

## Sona Asset Management (US) LLC

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This brochure (the “**Brochure**”) provides information about the qualifications and business practices of Sona Asset Management (US) LLC (the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer, Mr. John Berkery by email at [jberkery@sona-am.com](mailto:jberkery@sona-am.com) or (646) 779-6302. The Firm is registered as an investment adviser with the United States Securities and Exchange Commission (“**SEC**”) pursuant to the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). Registration with the SEC does not imply a certain level of skill or training and the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

This Brochure is not: (i) an offer or agreement to provide advisory services to any person; (ii) an offer to sell interests (or a solicitation of an offer to purchase interests) in any private fund; (iii) a complete discussion of the strategies, risks, or conflicts of interest associated with any private fund; or (iv) to be relied on in determining whether to invest in a private fund or establish an advisory relationship with the Firm. The information provided in this Brochure about any private fund is qualified in its entirety by reference to the relevant fund documentation. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

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There have been no material changes made since our last annual update submitted in March 2020 other than the September 2020 address change of our location.

In light of the above material change, all relevant sections of this Brochure were updated, and clients/investors and prospective clients/investors are requested to review the disclosures contained herein.

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#### Item 4:        **Advisory Business**

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Sona Asset Management (US) LLC (the “**Firm**”, “**we**”, “**us**”, or “**our**”) is a limited liability company formed in Delaware, with its principal place of business in New York.

The Firm is a wholly-owned subsidiary of Sona Asset Management Limited, which is itself a wholly-owned subsidiary of Sona Asset Management Cayman Limited (the “**Cayman Manager**”). John Brian Aylward is the ultimate beneficial owner of the Cayman Manager.

The Firm has a sub-advisory relationship with Sona Asset Management (UK) LLP (the “**UK LLP**”). The Firm provides investment advisory services to a managed account (the “**Managed Account**”) which is a portfolio in a private investment fund (the “**Paloma Fund**”), under an Investment Management Agreement (the “**Agreement**”) between the Cayman Manager, the UK LLP, and Paloma Partners Management Company (“**Paloma**”). Sona Asset Management conducts trading for the Managed Account in a manner that observes the strategy and risk parameters provided by Paloma and agreed with Sona Asset Management from time to time.

The Firm, the Cayman Manager, and the UK LLP are herein referred to as “**Sona Asset Management**”.

The Firm also serves as the investment adviser, with discretionary trading authority, to private, pooled investment vehicles, the securities of which are offered through a private placement memorandum to accredited investors, as defined under the Securities Act of 1933, as amended, and qualified purchasers, as defined under the Investment Company Act of 1940, as amended. The Firm does not tailor advisory services to the individual needs of any particular investor.

As of February 2020, the Firm manages the following private, pooled investment vehicles:

- Sona Credit Master Fund Limited (the “**Master Fund**”);
- Sona Credit Fund Limited (the “**Offshore Fund**”); and
- Sona Credit Fund LP (the “**Onshore Fund**”)

The Master Fund, the Offshore Fund and the Onshore Fund are herein collectively referred to as the “**Sona Funds**”, and individually as “**Sona Fund**”.

The Onshore Fund’s “**Limited Partners**” and the Offshore Fund’s “**Shareholders**” are hereafter collectively referred to as the “**Investors**” where appropriate. Our investment decisions and advice with respect to the Sona Funds are subject to the investment objectives and guidelines, as set forth in its respective “**Offering Documents**.”

The Managed Account or the Paloma Fund, and the Sona Funds, are herein collectively referred to as the “**Clients**”.

We do not currently participate in any Wrap Fee Programs.

As of February 29, 2020, the Firm had regulatory assets under management of approximately \$1.7 billion, managed on a discretionary basis, for the Managed Account, with responsibility to make recommendations as to specific securities and arranging or effecting their purchase and sale pursuant to the Agreement; and \$77 million, managed on a discretionary basis, for the Sona Funds.

## **Item 5: Fees and Compensation**

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### **Paloma Funds**

Pursuant to the Agreement, Paloma will pay Sona Asset Management a monthly management fee.

We are also entitled to receive an annual performance fee (subject to a hurdle rate and high water mark) calculated based on net trading profits (after the deduction of losses carried forward from the previous year, if any) as of the end of each calendar year. The performance fee is calculated by the Paloma Fund's administrator and approved by the Paloma Fund general partner – we neither calculate the performance fee, nor authorize its payment.

Other fees and expenses borne by the Managed Account include a pro rata share of the Paloma Fund's administration fees and expenses as well as any transaction or investment fees or expenses related to the Managed Account's activities.

### **Sona Funds**

The Firm is paid an investment management fee (the “**Management Fee**”) ranging from 0.5% - 2% per annum of the net asset value of the applicable Sona Fund. The Management Fee is charged on a monthly basis, and is paid in arrears based on the applicable Sona Fund's net asset value on the Valuation Day (as defined in the Offering Documents).

Generally, the Management Fee is not negotiable. However, Sona Asset Management in its sole discretion, may waive, rebate or reduce the Management Fee at any time, without notice to or consent from any Sona Fund (or underlying investor in such Sona Fund).

In addition to the Management Fee and Performance Allocation (see below) and as set forth in more detail in the applicable Offering Documents, each Sona Fund will generally pay all costs and expenses related to its investments and its operations. See the Offering Documents for details of all applicable fees and expenses.

Expenses will generally be shared by all of the investors in the Sona Funds, while expenses related to one or more particular series or classes of investments will be allocated accordingly. For each Sona Fund that invests all or a substantial portion of its assets through a “master fund,” each such “feeder fund” will also be responsible for its pro rata portion of such master fund's costs and expenses. Expenses of more than one Sona Fund will be shared on an equitable basis among such Sona Funds in accordance with Sona Asset Management's expense allocation policy. The Sona Funds will reimburse the Firm for any expenses it pays on behalf of the Sona Funds. In addition, certain common expenses of Sona Asset Management and the Sona Funds, may initially be billed to the Firm but will ultimately be allocated among the Firm and the Sona Funds in accordance with Sona Asset Management's expense allocation policy regarding common expenses. Notwithstanding the foregoing, Sona Asset Management may elect to bear some or all of the above expenses of the Sona Funds.

The Firm and its employees do not accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

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

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### **Paloma Funds**

Pursuant to the Agreement, Paloma will pay Sona Asset Management, an annual performance fee (the “**Performance-Based Fee**”) with respect to the Managed Account.

Performance-Based Fees can provide an incentive to take excessive risks. However, the Paloma Fund’s general partner (who is not affiliated with Sona Asset Management and does not receive a performance-based fee) is the Paloma Fund’s risk manager and monitors the Managed Account’s trading and investment activity daily. Per the Agreement, the trading discretion granted to Sona Asset Management is subject to the general partner’s general direction concerning matters of risk and Sona Asset Management therefore cannot act independently with respect to decisions on the amount of investment risk taken in the Managed Account.

Performance-Based Fees can also create an incentive to overvalue assets, thereby inflating net trading profits through unrealized appreciation. However, Sona Asset Management has no authority to value the Managed Account’s assets; it is the general partner (who is not affiliated with Sona Asset Management and does not receive a performance-based fee) that is responsible for the final determinations on the valuation of the Managed Account’s positions.

### **Sona Funds**

Sona Asset Management is entitled to an annual performance-based allocation, ranging from 7.5% - 17.5% of realized and unrealized income and gains of the Sona Funds, subject to a high watermark limitation, as described in the Offering Documents.

Performance-based allocation arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement in an effort to maximize a Client’s gross profits and receive greater compensation.

## **Item 7: Types of Client**

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The Firm provides investment advisory services to a managed account (the “Managed Account”) which is a portfolio in a private investment fund (the “Paloma Fund”), under an Investment Management Agreement (the “Agreement”) between the Cayman Manager, the Firm, and Paloma Partners Management Company (“Paloma”).

Interests in the Paloma Fund, and the Paloma Fund itself, are not registered under the U.S. Securities Act of 1933, as amended and are excepted from the definition of an “investment company” under Section 3(c)(7) of the Investment Company Act of 1940, as amended. Accordingly, interests in the Paloma Fund are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions. Investors in the Paloma Funds are also Qualified Eligible Persons as defined in the Commodity Exchange Act.

The Firm also provides investment advisory services to the Sona Funds (as described in Item 4 above), and the Sona Funds are generally open to, among others, institutions, funds of funds, pension plans,

foundations, endowments, high net-worth individuals, financially sophisticated individuals, and other sophisticated investors.

Generally, the minimum initial investment in the Sona Funds is \$1 million. However, Sona Asset Management may, in its sole discretion, accept smaller initial investments from time to time.

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

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The investment objective of the Clients is to generate positive net returns in all markets, while preserving capital, primarily within Europe, through active investment and trading across the full breadth of the credit quality spectrum.

The Clients may trade in other global markets should the opportunities arise.

Each trade in the Clients' portfolios will be driven by varying degrees of fundamental credit, technical and relative value analyses. The degree to which each factor is weighted is fluid and depends on numerous quantitative and qualitative factors.

The Clients have maximum flexibility to invest in a wide range of instruments including, but not limited to, debt securities and obligations (which may be below investment grade and rated or unrated), listed and unlisted equities, currencies/foreign exchange, commodities, interest rate products, futures, options, warrants, swaps, contracts for differences and other derivative instruments. Derivative instruments may be exchange-traded or over-the-counter. The Clients may engage in short sales. The Clients may also hold cash and cash equivalents (including money market funds) or other securities as deemed appropriate by Sona Asset Management pending reinvestment, for use as collateral or if this is considered appropriate in order to support the Client's investment objectives.

While the current intention of Sona Asset Management is to achieve the investment objective of the Clients by investing primarily in the instruments referred to above and in accordance with the portfolio composition guidelines above, in exceptional market conditions or where Sona Asset Management is of the opinion that there are insufficient other investment opportunities in such investments, they may retain a significant portion of the Clients' portfolio in cash and/or in liquid assets including cash equivalents, money market instruments or U.S. Treasury or other government securities of any maturity.

#### **Risk Factors**

An investment in the Sona Fund and/or the Paloma Fund involves a high degree of risk, including the risk that the entire amount invested may be lost.

Investors and potential investors should pay attention to the section entitled "Risk Factors" in the Offering Documents for further information about the risk associated with the investment program. Sona Asset Management is responsible for the overall risk management of the Sona Fund.

As a result of the Risk Factors, as well as other risks inherent in any investment, an investment in the Clients is not appropriate for all investors. There can be no assurance that the Clients will meet their investment

objective or that investors will receive a return of their capital.

The General Partner of the Onshore Fund and the Directors of the Master Fund and Offshore Fund, do not actively manage for each risk described below but rather focus the risk management of the Sona Fund, on those risks they deem most relevant to the Sona Fund, as applicable at any given time. In addition, over time the risks may evolve or change, with new risks appearing and some risks ceasing to be applicable. The probability of a certain risk having an effect on the Sona Fund may also vary over time.

**Primary:**

Alternative investment strategies are speculative and involve a high degree of risk, including, without limitation, risks associated with limited diversification, leverage, interest rates, currencies, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, operational risks, counterparty risk and other risks inherent in the Clients' investment activities and financial instruments traded. The use of leverage can magnify the impact of adverse market moves to which the Clients may be subject. Investments may be materially affected by conditions in the financial markets and overall economic conditions occurring globally or in particular countries or markets in which the Clients invest. There may be risks that are not monitored or controlled by us and risks that may be greater than forecasted, especially in unusual market conditions. Information used to manage risks may not be accurate, complete or current, or misinterpreted by us.

Investment Risk: Inherent in any alternative investment strategy is the risk of total loss of capital. We cannot predict, measure or hedge all market, or other risks inherent in our investment strategies. We may choose, or may determine that it is economically appropriate to not hedge certain risks. The profitability of our investment strategies depends to a great extent on our ability to correctly assess the future course of price movements of securities and other investments. There can be no assurance that we will be able to accurately predict price movements. The performance of any investment is subject to numerous factors which we cannot predict or control. These factors include a wide range of economic, political, competitive and other conditions (including acts of terrorism and war) that may affect investments in general or in specific industries or companies. Market volatility may cause performance to fluctuate substantially over time.

We may not accurately predict what the exit strategy will ultimately be for any given position. Exit strategies which appear to be viable when an investment is initiated may be precluded due to economic, legal, political or other factors.

Competition: The success of the Sona Fund's investment activities depends on the Firm's ability to identify investment opportunities as well as to assess the importance of news and events that may affect the financial markets. Identification and exploitation of the investment strategies to be pursued by the Sona Fund involves a high degree of uncertainty. No assurance can be given that the Adviser will be able to locate suitable investment opportunities in which to deploy all of the Sona Fund's assets or to exploit discrepancies in the securities and derivatives markets.

Execution, Market and Liquidity Risk: We may trade in markets that are volatile and which may become illiquid. Closing positions may be difficult if there is a significant decrease in trading volume or increase in price volatility. Orders may not be executed timely or efficiently in periods of market distress due to various circumstances including liquidity and market restrictions.



At times, the fixed income markets have experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During periods of market illiquidity, we may not be able to close out positions or may only be able to do so at unfavourable prices. This liquidity risk could adversely impact the performance of the Clients and may be difficult or impossible to hedge against. We may also invest in financial instruments that are not publicly traded and may not be able to readily dispose of such instruments and, in some cases, may be contractually prohibited from disposing of such securities for a specified period of time.

The prices of securities can be highly volatile. Price movements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events. Although market volatility can create trading opportunities, too much volatility may create additional risks that may impact our ability to put on and maintain effective hedges. It can cause the correlation between long positions and hedges to diverge, with the hedge having the opposite effect of that intended.

**Special Situations, Event-Driven Investing and Merger Arbitrage:** Event-driven strategies often involve the purchase of a company's securities after the announcement or disclosure of a significant event, including but not limited to: a spin-off, auction of the company or subsidiary, merger, bankruptcy, recapitalizations, litigation or other liability impairments, turnarounds, management changes, consolidations, tender offer and other catalyst-oriented situations.

Merger or "risk" arbitrage strategies seek to exploit merger activity to capture or sell short the spread between current market values of securities and their values after successful completion of a merger, restructuring or similar corporate transaction. Merger arbitrage investments typically incur significant losses when the anticipated merger or acquisition transactions are not consummated.

Merger arbitrage and event driven strategies also depend on the overall volume of merger activity, which historically has been cyclical in nature.

The success of these strategies is dependent on our ability to make predictions about the likelihood that an event will occur and the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including, but not limited to: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a federal or state regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable federal or state securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event driven investing, performance results can be expected to fluctuate from period to period.

**Securities of Non-U.S. Companies:** Investments in securities of non-U.S. issuers have a range of risks which may include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. issuers. There may also be less government supervision and regulation of exchanges, brokers and issuers than there is in the U.S., and we may have

greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, creating substantial delays and settlement failures that could adversely affect the Clients' performance. Transaction costs of investing in non-U.S. securities markets may be higher than in the U.S., and securities denominated or whose prices are quoted in non-U.S. currencies also pose currency exchange risks (including blockage, devaluation and non-exchangeability).

**Developing or Emerging Markets:** Any of our investment strategies may be executed in developing or emerging markets. In addition to the risks for securities of non-U.S. companies, developing or emerging markets may be more likely than developed markets to experience periods of illiquidity, market disruptions, political instability, economic distress, social instability, rule changes, restrictions on capital movement, etc.

**Material Non-public Information:** We may come into possession of material non-public information that would limit our ability to buy and sell investments for the Clients. The Clients' investment flexibility may be constrained as a consequence of our inability to take certain actions because of such information. The Clients may experience losses if we are unable to sell an investment because we are in possession of material non-public information about the investment.

### **Specific Instruments:**

**Debt Securities:** The debt instruments in which the Clients invest may be subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. The Clients will invest in non-investment grade debt securities, which are typically subject to greater market fluctuations and risks of loss of income and principal than lower yielding, investment grade securities and are often influenced by many of the same unpredictable factors which affect equity prices. In addition to the sensitivity of debt securities to overall interest-rate movements, debt securities involve a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues. The Clients investments in debt instruments may experience substantial losses due to adverse changes in interest rates and the market's perception of any particular issuer's creditworthiness, which may inhibit such issuer's ability to refinance, restructure or otherwise experience recovery. The Clients also will invest in certain hybrid debt arrangements, which are subject to risks in addition to the conventional risks of general interest-rate movements and the issuer's ability to pay the debt in accordance with its terms.

**Distressed and High Yield Securities:** Certain Clients will invest in securities of issuers in weak financial condition or default, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, or involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks that can result in substantial or at times even total losses. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability, and a tribunal's power to disallow, reduce, subordinate, or disenfranchise particular claims. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value. In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (e.g., until various liabilities, actual or contingent, have been satisfied) or will

result in a distribution of cash or a new security the value of which will be less than the purchase price to the Clients of the security in respect to which such distribution was made.

**Defaulted Securities:** The Clients may invest in the securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject the Clients to litigation risks or prevent the Clients from disposing of securities. In a bankruptcy or other proceeding, a Client as a creditor may be unable to enforce its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. While the Clients will attempt to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that the Clients will be able to successfully defend against them.

**Bank Loans:** The Clients will invest in loans and participations therein originated by banks and other financial institutions. These investments may include highly leveraged loans to borrowers whose credit is rated below investment grade. Such loans are typically private corporate loans that are negotiated by one or more commercial banks or financial institutions and syndicated among a group of commercial banks and financial institutions. In order to induce the lenders to extend credit and to offer a favorable interest rate, the borrower often provides the lenders with extensive information about its business that is not generally available to the public. To the extent that the Clients obtain such information and it is material and non-public, the Clients will be unable to trade in the securities of the borrower until the information is disclosed to the public or otherwise ceases to be material, non-public information.

The Clients may invest directly or through participations in loans with revolving credit features or other commitments or guarantees to lend funds in the future. A failure by the Advisory Clients to advance requested funds to a borrower could result in claims against the Clients and in possible assertions of offsets against amounts previously lent.

The Clients may acquire interests in bank loans and other debt obligations either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. A participation interest in a portion of a debt obligation typically results in a contractual relationship with only the institution acting as a lender under the credit agreement, not with the borrower. As a holder of a participation interest, the Clients generally will have no right to exercise the rights of the lender under the credit agreement, including the right to enforce compliance by the borrower with the terms of the loan agreement, approve amendments or waivers of terms, nor will the Clients have any rights of set-off against the borrower, and the Clients may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Clients will be exposed to the credit risk of both the borrower and the institution selling the participation.

**Short Selling:** Short selling involves selling securities that are not owned and borrowing them for delivery to the purchaser with an obligation to replace borrowed securities at a later date. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could increase without limit, thus increasing the cost to the Clients of buying those securities to cover the short position. There is no assurance that a borrowed security will not be recalled and that the Clients will not be “bought in” (i.e. forced to repurchase securities in the open market to return them to the lender). Furthermore, the securities necessary to cover a short position may not be available for purchase, and purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby

exacerbating the loss. The securities borrowed to effect the short sale may be recalled by the lender of those securities at any time, thus forcing the Clients to purchase the securities and close out the short position at a loss.

Short sale transactions have been subject to increased regulatory scrutiny including the imposition of restriction on short selling certain securities and reporting requirements. Our ability to execute a short sale may be materially adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions and restrictions adopted in response to these adverse events. Temporary restrictions and/or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior, current and future trading activities.

Regulatory authorities may also impose restrictions that adversely affect our ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, we may not be able to effectively pursue a short selling strategy due to the limited supply of securities available for borrowing.

**Equity Securities Generally:** Clients, such as the Sona Fund, may invest its capital in long and short positions in equities, deferred interest obligations and other investments which do not produce current income for the Sona Fund. Equity prices are directly affected by issuer-specific events, as well as general market conditions. In addition, in many countries investing in equity is subject to heightened regulatory and self-regulatory scrutiny as compared to investing in debt or other financial instruments.

**Cross Class, Series and Sub-Series Liabilities:** The Fund is a separate entity and as such, creditors of the Sona Fund may enforce claims against all assets of the Sona Fund. Thus, all assets of the Sona Fund may be available to meet all liabilities of the Sona Fund. In the event that the assets attributable to one Class, Series or Sub-Series of Shares were completely depleted by losses or liabilities, a creditor could enforce a claim against the remaining assets of the Sona Fund, including assets of the other Classes, Series or Sub-Series of Shares. Therefore, Shareholders may be subject to a risk of partial or total loss of their investment as a result of a liability attributable to other Classes, Series or Sub-Series of Shares.

**Derivatives:** Certain Clients trade with a variety of derivatives instruments. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives is subject to change. In addition, Clients may, in the future, take advantage of opportunities. Special risks may apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. The regulatory and tax environment for derivative instruments in which the Clients may participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on the Clients.

**Derivative Instruments Generally:**

*Call Options.* The seller (writer) of a call option which is covered (i.e., the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying

security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

*Put Options.* The seller (writer) of a put option which is covered (i.e., the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

Currency Options: The Sona Fund acquires or sells currency options, the value of which depend largely upon the likelihood of favourable price movements in the underlying currency in relation to the exercise (or strike) price during the life of the option. Many of the risks applicable to trading the underlying currencies are also applicable to over-the-counter options trading. In addition, there are a number of other risks associated with the trading of options including the risk that the purchaser of an option may at worst lose its entire investment (the premium it pays) and a seller could incur unlimited loss.

Like the writing of other kinds of options, the writing of an option on a currency constitutes only a partial hedge, up to the amount of the premium received. The Sona Fund could be required, with respect to any option it has written, to purchase or sell currencies at disadvantageous exchange rates, thereby incurring losses. The purchase of an option on a currency may constitute an effective hedge against fluctuation in exchange rate, although in the event of rate movements adverse to the Sona Fund's position, the Sona Fund could forfeit the entire amount of the premium plus related transaction costs.

*Index or Index Options.* The value of an index or index option fluctuates with changes in the market values of the securities included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular security, whether the Client will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the security market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular securities.

*Index Futures.* The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, shareholders may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by the Client also is subject to the Firm's ability to correctly predict movements in the direction of the market.

*Swaps.* Whether the use of swap agreements or swaptions will be successful will depend on the Firm's ability to select appropriate transactions for its Clients. Swap agreements and options on swap agreements ("swaptions") can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease the holder's exposure to, for example, equity securities, long-term or short-term interest rates, foreign currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. Swap transactions may be highly illiquid and may increase or decrease the volatility of Client's portfolio. Moreover, Clients bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. Clients will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Client to post or maintain required collateral. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Client's ability to terminate swap transactions or to realize amounts to be received under such transactions.

*Futures Contracts.* The value of futures contracts depends upon the price of the securities, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which Client positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Clients from promptly liquidating unfavorable positions and subject the Clients to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the U.S. Commodity Futures Trading Commission (the "CFTC") could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

*Forward Contracts.* Banking authorities generally do not regulate trading in forward contracts. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which the Firm would otherwise recommend, to the possible detriment of the Clients. In its forward trading, the Clients will be subject to the risk of the failure of, or the inability or refusal to perform with respect to its forward contracts by, the principals with which the Clients trade. Client assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. The Firm may order trades for the Clients in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the Clients to the risk of loss.

*Contracts for Differences.* Contracts for differences (“CFDs”) are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument’s value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. A CFD is usually terminated at the buyer’s initiative. As is the case with owning any financial instrument, there is the risk of loss associated with buying a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the buyer to post additional margin. CFDs also carry counterparty risk, i.e., the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require the buyer to make additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Client’s obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase the Funds’ financial risk.

*Credit Default Swaps.* The Funds may purchase and sell credit derivative contracts – primarily credit default swaps – both for hedging and other purposes. The typical credit default swap contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that they buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Clients may also sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, the Clients will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” While the credit default swap market auction protocols reduce this risk, it is still possible that an auction will not be organized or will be unsuccessful. In certain instances of issuer defaults or restructurings (for those credit default swaps for which restructuring is specified as a credit event), it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation has occurred. The creation of the new ISDA Credit Derivative Determination Committee (the “Determination Committee”) is intended to reduce this uncertainty and create uniformity across the market, although it is possible that the Determinations Committee will not be able to reach a resolution or do so on a timely basis. In either of these cases, the Funds would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, the Clients will incur leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Clients will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Clients following a credit event and will likely choose the obligations with the lowest market

value in order to maximize the payment obligations of the Clients.

Credit default swaps generally trade on the basis of theoretical pricing and valuation models, which may not accurately value such swap positions when established or when subsequently traded or unwound under actual market conditions. It appears that there are likely to be widespread defaults under certain credit default swaps as a result of the current credit market disruptions. The credit derivative market may become subject to increased regulation, which could increase costs or even prevent participation by the Clients.

Exchange Traded Funds: Clients, such as the Sona Fund invests in Exchange Traded Funds ("ETFs"). ETFs are open-ended investment vehicles the units of which are listed and tradable on stock exchanges or, in some cases, traded over the counter. ETFs usually aim to track the returns of a certain index or benchmark, either by physically holding the underlying stock of the index or by synthetically using derivatives to achieve the same returns as the index. An ETF is managed by its manager.

ETF investors are generally subject to the same risk as holders of the underlying securities the ETF is designed to track. ETFs are also subject to certain additional risks, including, without limitation: (i) Lack of correlation: there is a risk that the unit price of the ETF may not correlate perfectly with changes in the prices of the underlying securities it is designed to track; (ii) Market risks: the trading of the ETF may be halted due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades; (iii) Liquidity risks: there is a risk, particularly during times of market stress liquidity of ETFs could be reduced; (v) Counterparty credit risk: synthetic ETFs are exposed to counterparty risks; (vi) Increased fees: the Sona Fund will bear, along with other investors in an ETF, its pro rata portion of the ETFs expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the Sona Fund's expenses (e.g., management fees and operating expenses), Shareholders may also indirectly bear similar expenses of an ETF, which can have a material adverse effect on the return on capital of the Sona Fund; (vii) Concentration risk: there are a limited number of ETF providers and the failure of a single ETF provider could affect the ETF market; and (viii) Legal risk: ETFs have been subject to scrutiny by certain European institutions, as well as several national supervisory authorities and it is uncertain what impact future regulations will have on the ETF market.

Structured Credit Products: Certain Clients, such as the Sona Fund, may make investments in structured credit products. Special risks may be associated with investments in structured credit products, collateralized debt obligations, synthetic credit portfolio transactions and asset-backed securities. For example, synthetic portfolio transactions may be structured with two or more classes of tranches that receive different proportions of the interest and principal distributions on a pool of credit assets. The yield to maturity of a tranche may be extremely sensitive to the rate of defaults in the underlying reference portfolio. A rapid change in the rate of defaults may have a material adverse effect on the yield to maturity. It is therefore possible that a Client may incur losses on its investments in structured products regardless of their ratings by S&P or Moody's. Additionally, the securities in which the Clients are authorized to invest include securities that are subject to legal or contractual restrictions on their resale or for which there is a relatively inactive trading market. Securities subject to resale restrictions may sell at a price lower than similar securities that are not subject to such restrictions.

Failure to Enter into Offsetting Trade: To the extent the Funds invest in a futures contract or option long, unless an offsetting trade is made, the Clients would be required to take physical delivery of the commodity underlying the future or option. To the extent the Firm fails to enter into such offsetting trade prior to the expiration of the contract, the Clients may suffer a loss since neither the Clients nor the Firm has the operational capacity to accept physical delivery of commodities.

Illiquid Investments: The Clients may invest in restricted, as well as thinly-traded, instruments and securities



(including privately placed securities and instruments). The Clients may also make investments in privately held companies or special purpose entities, provided that it is allowed under the applicable regulation. There may be no trading market for these securities and instruments, and the Clients might only be able to liquidate these positions, if at all, at disadvantageous prices. As a result, the Clients may be required to hold such securities despite adverse price movements. In addition, if the Clients make a short sale of an illiquid security or instrument, it may have difficulty in covering the short sale, resulting in a potentially unlimited loss on that position.

**Illiquidity of Shares:** There is currently no active secondary market for the Shares and it is not expected that such a market will develop. There can be no assurance that the liquidity of the investments of the Sona Fund will always be sufficient to meet Redemption Requests as, and when, made. Any lack of liquidity of the investments may affect the liquidity of the Shares of the Sona Fund and the value of the Sona Fund's investments.

For such reasons the Directors of the Sona Fund may suspend the determination of Net Asset Value (and hence redemptions) in certain circumstances as provided in the articles and the offering documents.

**Exchange Rate Fluctuations; Currency Considerations:** Changes in currency exchange rates (to the extent unhedged) will affect the value of the Clients and the unrealized appreciation or depreciation of investments.

**Securities of Non-U.S. Companies:** Investments in securities of non-U.S. issuers have a range of other risks which may include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. issuers. There may also be less government supervision and regulation of exchanges, brokers and issuers than there is in the U.S., and we may have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Clients' performance.

**Transaction Costs:** Transaction costs of investing in non-U.S. securities markets are generally higher than in the U.S., and securities denominated or whose prices are quoted in non-U.S. currencies also pose currency exchange risks (including blockage, devaluation and non-exchangeability).

**Hedging Transactions:** The success of hedging transactions strategy depend, in part, upon our ability to correctly assess the degree of correlation between the performance of the instruments used to hedge risks and the performance of the securities or risks being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a hedge will also be subject to our ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While hedging transactions may be entered into with the intent to reduce risk, such transactions may result in poorer overall performance for the Clients than if such hedging transactions were not entered into. For a variety of reasons, we may not seek to establish a perfect correlation between the hedging instruments utilized and the securities being hedged. Such an imperfect correlation may prevent the Clients from achieving the intended hedge or expose the Clients to risk of loss.

**Highly Volatile Markets:** The prices of securities can be highly volatile. Price movements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events. Although market volatility can create trading opportunities, too much volatility may create additional risks that affect our ability to put on and maintain effective hedges. It can cause the correlation between long positions and hedges to diverge, with the hedge having the opposite effect of that intended.

**Leverage and Financing Risk:** The Clients could experience losses due to their use of leverage. While leverage presents opportunities for increasing the Clients' total return, it has the effect of potentially increasing losses as well. Further, if the securities pledged to brokers to secure margin accounts decline in value, the Clients could be subject to a "margin call," pursuant to which the Clients must either deposit additional funds or securities with the brokers, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Clients' assets, we may be forced to liquidate the Clients to raise money to satisfy margin requirements. The forced liquidation of all or a portion of the Clients at distressed prices could result in significant losses to the Clients.

**Change in Margin Terms:** In the absence of specific agreements, securities margin arrangements are generally subject to change or revocation by the lender upon very limited notice and for any or no reason. The lender may demand an increase in the collateral, including requiring collateral equal to the full amount of the borrowings, and, if the Clients are unable to provide additional collateral, the lender could liquidate assets held by the lender to satisfy the Clients' obligations. The assets of the Clients could be part of such a liquidation. Liquidation in that manner could have extremely adverse consequences, which may be exacerbated in the event that these changes or revocations are imposed suddenly or by multiple lenders.

**Margin in Periods of Stress:** In periods of market stress, and particularly in periods of stress specific to the Clients, lenders or counterparties may attempt to increase margin levels. Additionally, a simultaneous, broad-based increase in margin among hedge funds generally would likely adversely impact the investments held in the Clients by decreasing demand and increasing supply of those or similar investments.

**Counterparty Risk:** We may enter into transactions, including derivative and other over-the-counter transactions, with or through third parties in which the failure of the third party to perform its obligations could have a material adverse effect on the Clients. The counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement. The Clients' assets are generally not segregated bankruptcy-remote accounts titled in the owner's name and therefore, a failure of any broker or market participant is likely to have a greater adverse impact than if the assets, or the accounts in which they are held, were registered in the name of the Clients. In addition, because the Clients' securities may be held in margin accounts, and the prime brokers have the ability to loan those securities to other persons, the Clients' ability to recover assets in the context of a bankruptcy or other failure of a prime broker may be further limited.

We may transact with counterparties (including prime brokers) located in various jurisdictions outside the United States. The local counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Clients' assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible scenarios involving the insolvency of any counterparty, it is impossible to generalize about the effect of their insolvency on the Clients' assets. It should be assumed that the insolvency of any significant counterparty would result in a loss to the Clients, which could be material.

**Limited Diversification:** The Clients may become concentrated in a single issuer, industry, market or sector. The concentration of risk may increase losses suffered by the Clients. Limited diversification may cause greater volatility than would otherwise be the case, and could expose the Clients to losses disproportionate to market movements in general. Even if we attempt to control risks through diversification, risks associated with different assets may become correlated in unexpected ways, with the result that the Clients become exposed to unforeseen risks.

**Market Restrictions:** Restrictions on investment size or investment activities imposed by various regulators or self-regulatory organizations and exchanges may limit the Clients' ability to effect transactions. Position limits (e.g., the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular financial instrument) and other market restrictions (e.g., prohibitions on short sales) may require aggregation across the Clients, for purposes of determining whether the applicable position limits have been exceeded, or short sales may be executed and may restrict the Clients' investment activities. As a result of these restrictions, we may be prevented from executing a desired transaction and the Clients may therefore incur losses which may be material.

**Trade Error Risk:** Occasionally, transactions may be executed erroneously on terms other than those intended. For example, a transaction may be executed in the wrong asset, for the wrong quantity or price, to buy when we intend to sell, to sell when we intend to buy, or by reason of a technology or administrative error. Except to the extent otherwise required by law, the Clients will generally bear the losses or costs of any such errors, unless it is determined that the error was caused by gross negligence.

**General Political, Economic, Legal, Tax, and other Regulatory Risks:** The Clients' investments may be adversely affected by changes in economic conditions or political events, such as a stock market break, acts of terrorism, the outbreak of hostilities involving the United States, the death of a major political figure, a serious pandemic, or a natural disaster, among many others. Additional factors, such as changes in federal or state tax laws, federal or state securities laws, bank regulatory policies or accounting standards, may make certain investments less desirable or may make certain investment strategies less effective. Similarly, legislative acts, rulemaking, adjudicatory, or other activities of governmental or quasi-governmental bodies, agencies, and regulatory organizations may make the business of the Clients less attractive. Laws and regulations, particularly those involving taxation, investment and trade, applicable to the Clients' activities can change quickly and unpredictably, and may at any time be amended, modified, repealed or replaced in a manner adverse to the interests of the Clients. In particular, in response to significant recent events in international financial markets, governmental intervention, and certain regulatory measures have been or may be adopted in certain jurisdictions, including restrictions on short selling of certain securities in certain jurisdictions. The extent to which the underlying causes of these recent events are pervasive throughout global financial markets and have the potential to cause further instability is not yet clear. These recent events, and their underlying causes, are likely to be the catalyst for changes in global financial regulation for some time, and may result in major and unavoidable losses to the Clients.

With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

## **DISCLAIMER**

The information included in this Item 8 does not include every potential risk associated with our investment strategies. Investing in securities involves risk of loss, possibly a total loss of invested capital, that investors should be prepared to bear.

There is no guarantee that the Clients' investment program, including, without limitation, its investment objectives, strategies, or risk monitoring goals will be successful. Investment results may vary substantially over time. The Clients' investments are speculative and involve a high degree of risk. There may be risks which cannot be monitored or controlled, and risks that may be greater than forecasted, especially in unusual market conditions. Sona Asset Management cannot guarantee that any assumptions relied on herein will be true for all future events or that all assumptions have been considered or stated.

### **Item 9: Disciplinary Information**

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This Item is not applicable.

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

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The Firm is a wholly-owned subsidiary of Sona Asset Management Limited, a UK-based private limited company which is itself a wholly-owned subsidiary of Sona Asset Management Cayman Limited, a corporation organized under the laws of the Cayman Islands. The Firm has a sub-advisory relationship with Sona Asset Management (UK) LLP.

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

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Pursuant to Rule 204A-1 of the Advisers Act, Sona Asset Management has adopted a Code of Ethics (the "**Code of Ethics**") and an employee personal trading policy (the "**Personal Trading Policy**") that establishes various procedures with respect to investment transactions in accounts in which Sona Asset Management employees or related persons have a beneficial interest or accounts over which an employee has investment discretion. Sona Asset Management and/or its officers or employees are generally not permitted to trade in the same securities that may be purchased or sold for the Clients. Sales of existing positions may be permitted as long as the employee has received prior approval from the Firm's Chief Compliance Officer (the "**CCO**"). Certain transactions involving government securities, open-end mutual funds, broad based exchange traded funds (ETFs) or other instruments, while not requiring pre-approval, are covered by the Firm's holdings disclosure requirements under the Code of Ethics.

The spirit of the Code of Ethics and the Personal Trading Policy is to prohibit personal trading that violates the law, interferes with employees' duties, or otherwise violates the Code and, generally, to discourage frequent trading in employee personal accounts. In addition, employees may not acquire securities for their own account in an initial public offering, and must obtain pre-approval from the CCO before participating in any private placements.

All of Sona Asset Management's employees must direct their brokers to send duplicate brokerage statements to the CCO, or make similar alternative arrangements. These records are used to monitor

compliance with the foregoing policies.

Sona Asset Management prohibits the misuse or inappropriate communication of inside information in connection with its securities transactions with respect to the Clients. Sona Asset Management, as well as federal and state securities laws, also prohibit the practice of market manipulation, which comprises conduct intended to deceive or defraud investors by controlling or artificially affecting the price of securities.

Sona Asset Management has also adopted communications guidelines designed to assist personnel in understanding their duties and responsibilities regarding the receipt and the communication of financial and other sensitive information.

Any outside business activities employees wish to engage in must be disclosed to, and approved by, Sona Asset Management's Compliance department.

Sona Asset Management has adopted a policy regarding the giving and receiving of business gifts and entertainment.

Sona Asset Management has also adopted a policy governing political contributions, the holding of public office and impermissible payments. This policy is designed, among other things, to address the requirements of Rule 206(4)-5 under the Advisers Act.

Sona Asset Management's Code of Ethics, including the Personal Accounts Dealing Policy, are available upon request.

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**Item 12: Brokerage Practices**

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As an adviser and a fiduciary to the Clients, Sona Asset Management requires that the Clients' interests must always be placed first and foremost, and our trading practices and procedures prohibit unfair trading practices. Sona Asset Management seeks to disclose and avoid any actual or potential conflicts of interests or resolve such conflicts in the Clients' favor. Sona Asset Management has adopted the following policies and practices to meet its fiduciary responsibilities and to ensure its trading practices are fair.

***Aggregation***

In general, investments decisions for a Client are made in accordance with the investment objectives, guidelines and restrictions governing that Client and are independent of investment decisions made for other Clients. The Firm may aggregate Client trades when such aggregation is expected to be in the best interest of all participating Clients.

As a general principle, the Firm will only aggregate transactions when it believes that such an aggregation is consistent with its duty to seek best execution for its Clients and is consistent with Client disclosure documents or any other specific agreement the Firm may have entered into with each Client for which trades are being aggregated. In such cases, individual investment advice and treatment will be accorded to each Client and the Firm will not receive any additional compensation or remuneration of any kind as a result of the proposed aggregation.

When aggregating trades, preferred status will not be given to, high profile investors, investors with higher fees, or other investors that the Firm may have an incentive to benefit. Any provision of preferential status

in allocating investment opportunities may violate the Advisers Act. It could also constitute a violation of the Firm's fiduciary duties.

### ***Allocation***

The Firm is responsible for the allocation of trades across Clients. Generally, the Firm will allocate trades across similar mandates to bring the holding in each account to a similar percentage of the value of the portfolio.

If a determination is made that multiple Clients should enter into or exit the same transaction (or group of transactions) at or about the same time, such transaction(s) will generally be allocated among such Clients based on such Clients' relative target percentages (the "Target Allocation"), unless the Manager determines in its discretion that the facts specific to the transaction(s) or the Clients warrant an alternative methodology. Any alternative methodology utilized will be subject to the review and approval by the Allocation Committee. Iain Colquhoun, JP Berkery and Justin Tamaye form the Allocation Committee.

Target Allocations are subject to change, with the approval of the Allocation Committee and this will generally be done at month-end based on upcoming subscriptions and/or redemptions.

Allocations must reasonably be in the best interests of all the affected Clients, and the Firm will take into account factors impacting the allocation, including:

- Availability of cash;
- Client investment guidelines that restrict the amount of a particular security or security type;
- Internal and client risk management limits;
- Investment objectives;
- Investment strategy;
- Alpha target;
- Fund size (NAV); and
- Market parameters such as minimum tradable lot sizes and round lot sizes applicable to a security.
- The initial stages of a new fund and/or strategy launch "ramp up period" when the portfolio is being ramped up to being fully invested.

### ***Cross and Principal Transactions***

The Firm is an investment manager providing portfolio management services, for its Clients. As the Firm is managing more than one Client, if a Cross Trade Transaction is contemplated then the overarching principle is that both Clients must be treated fairly, and to do so, the strict procedures below must be followed.

A Cross Trade Transaction occurs when the Firm determines that an investment will be sold by one Client to another Client, with or without the involvement of brokers. Cross trades may provide advantages to Clients by reducing brokerage costs and/or improving market access. Cross-trades between different client accounts might benefit both clients by eliminating or minimizing transaction costs and market impact costs.

Cross trades and principal transactions can, however, create the appearance of preferential treatment and/or create a potential conflict of interest between the buying and selling entities because the adviser is recommending both sides of the transaction.

The Firm has adopted a cross trade transaction and principal transaction policy, in recognition of this and the Firm's duty to act in the best interest of each Client. The Firm will not effectuate any cross trade transaction unless it has reasonable grounds to believe the cross trade transaction is in the best interest of each Client participating in the cross trade, is consistent with each Client's investment objectives and is within the "best execution" standards adopted by the Firm.

The Firm may undertake a cross trade transaction on behalf of a Client if (i) the cross trade transaction provides a clear benefit to each Client, and (ii) certain procedures are followed prior to the execution of the cross trade (included in the Firm's Principal Transactions and Cross Trades Policy).

### ***Best Execution***

The Paloma Fund's general partner reviews, approves and monitors the prime brokers, executing brokers-dealers and counterparties used by Sona Asset Management. Executing broker-dealers and counterparties are chosen from those that have been reviewed and approved by the Paloma Fund's general partner.

As per Sona Asset Management's Best Execution Policy (the "**Best Execution Policy**"), the Firm is required to act in accordance with the best interests of its Client, when placing orders with intermediaries (such as brokers) for execution of deals on behalf of the Clients.

Best execution applies to all financial instrument types, although "execution factors" should be considered and applied as appropriate to different instruments, depending on their relative importance.

Sona Asset Management has implemented the Best Execution Policy taking into account the relevance and importance of the execution factors against the characteristics of the relevant financial instrument, and the execution venues or intermediaries to which an order can be directed.

Sona Asset Management periodically monitors the effectiveness of the policies and ability to achieve best execution. Annually (or more frequently as required) Sona Asset Management reviews the policies and order execution arrangements.

When requested, Sona Asset Management will demonstrate that orders have been executed in accordance with the Best Execution Policy (or request such information from intermediaries where they are used).

### ***Soft Dollars***

Sona Asset Management does not have in place any soft dollar arrangements.

### ***Trade Errors***

#### **Paloma Fund**

The Paloma Fund (and not Sona Asset Management) will bear the cost of any losses (and reap the benefits of any gains) resulting from trading errors and similar human errors, absent gross negligence or intentional misconduct. Trade errors might include, for example, keystroke errors that occur when

entering trades into an electronic trading system or typographical or drafting errors related to derivatives contracts or similar agreements.

### **Sona Fund**

Unintended errors in the communication or administration of trading instructions may, from time to time, arise. Except in certain cases, losses (if any) arising from such errors are attributable to the Sona Fund on the basis that profits from such errors (if any) are also attributable to the Sona Fund. The Firm may on occasion experience errors with respect to trades executed for the Sona Fund. Trade errors may result in losses or gains. The Firm will endeavour to detect booking errors and trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. The Firm will not be responsible for trade errors caused by a counterparty, such as a broker-dealer, though it will strive to recover any losses associated with such error from the counterparty. The Firm may use gains to the Sona Fund resulting from the Sona Fund trade errors to reduce or offset Sona Fund losses arising after such gains arise.

In certain cases, and consistent with the Firm's trade error policy, trade error losses will be borne by the Sona Fund, except where they are due to the acts or omissions of the Firm and are over a certain agreed threshold. In determining whether the Sona Fund will bear a trade error loss, the Firm will have an actual conflict of interest which it will seek to resolve fairly in accordance with applicable law.

### **Item 13:      Review of Accounts**

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The Managed Account's transactions and positions are reviewed on a daily basis by Sona Asset Management and the Paloma Fund's general partner.

The Sona Fund's transactions and positions are reviewed on a daily basis by Sona Asset Management and the Sona Fund's administrator.

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

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We do not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither we nor any of our related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals.

### **Item 15:      Custody**

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We do not exercise custody (and are prohibited under the Agreement from exercising custody) over the Managed Account's assets.

We are deemed to have custody of the funds and securities in the Sona Fund, because we have the authority to obtain funds or securities, for example, by deducting advisory fees from the Sona Fund's account or otherwise withdrawing funds from the Sona Fund's account. Account statements related to the Sona Fund are sent by qualified custodians to the Firm.

We will comply with Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the "Advisers Act") (i.e., the "custody rule") by meeting the conditions of the pooled vehicle annual audit approach. Upon completion of the relevant Sona Fund's annual audit by an independent auditor that is registered with, and



subject to inspection by, the Public Company Accounting Oversight Board (PCAOB), we will distribute the Sona Fund's audited financials to Investors within 120 days of such Sona Fund's fiscal year end.

#### **Item 16: Investment Discretion**

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The Agreement sets forth certain guidelines or restrictions related to our investment activities, which may be modified from time-to-time in consultation with the Paloma Fund's general partner. In addition, the Paloma Fund general partner may impose restrictions on our ability to invest in certain securities or types of securities.

We have full discretionary investment authority with respect to the Sona Funds including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities.

#### **Item 17: Voting Client Securities**

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As per the Agreement, Sona Asset Management has the right to vote on behalf of the Managed Account any proxies relating to securities held in the Managed Account, provided that any proxy voting instructions given on a timely basis by Paloma will be observed. Sona Asset Management will provide a periodic report to Paloma of how all proxies were voted.

Proxies are voted in the best interest of the Managed Account. There may be circumstances in which Sona Asset Management is advised in writing by the Paloma Fund's general partner not to vote and in such circumstances, Sona Asset Management will refrain from voting.

In compliance with Rule 206(4)-6 of the Advisers Act (i.e., the "proxy voting rule"), we have adopted proxy voting policies and procedures. The general policy is to vote all proxy proposals, amendments, consents or resolutions (collectively, "Proxies") in a prudent and diligent manner that will serve the applicable Client's best interests and is in line with the Client's investment objectives.

The Firm determines whether and how to vote corporate actions and proxies on a case-by-case basis, and will:

- Attempt to consider all aspects of the vote that could affect the value of the issuer or that of the Client;
- Vote in a manner that it believes is consistent with the Client's stated objectives; and
- Generally, vote in accordance with the recommendation of the issuing company's management on routine and administrative matters, unless the Firm has a particular reason to vote to the contrary.

Generally, Investors or Clients may not direct our vote in a particular solicitation. Investors may obtain a copy of our Proxy voting policies and procedures by contacting the CCO at [jberkery@sona-am.com](mailto:jberkery@sona-am.com). Investors may obtain our Proxy voting record upon request.

**Item 18: Financial Information**

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This item is not applicable.