the

consequent repurchases of mortgage loans that result from inadequate underwriting procedures and policies and protections against fraud will have the same effect on the yield on the related non-agency RMBS as an increase in prepayment rates.

*Extension Risk.* Extension risk is the flip side of prepayment risk. Extension results in slower prepayments of the underlying mortgage loans, because it extends the time it would take to receive cash flows and would generally compress the yield on non-agency RMBS. Rising interest rates can cause the average maturity of the Fund to lengthen due to a drop in mortgage prepayments. This will increase both the sensitivity to rising interest rates and the potential for price declines of the Funds.

*“Spread Widening” Risk.* The prices of non-agency RMBS may decline substantially, for reasons that may not be attributable to any of the other risks described herein. In particular, purchasing assets at what may appear to be “undervalued” levels is no guarantee that these assets will not be trading at even more “undervalued” levels at a time of valuation or at the time of sale. It may not be possible to predict, or to protect against, such “spread widening” risk.

Fraud in RMBS Markets. The business of buying and selling of RMBS between private parties on an off-exchange basis has experienced a high incidence of fraudulent conduct, particularly in connection with the sale of fraudulent or phony RMBS. While we believe that our experience, the reputation of the Funds’ counterparties and the limitations built into the Funds’ investment programs will significantly mitigate this risk, the risk of fraud cannot be eliminated. Moreover, the incidence of fraud that has occurred in connection with RMBS trading increases the risk that we or the Funds may be subject to inquiry by the SEC or other securities or financial regulatory authority, which could require the Funds to incur legal fees and expenses related to any such inquiry and/or require the Funds to suspend its investment activities pending the outcome of any such inquiry.

Uncertain Schedule of Repayment. The Funds intend to purchase and hold a variety of RMBS. The schedule for repayment of principal is dependent on the specific mix of assets purchased by the Fund, and may be intermittent. The exact makeup of the pool will change during each Fund’s investment period and reinvestment period. As such, investors will not know the schedule for receiving repayment of principal prior to investing, which may be longer than the investors prefer.

Declines in Real Estate Values. The risks associated with each Fund’s RMBS investments will be more severe during economic recessions and will be compounded by declining real estate values. Declining real estate values will likely reduce the level of new mortgage loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase of additional properties. Borrowers will also be less able to pay principal and interest on loans underlying the securities in which the Funds invest if the value of residential real estate continues to weaken. Further, declining real estate values significantly increase the likelihood that the value of collateral on the mortgages underlying the Funds’ investments in RMBS may be insufficient to cover the outstanding principal amount of the loan. Borrowers unwilling or unable to bear this discrepancy are more likely to default on their loans. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect the returns of the Funds’ investments related to mortgage markets.

Cybersecurity and Systems Risks. We rely on computer programs, networks, devices and systems (and may rely on new systems and technology in the future) in connection with the Funds’ activities, including, without limitation, to trade, clear and settle securities transactions, to evaluate certain investments based on real-time information, to monitor each Fund’s portfolio and net capital and to generate risk management and other reports that are critical to oversight of each Fund’s activities. In addition, us, certain of the Funds and their affiliates’ operations interface with or depend on computer programs, networks, devices and



systems operated by third parties, including each Fund's administrator as well as market counterparties and their sub-custodians and other service providers, and we may not be able to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures, interruptions or security breaches, including, but not limited to, those caused by computer "worms," viruses, power failures and social engineering schemes such as "phishing."

Cybersecurity and information security breaches can include unauthorized access to systems, networks, or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow, or otherwise disrupt operations, business processes, or website access or functionality. Our operations are dependent on each of these systems and the successful operation of such systems is often out of our control. Any such defect, failure or breach could have a material adverse effect on us, the Funds, and our respective affiliates. For example, systems failures, information security incidents or cybersecurity breaches could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect our ability to accurately monitor the Funds' investment portfolios and risks. Cybersecurity breaches may cause or result in (i) disruptions and impact business operations, potentially resulting in financial losses to the Funds; (ii) interference with our ability to calculate the value of the Funds' investments; (iii) impediments to trading; (iv) violations of applicable privacy and other laws; (v) regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs; as well as (vi) the inadvertent release of confidential information. Similar adverse consequences could result from system failures and cybersecurity breaches affecting (i) counterparties with which the Funds engage in transactions; (ii) issuers of securities in which the Funds invest; (iii) governmental and other regulatory authorities; (iv) exchange and other financial market operators, banks, brokers, dealers, insurance companies, and other financial institutions; and (v) other parties. In addition, substantial costs may be incurred by these entities in order to prevent any cybersecurity breaches in the future.

#### **Item 9. Disciplinary Information**

There are no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of our advisory business or our management.

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

##### *Advisor Affiliates*

As noted above, each Advisor Affiliate is ultimately controlled by one of our Principals. Poet provides discretionary investment advice to, and serves as managing member of, private funds. In addition, each of our Principals is an owner of one of our Advisor Affiliates and our Advisor Affiliates provide discretionary investment advice to one or more entities that are primarily owned by the relevant Principal and his family members. Such vehicles are not currently making new investments in securities or other financial instruments that would be appropriate for the Fund. Nonetheless, investments made by such vehicles are subject to our personal trading policy. (*See Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*)

We have an established relationship with Poet, one of our Advisor Affiliates, whereby Poet will seek to engage our employees to work on specific projects. Such engagements will be subject to review by our Chief Compliance Officer (our "CCO") in the same manner as other outside employment. Our CCO will

review each engagement in an effort to highlight any potential for conflicts of interest, taking into account, among other things, whether the resources dedicated thereto would negatively impact our Clients.

Management of pooled investment vehicles by affiliated investment advisers could give rise to a variety of potential and actual conflicts of interest, including the possible sharing of material non-public information across such managers. In addition to the processes described above, we and our Advisory Affiliates will take a number of steps to mitigate these conflicts, including the following:

- The vehicles managed by the Advisor Affiliates are no longer making new investments in securities or other financial instruments that would be appropriate for the Funds, but may exercise existing options and service existing positions;
- We and our Advisor Affiliates will adopt and abide by the same Code of Ethics (*see Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*);
- We and our Advisor Affiliates will share the same restricted list;
- The vehicles managed by the Advisor Affiliates will not invest in securities that are appropriate for our Clients and clients of the Advisor Affiliates under their respective investment objectives;
- On an ongoing basis, our CCO reviews potential and actual conflicts of interest between us, on the one hand, and the Advisor Affiliates, on the other hand; and
- We and our Advisory Affiliates are each independently capitalized.

#### *Services by Related Persons*

As noted above, each General Partner serves as the general partner to a Fund.

#### *Management of Multiple Client Accounts*

The management of multiple accounts by us and the Advisor Affiliates results in a potential conflict of interests when we and our related persons (including the Advisor Affiliates) allocate time and investment opportunities among such vehicles. For example, the compensation we and our related persons earn from Client accounts and client accounts managed by the Advisor Affiliates is expected to differ from account to account. Performance-based compensation arrangements could create an incentive for us to favor accounts with higher performance-based compensation rates over other accounts when allocating investments. We and our Advisor Affiliates have adopted and, when applicable, will follow procedures designed and implemented to ensure that all of our respective clients are treated fairly and equitably.

We do not generally expect to engage in cross trades. However, occasionally, to facilitate an investment opportunity prior to the initial closing of a private fund, we or one of our related persons may warehouse an investment temporarily (including through a proprietary vehicle that we manage). Details of any such transactions typically would be disclosed in the offering documents of the relevant Client. We would only effect such a transaction if we determine that it is in the best interests of the relevant Client and the relevant securities would be valued in accordance with our documented valuation procedures.

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

We have adopted a Code of Ethics and a Personal Investment Policy, which are designed to help ensure that we conduct our business in accordance with all applicable laws and regulations and in an ethical and professional manner. In addition, our Code of Ethics and Personal Investment Policy set forth standards of conduct for our employees to ensure that they conduct their business on our behalf in a manner that enables us to fulfill our fiduciary duty to our Clients.

Among other things, our Code of Ethics and Personal Investment Policy: (i) govern personal trading by our employees, (ii) contain our policies with respect to gifts and entertainment, (iii) contain our policies regarding certain outside activities of our employees, and (iv) set forth the manner in which employees may report violations of law or our policies and procedures. We will provide a copy of our Code of Ethics and Personal Investment Policy to any Client or prospective Client upon request.

*Personal Trading Policy*

Under our Code of Ethics, employees are required to obtain the written approval of our CCO prior to making investments in RMBS, initial public offerings or limited offerings. Prohibitions relating to personal trading will also generally apply to an employee's spouse or minor child, or an immediate family member of an employee living in the same household as such employee.

*Participation or Interest in Client Transactions*

We make available to qualified prospective investors the opportunity to invest in the Funds. Our Principals, employees and/or other related persons have significant personal investments in the Funds. In addition, we and our affiliates receive carried interest from the Funds.

We have established policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including providing any required disclosures and obtaining prior consents to the transaction. If we were to engage in a principal transaction, we would follow such policies and procedures.

**Item 12. Brokerage Practices***Selection of Brokers*

We have an obligation to seek to obtain "best execution" for our Clients with respect to their trading activity. While not defined by statute or regulation, "best execution" generally means the execution of Client trades at the best price considering all relevant circumstances. When selecting broker-dealers and, to the extent applicable, determining such broker-dealer's transaction compensation, the Firm may take into account many factors, including but not limited to the following: price, the likelihood of execution within a desired timeframe, market conditions, the ability and willingness of a broker-dealer to execute in desired volumes, responsiveness, the ability of a broker-dealer to act on a confidential basis, the ability of a broker-dealer to act with minimal market effect, the creditworthiness of a broker-dealer in relation to the risk created by a transaction, the level and experience of operational coordination between a broker-dealer and us, the willingness and ability of a broker-dealer to make a market in particular securities, a broker-dealer's reputation for ethical and trustworthy behavior, infrastructure, the willingness of a broker-dealer to commit



capital to a particular transaction, the market knowledge of a broker-dealer, the ability of a broker-dealer to execute difficult transactions in unique and/or complex securities, the adequacy and reliability of recordkeeping, whether a broker will treat us fairly in resolving disputes, any contractual arrangements with a broker-dealer, whether a broker-dealer can provide access to underwritten offerings and secondary markets, the ability to establishing financing transactions (see below), and, under appropriate circumstances, the availability of research and brokerage services provided by a broker-dealer.

When utilizing broker-dealers for borrowing through repurchase arrangements, we generally solicit price quotes and take into account the following factors, among others: creditworthiness, ability to agree to transaction terms, ability to provide stability in financing and counterparty exposure limits.

We have established a Best Execution Committee, which meets on a semi-annual basis to evaluate our execution practices and confirm that we are continuing to seek best execution for our Clients. Among other things, the committee will review our trading activity, financing activity, broker-dealers and transaction pricing, taking into account the factors listed above.

#### *Research and Other Soft Dollar Benefits*

We do not currently have any formal soft dollar arrangements, but we occasionally receive bundled products or services from broker-dealers. To our knowledge, such products and services are generally made available to all institutional clients doing business with these broker-dealers. If we determine to engage in soft dollar transactions in the future, we intend to comply with the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended.

During our last fiscal year, we acquired investment research with Client brokerage commissions (or markups or markdowns).

#### *Trade Errors*

We may on occasion experience errors with respect to trades made on behalf of Client accounts. We will reimburse each Client account for net losses resulting from trade errors that stem from our gross negligence, fraud or willful malfeasance.

#### *Allocation of Investments; Aggregation of Orders; Co-Investments*

We have established a trade allocation policy, which is intended to ensure that investment opportunities are allocated on a fair and equitable basis among the Funds. The allocation guidelines set forth methods of investment opportunity purchase and sale allocations which vary according to the liquidity profile of each investment opportunity and certain risk parameters applicable to each Fund. Generally, investment decisions for each Fund will be made independently from each other and will be made with specific reference to the individual needs and objectives of each Fund.

Although there is significant overlap between the Funds' investment strategies, there are some important differences between the Funds that will be taken into account when allocating investments between them. We document all allocation decisions.

Aggregation, or "bunching," describes a procedure whereby an investment adviser combines the orders of two or more clients into a single order for the purpose of obtaining better prices and lower execution costs. Aggregation opportunities for us generally arise when more than one Client account is capable of purchasing or selling a particular security.

We may aggregate holdings on behalf of our Clients when transacting in a particular security if we determine it is in the best interest of the Clients and it is consistent with our Clients' investment guidelines.

We may, from time to time, offer certain investors or other third parties the right or opportunity to co-invest with other investors in certain portfolio investments. Any such co-investment opportunity would only be offered following a determination by us that relevant Funds have received the full amount of their desired allocation of a particular investment.

### **Item 13. Review of Accounts**

#### *Review of Accounts*

Our Clients' portfolios are reviewed, and their performance analyzed, by our Principals on a continuous basis. In addition, our Principals will regularly review our Clients' portfolios to determine that the securities held by them remain consistent with their investment strategies, objectives and guidelines. Client portfolios are also periodically reviewed by our CCO.

#### *Reporting*

We furnish investors with a copy of the Funds' annual audited financial statements and, if applicable, a statement of taxable income (Schedule K-1). In addition, we furnish investors on in Poetic 8 with quarterly unaudited reporting regarding such Funds' performance.

In addition, investors may be provided with certain information about us and our Clients in response to questions and requests. This information may not be distributed to other investors. Each investor is responsible for asking such questions as it believes are necessary in order to make its own investment decisions and must decide for itself whether the information provided by us is sufficient for its needs.

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

Other than the products and services that we receive from broker-dealers (described above in *Item 12*), we do not receive any economic benefits from third parties in connection with the provision of investment advice to our Clients.

Currently, we do not compensate any third-party marketers for introductions to potential investors or Clients, but we may do so in the future.

### **Item 15. Custody**

For purposes of Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), we are deemed to have custody over the Funds' assets. In accordance with the Custody Rule, a qualified custodian is not required to deliver quarterly account statements to the Funds or their respective investors as long as: (i) the Funds are audited by an independent public accountant that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board, (ii) the Funds' audited financial statements are prepared in accordance with U.S. generally accepted accounting principles, and (iii) we deliver such annual audited financial statements to investors within 120 days after the end of each Fund's fiscal year.

### **Item 16. Investment Discretion**

The Funds are managed in accordance with their investment and trading objectives, as described in their respective Governing Documents. We generally do not permit investors in the Funds to impose limitations on the investment activities described in such documents. **Item 17. Voting Client Securities**

We have voting discretion over securities held in our Clients' accounts and Clients are not able to direct their votes in a particular situation. Our proxy voting policy and procedures are summarized below.

Given the focus of our investment strategy, we anticipate that we will rarely receive proxies with respect to investments. When we exercise our voting authority over securities, our policy is to vote proxies in a manner that serves the best interests of each Client. In addition, we may determine to abstain from voting a proxy if we believe that such action is in the best interests of a particular Client.

If a material conflict of interest arises in relation to a proxy, we will rely on the recommendation of an independent third party in making our voting decision.

Upon request by a Client, we will disclose to such Client how we voted proxies for securities owned by such Client. We will also provide a copy of our proxy voting policy and procedures to Clients upon request.

**Item 18. Financial Information**

We are not required to include our balance sheet for our most recent fiscal year with this Brochure.

**Item 19. Requirements for State-Registered Advisers**

We are not a state-registered adviser.