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**Firm Brochure**

(Part 2A of Form ADV)

**EDGE FOCUS CAPITAL MANAGEMENT, LLC**

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This brochure provides information about the qualifications and business practices of EDGE FOCUS CAPITAL MANAGEMENT, LLC. If you have any questions about the contents of this brochure, please contact us at (312) 725-8901 and/or [info@edgefocuspartners.com](mailto:info@edgefocuspartners.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about EDGE FOCUS CAPITAL MANAGEMENT, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Firm's CRD/IARD number is 309884.

March 2022

## 2. Material Changes

### Annual Update

The U.S. Securities and Exchange Commission (“SEC”) issued rules in July and August of 2010 requiring advisers to provide a firm brochure written in narrative “plain English” format. These rules specify mandatory sections and organization. This brochure is prepared in accordance with the SEC’s rules (the “Firm Brochure”).

### Material Changes

Edge Focus Capital Management, LLC has not made material changes since its brochure dated July 2021.

Additional information is available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

To review the Firm information for ADV Part 1 and ADV Part 2:

- Click “Investment Adviser Search” in the left navigation menu and “Enter”
- Select option for Investment Adviser Firm and enter “309884” in the field labeled “Firm IARD/CRD Number”
- ADV Part 1 will be displayed and you may also access ADV Part 2 from here

### Full Firm Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure and any supplements thereto, please contact us by phone at (312) 725-8901 or by email at [info@edgefocuspartners.com](mailto:info@edgefocuspartners.com).

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## Important Information

As used in this Brochure, the words “we,” “our,” and “us” refer to Edge Focus Capital Management, LLC and the words “you,” “your,” and “client” refer to you as either a client or prospective client of our firm. These terms are utilized for the reader’s ease of use while reviewing the brochure and are not meant to imply the firm is larger than it actually may be at the time of publication. Also, you may see the term Associate Person throughout this Brochure. As used in this Brochure, our associated persons are our firm’s officers, employees and all individuals providing investment advice on behalf of our firm. The term “advisor” and “adviser” are used interchangeably where accuracy in identification is necessary.

## **4. Advisory Business**

### Firm Description

Edge Focus Capital Management, LLC (the “**Firm**”) was organized as a Delaware limited liability company in March of 2017 as “Edge Focus Partners, LLC” and in July of 2021 underwent a name change. The Firm began operating as an SEC registered investment adviser in August of 2020 to provide portfolio management services to private investment funds (each, a “**Fund**”) and to separately managed accounts (each, an “**EF Account**”) for institutional clients (other than registered investment companies). The Firm’s principals are Elliott Lorenz, Hiram Biswas, Frank Jones and Kevin Hennessy (collectively, the “**Principals**”). The Firm is owned 100% by Edge Focus Holdings, LP, a Delaware limited partnership, which is majority owned by the Principals, as well as certain minority investors, including two strategic investors.

The mailing address of the Firm is 1664 N. Orchard Street, Unit #3, Chicago, Illinois 60614.

### Types of Firm Services

#### *Portfolio Management Services*

The Firm provides portfolio management services on a discretionary basis to EF Accounts. In some instances, the investment advice provided may be custom tailored to meet a client’s investment needs and objectives. In other instances, the investment advice may follow a particular pre-defined investment strategy that might not be custom tailored to an individual client.

At the inception of the relationship, the Firm may gather relevant information about each client’s risk tolerance, investment objectives and financial profile and will recommend an initial portfolio to the client. Once the portfolio is constructed, the Firm will provide continuous supervision taking into account changes in market conditions and client circumstances.

As part of the Firm’s discretionary portfolio management services, the Firm requires clients to grant the Firm discretionary authority to manage their respective EF Accounts. Discretionary authorization will allow the Firm to determine the specific securities and the amount of securities to be purchased or sold for a client’s account without a client’s prior approval to each transaction. Discretionary authority is typically granted by the investment advisory agreement a client signs with the Firm, a power of attorney or trading authorization forms. Clients may limit the Firm’s discretionary authority (for example, limiting the types of securities that can be purchased for a client’s account) by providing the Firm with a client’s restrictions and guidelines in writing, which must be approved by the Firm.

#### *Private Investment Funds*

In addition to the services described above, the Firm and its affiliates offer management services on a discretionary basis to Funds. Such management services include serving as manager and investment adviser to such Fund(s) and being responsible for the day-to-day management of the Fund’s business

and operations, as well as being responsible for making investment decisions for the Fund(s). The Firm currently serves as investment adviser to Edge Focus High Yield Fund, L.P., a Delaware limited partnership (the “**EFHY Fund**”) and Edge Focus Alpha Fund, L.P., a Delaware limited partnership (the “**EFA Fund**”), and an affiliate of the Firm acts as general partner to each of the EFHY Fund and the EFA Fund. The Firm and its affiliates may serve as manager/general partner and/or investment adviser to additional such private pooled investment vehicles in the future.

With respect to a Fund, the Firm manages the Fund’s assets based on the specific investment objectives and restrictions of the particular fund, as outlined in each Fund’s Offering Memorandum, rather than on the individual needs and objectives of the individual investors in the private funds. More specifically, the Firm manages the business, investment and financial affairs of each Fund, which includes, but is not limited to, identifying and analyzing potential investments and monitoring the development and eventual sale and liquidation of those investments.

The Firm has not limited the types of investments it makes. Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly on an as-needed basis.

### **Wrap Fee Programs**

The Firm does not currently offer any wrap fee programs.

### **Assets Under Management**

#### **Regulatory assets under management as of December 31, 2021:**

Discretionary	<b>\$ 174,628,841</b>
Non-Discretionary	\$ 0
Total	<b>\$ 174,628,841</b>

## **5. Fees and Compensation**

### **Portfolio Management**

#### ***Discretionary Managed Account Fees***

The Firm’s fee for EF Accounts may vary and may be negotiated on a case-by-case basis. However, the Firm generally charges its EF Account clients a periodic fee, based on the performance of the EF Account, at a rate that increases at higher levels of performance. The Firm reserves the right to negotiate its fees up or down, based on a variety of factors, including, but not limited to, the size, composition and complexity of the EF Account, length and nature of the Firm’s relationship with the client, special services agreed upon with the client or other factors deemed relevant by the Firm.

In general, fees are billed in arrears after the end of the relevant performance period, according to the exact fee schedule established in an Investment Advisory Agreement, where appropriate. Upon termination, a client will receive a pro rata invoice for advisory fees outstanding from the beginning of the billing period up to the date of termination. Lower fees for comparable services may be available from other sources.

The client will also incur brokerage commissions and other transaction costs as part of regular portfolio trading, which commissions and costs are separate from the Firm’s investment advisory fee. Brokerage practices are discussed in Item 12 of this brochure.

### **Private Investment Fund Fees**

The Firm generally charges its Fund clients a management fee equal to a percentage of assets under management. The Firm also charges performance-based fees for qualified clients.

Management fees are negotiated with each fund and may vary by investment class. Management fees are based upon a percentage of a fund's assets under management. Generally speaking, the Firm charges fund clients a management fee of up to 1.5%. The Firm reserves the right to negotiate higher or lower management fees and the fees or to waive such fees entirely. There is no refund provision for the management fee.

Management fees are paid monthly or quarterly and are based on the assets in the relevant fund client's portfolio(s) at the beginning of every month or quarter, as applicable. Specific management fee and related expense and billing information are outlined in a fund's Offering Memorandum.

Performance-based fees or allocations are also charged depending on a respective client's requirements and qualifications (referred to in Item 6). Generally speaking, the Firm (or an affiliate thereof) charges Fund clients a performance fee or allocation of up to 20% of the net profit (if any) allocated to the capital account or portfolio of each member of the respective fund. Performance-based fees and allocations and the potential conflicts of interest associated with such types of compensation are discussed in Item 6 below.

### **Other Costs Involved**

Other types of costs may include, but are not limited to, transaction costs comprised of security trading costs, brokerage or custodian fees, servicing fees as well as margin costs.

Each Fund has incurred legal and organizational expenses in connection with its formation and offering, which will be borne by each Fund (and, therefore, indirectly by its investors). In addition, each Fund will also bear ongoing operating expenses, which may include, without limitation, accounting (including third-party accounting services) and tax preparation fees and expenses; ongoing printing and duplication expenses, bookkeeping, director services (if any), recordkeeping, legal, consulting and other professional expenses; reasonable due diligence expenses such as background checks, travel and other such costs; commissions, brokerage fees (if any) and other transaction and investment-related costs relating to the purchase, sale, or retention of the Fund's portfolio investments, including research expenses, market data costs, price quote data costs and the costs of any independent accountants or other experts or consultants engaged by the Firm in connection with specific investments; exchange, board of trade or other trading or execution facility membership or participation expenses (including, without limitation, any expenses related to the Fund's participation in any note trading platforms); its pro rata portion of insurance expenses (including, but not limited to, E&O, D&O, cyber or any other form of insurance related to the Fund and its management and operations); technology expenses including, but not limited to, risk management systems; custodial fees; administrator expenses (including middle/back office services and the costs and expenses of the fund administrator); governmental and agency fees and taxes (if any) imposed on the Fund (or that the Fund is required to withhold or pay with respect to any of its investors); the legal and accounting costs incurred in connection with an audit of its tax return (if any); any interest, fees (including commitment fees), and costs of Fund-related borrowings (including borrowings related to positions held on margin); legal fees and costs in connection with the preparation and submission of regulatory and compliance-related expenses (e.g., expenses relating to the preparation and filing of the Firm's SEC Form ADV and Form PF (if any)); the expenses of offering and selling the Fund interests; all costs, fees and expenses of the Fund relating to investor meetings and the preparation and mailing of reports to investors and/or relating to Fund governance activities (such as obtaining investors' consent); expenses relating to defaults by investor in the payment of any capital contributions; all other ordinary and out-of-pocket expenses of the Fund; and extraordinary expenses (e.g., litigation costs (including expenses incurred in connection with any settlement related to a portfolio investment), indemnification obligations (including indemnification of any other person indemnified under the Fund's constituent documents or any other agreements that the Fund is a party to), expenses of registering the Fund with any

governmental agency under the requirements of any applicable law, and costs incurred in connection with a reorganization or restructuring of the Fund), if any. A Fund will also bear the investment management or other fees charged by any other collective investment vehicles in which such Fund may invest, for so long as the Fund maintains its investment in such collective investment vehicle. Additional details related to these costs are provided in the applicable Fund's Offering Memorandum.

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

The Firm (or an affiliate thereof) receives performance-based fees or allocations with respect to Funds it manages that require investors to be "qualified clients" as defined in Rule 205-3 of the Investment Advisers Act of 1940, as amended (the "**Investment Advisers Act**"). The amount of performance-based fees or allocations that the Funds will charge and how they are calculated vary depending on a number of factors. The Firm and its affiliates only consider charging a performance-based fee or allocation to clients that meet the minimum qualification requirements prescribed by federal and state laws and regulations. Performance-based fees or allocations are generally billed and payable either annually, depending on the agreement with the client, or as specified in an Offering Memorandum.

Performance-based fees and allocations present conflicts of interests such as (i) creating an incentive for investment adviser to make investments that favor one strategy over another or incentivize the adviser to trade more frequently; (ii) creating an incentive for investment advisers to make investments that are more risky or more speculative than might be the case in the absence of a fee based on performance; and (iii) an investment adviser may receive increased compensation with regard to investment gains on assets in a client's account. These conflicts of interest, however, are mitigated by the fact that prior to entering into a relationship, the Firm and the client agree on investment objectives and trading strategies, which are outlined in the Fund's Offering Memorandum. In addition, the Firm has implemented an equitable allocation methodology for allocating investment opportunities among its clients, which does not consider the type or amount of compensation paid to the Firm by such clients.

## **7. Types of Clients**

The Firm provides advisory services to Funds and to EF Accounts for institutional clients.

For EF Accounts, the Firm generally imposes a minimum account size requirement of \$1,000,000.

An investor in the Funds and any other private fund sponsored or managed by the Firm is generally be required to be at least an "accredited investor," as defined by Regulation D under the Securities Act of 1933, as amended. Any client for whom a performance fee and/or allocation is charged must be a "qualified client" as such term is defined in Rule 205-3 of the Investment Advisers Act. The COO of the Firm must approve any client that does not meet the "accredited investor" standard.

The minimum investment in the Funds is set forth in the applicable Fund's Offering Memorandum, and is subject to increase, reduction or waiver by the Firm, but in compliance with all applicable rules and regulations.

Prior to providing management services, clients will be required to enter into one or more written agreements, which set forth the services the Firm will provide, the fees to be charged, and other terms and conditions regarding the relationship.

Client relationships vary in scope and length of service.

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

### **Methods of Analysis**

Utilizing the Principals' background in quantitative finance and algorithmic trading, the Firm applies rigorous data science and machine learning technology in an attempt to create an optimal portfolio of Loans (as defined below) and other financial instruments that the Firm believes are underpriced. Each Fund and EF Account will invest across notes of varying credit quality, providing clients with a diversified portfolio of risk and returns. The Firm also employs risk management techniques to limit exposure across varying credit characteristics, as well as safeguards against technological failures.

More generally, the Firm employs both quantitative and discretionary methods to drive returns across its strategies.

### **Investment Strategies**

Each Fund and EF Account utilizes a technology driven platform. The investment objective of each Fund and EF Account is to generate positive risk adjusted returns with a low correlation to traditional security markets. In seeking to achieve this investment objective (which may be achieved directly or indirectly, including by investing in one or more investment vehicles formed in whole or in part for such purpose (each, a "**Other Investment Vehicle**"), the Firm intends to use a quantitative approach to actively select and invest in Loans (as defined below) and certain other financial instruments.

The Firm's investment program intends to achieve its investment objective by investing primarily in technology enabled credit instruments including loans (the "**Loans**") that are marketed and serviced by and purchased from various fintech and digital lending platforms (collectively, the "**Lending Platforms**"), and other instruments, such as assets with exposure to consumer credit, SME loans, and derivatives thereof. While Loans and other instruments may be purchased from a range of Lending Platforms, the Firm may also use its technology to buy and sell such instruments in the secondary market. Each Fund and EF Account may also invest (both for speculative and hedging purposes) into new asset classes and assets (including, without limitation, securitized products) as they become viable investment opportunities that the Firm determines are additive to the portfolio.

A portfolio may consist of a substantial number of Loans of varying credit quality. The Firm may also use margin. The Firm typically invests in notes that have several-year payback periods. Each Fund and EF Account will attempt to deploy funds as quickly as possible and maintain minimal cash such as to reduce cash drag (except in the case of withdrawals). Funds not yet deployed may be held with a Lending Platform; provided, that such Lending Platform is a qualified custodian, to the extent required by law.

The Firm does not set any limit on the types of securities or other instruments in which it may invest; the types of securities or other instruments in which it may take positions; the choice of property types within which it seeks to identify securities; the choice of markets (domestic or foreign) within which it may invest; the types of positions it may take; the investment or trading strategies it may use; its ability to borrow or use other types of leverage; or the concentration of its investments. For example, the Firm as investment adviser to the Funds and EF Accounts has very wide latitude to invest or trade the Funds and EF Accounts' assets, to pursue any particular strategy or tactic, to cause the portfolio to be concentrated or non-diversified, or to change the Funds and/or EF Accounts' emphasis, objectives, policies and strategy, all without obtaining the approval of clients.

Investment strategies will vary depending on the objectives and restrictions of the client. For Funds, the objectives and restrictions will be outlined in the respective Fund's Offering Memorandum.

### **Risk of Loss and Certain Material Risk**

All of the Firm's investment strategies have certain risks that are borne by the client, including the potential risk of a total loss. The Firm may follow an investment policy that, if unsuccessful, could



involve substantial losses. Each Fund and EF Account's portfolio may be subject to wide swings in value. Although the Firm has the flexibility to react to changing market conditions, changes in market conditions or a company's situation could involve losses.

Clients should consider investments with the Firm as a supplement to an overall investment program and should only invest in a Fund and/or an EF Account if they are willing to undertake the risks involved. Prospective clients should carefully consider, among other factors, the risks described below.

#### *Risks of Loans*

Investments in unsecured individual consumer loans, such as the Loans, may be subject to high levels of loss in the event of defaults by the borrowers. Unlike an asset-backed or secured loan in which the lender has recourse against the relevant collateral, Loans are generally not secured by any collateral. In addition, the lender may have little to no recourse to the borrower in the event of a default. Additionally, in terms of credit obligations, unsecured consumer loans rank relatively low in the hierarchy of repayments in the event of a bankruptcy of the borrower, falling well behind delinquent taxes, mortgage loans and other secured obligations of the borrower. Therefore, if the borrower on a Loan purchased by a Fund or an EF Account defaults, the portion of the principal of the defaulted loan will likely suffer a total principal loss. Investments in unsecured individual consumer loans, such as the Loans, entitle the borrower to the protection of a number of state and federal consumer loan laws, which may also affect the ability of a Fund or an EF Account to recover any loss.

A "subprime" credit rating is traditionally defined as a FICO score below 640. The loan programs of certain Lending Platforms may, from time to time, contain loans with FICO scores that would be deemed to be subprime. Certain of these borrowers are people who may have had difficulty previously obtaining loans from other sources, including banks and other financial institutions, on favorable terms, or on any terms at all, due to credit problems, limited credit histories, adverse financial circumstances, or high debt-to-income ratios, but have successfully borrowed through such Lending Platforms on at least one prior occasion. Acquiring notes that are dependent on payments from these types of borrowers may present a high risk of loan delinquency or default.

#### *Unsecured Obligations*

Loans purchased in whole or in part by each Fund or EF Account through the Lending Platforms will be typically be originated by insured depository institutions and will generally be unsecured obligations and as such are not backed by any collateral or guaranteed nor are they insured by any third party. Each Fund and EF Account relies on one or more third-party service providers to collect payments and service the Loans (each, a "**Servicer**"), and the Servicer may engage directly in collection efforts or may designate a third-party collection agency to pursue borrowers who are in default; however, given that the Loans are unsecured, the ability for either the Servicer or its designee to collect on the Loans may be limited. The Loans are obligations of borrowers to a Fund and an EF Account as assignee of the Loan's promissory note. Loans are not originated by the Funds, the EF Accounts or the Fund Investors. The Funds and EF Accounts are not licensed to engage in debt collection activities and will not be able to obtain the identity of the borrower from the Lending Platform or the Servicer in order to contact the borrower about a defaulted Loan.

#### *Loans Will Be Subject to Risk of Non-Payment and May Be Illiquid*

Substantially all of each Fund and EF Account's investment capital is likely to be invested in Loans. Although the Firm will become aware of Loan opportunities through various intermediaries – for example, the Lending Platforms – none of such intermediaries will be a party to any Loan and may not make any representations or warranties about the borrower on a Loan. While it is possible that some of the Loans may be secured, it is likely that most or all Loans will be unsecured. Even with respect to Loans, if any, that are secured, the Firm may be unable to take the steps necessary to foreclose on the Loan collateral. In many cases, the prospective legal and other expenses to be incurred in collecting Loans will not be warranted in light of the relatively small unpaid balance on the Loan, or the prospects of repayment from the collateral.

The Loans do not restrict borrowers from incurring additional unsecured or secured debt, nor do they impose any financial restrictions on borrowers during the term of the Loan, which may increase the likelihood that a borrower may default on their loan. The Loans also do not contain any cross-default

or similar provisions. The Loans will only be referred to a third-party collection agency by the Servicer for collection if a borrower defaults on a Loan. If a borrower defaults on any debt obligation owed to a third party but continues to satisfy his/her payment obligations under the Loan, the third party may, consistent with their loan agreement with the borrower, seize the borrower's assets or pursue other legal action against the borrower, which may, in turn, trigger the borrower's default on a Loan.

Although Loans may be tradable through privately established markets (such as those presently maintained by the Lending Platforms), there can be no guarantee that such markets will remain active, or in existence at all, throughout the term of the Funds and EF Accounts. Even if such markets remain in existence and relatively active, the Firm may at times find it difficult or impossible to dispose of a Loan at a price that reflects the Firm's opinion of the Loan's value. This is especially likely to occur if a Fund or an EF Account is required for any reason to liquidate a substantial portion of its portfolio over a relatively short period of time – for example, to fund substantial withdrawal requests from such Fund Investors.

#### *Loan Borrowers May Not Qualify for Standard Bank Loans*

In some cases, the borrower on a Loan will not have been eligible to obtain a loan from a commercial bank. This may result from reasons that are not directly relevant to the likelihood that the borrower will be able to repay the Loan it obtains from the Funds and EF Accounts, but in some cases the borrower may be less likely to repay the Loan than would be a typical borrower from a bank or other commercial lender. This additional risk may be offset by a higher interest rate or other favorable terms on a Loan, but such favorable interest rate or other terms may not fully compensate the holder of the Loan for the additional credit risk.

#### *Online Lending Risks*

The Loans are expected to be primarily originated through online platforms. Borrowers may not view or treat their obligations as having the same significance as loans from traditional lending sources, such as bank loans. As such, Loans may have a higher risk of default than loans made by other lenders, even if the credit scores and other underwriting criteria used to originate the loans are similar to other lenders.

#### *Loan Defaults Will Occur, and May Be Substantially Higher Than Projected*

Borrower defaults are expected, and are taken into account when a Fund and/or an EF Account's returns are projected by the Firm. Although the price of each Loan (i.e. the interest rate payable on the Loan) reflects historical trends in default by credit grade, as determined by the applicable Lending Platform, such Lending Platform may at times misprice a Loan, or the borrower may default on a Loan even though all criteria properly considered by such Lending Platform indicated that the risk of default was very low. Borrowers may not view peer-to-peer lending obligations originated on the Lending Platforms as having the same significance as other credit obligations arising under more traditional circumstances, such as loans from banks or other commercial financial institutions. In addition, although the Firm ultimately will select all Loans purchased by a Fund or an EF Account from the Lending Platforms, the Firm will rely to a great extent on the assessment of each Loan performed by the applicable Lending Platform, which may turn out to have been inadequate. As with banks, the better a lender is at selecting Loans that will be repaid in full and on time, the higher that lender's overall return will be. As is also true with bank loans, no Loan is certain to be repaid, and projections of borrower default levels may turn out to be significantly understated. If Loan defaults are higher than the Firm projects, such Fund and/or EF Account's returns will be lower than the Firm presently anticipates. Although it is unlikely, it is even possible that all Loans made by a Fund or an EF Account will default, in which case such Fund Investors could lose their entire investment.

#### *Loans Are Likely to be Subject to Greater Risks if the Economy is Performing Poorly*

In addition to the inherent risk of non-payment or late payment on any particular Loan, defaults or late payments on Loans will more likely occur during periods when the economy is performing poorly. During such periods, it may also be more likely that a Fund or an EF Account will receive substantial withdrawal requests from such Fund Investors. If a Fund or an EF Account is required to liquidate Loans during such weak economic times, it is more likely that the Fund or EF Account will receive substantially less for such Loans (if it is able to sell them at all) than the Fund or EF Account would be likely to receive

during periods when the economy is stronger and withdrawal requests are consequently likely to be lower.

#### *Loans Are Inherently Difficult to Value*

Although some or all Loans may be tradable on secondary markets, those markets may not exist throughout the term of a Fund or an EF Account, and are likely to offer significantly less liquidity than is available on more established public markets for securities. Even if such markets remain in existence and are active, it is possible that it will be difficult or impossible to trade a particular Loan on such a market, especially in times of economic turmoil. For this reason, it may at times be very difficult to ascertain the fair value of a Loan with any degree of precision. If a Loan (or other asset) of a Fund or an EF Account is incorrectly valued, Fund Investors could be adversely affected in several ways. Overvaluations could result in higher performance fees than would otherwise be the case. A withdrawing client might receive more or less than he would have received under different valuations, which will affect not only that client but also the clients who are not then withdrawing. While the Firm will endeavor to value Loans and other assets fairly, clients should recognize that the nature of the bulk of Fund and/or EF Account assets – Loans – will make valuations substantially less precise than is true for investment funds that instead invest in securities that are widely traded in highly liquid public markets.

#### *Interest Rate Risk*

Changes in interest rates can affect the value of the Loans. Due to the mark-to-market valuation requirement of GAAP, increases in interest rates will cause the value of the Loans to decline. However, decreases in interest rates will cause the value of the Loans to increase. When interest rates are rising, the decline in the value of the Loans may be offset in the long term by a Fund and/or an EF Account acquiring new Loans at the higher interest rate.

#### *Effect of Fee Reductions or Waivers by Lending Platforms*

A Lending Platform typically charges a one-time fee to the borrower when the Loan is originated, which fee is deducted from the Loan proceeds. In addition, a Lending Platform generally collects an additional fee in its role as Servicer out of the scheduled loan payments made by the borrowers, which fee may vary but typically amounts to a certain percentage per year of the original loan principal. Such a fee does not increase the borrower's payment, but reduces the portion of each loan payment that is received by the Servicer on behalf of the assignee (in this case, the Funds and/or EF Accounts). The Firm, based on a Fund or an EF Account's lending volume, may be able to negotiate with certain Lending Platforms to receive reductions in the fees deducted from loan payments, but this is not assured. The deduction, if any, of Lending Platform fees from loan payments will reduce a Fund and an EF Account's return below what its return would be if no deduction (or a smaller reduction) were made. In addition, if a Fund or an EF Account receives a partial or full reduction of such fees for a period of time and then ceases to receive such a reduction (or receives a smaller reduction), the returns earned by a Fund or an EF Account after such change are likely to be lower than the returns earned by a Fund or an EF Account when the larger fee-reduction was in effect. This could occur, for example, if a Lending Platform were to offer a fee-reduction to a Fund or an EF Account only on a temporary "promotional" basis and later terminated such fee-reduction. It is possible that such a promotional fee-reduction would be terminated even if a Fund or an EF Account has purchased a large volume of loans through such Lending Platform. Although the Firm will seek to obtain advantageous fee reductions from Lending Platforms on behalf of a Fund and/or an EF Account, the Firm cannot guarantee that it will be able to do so, or that any such fee reductions, if obtained, will remain in effect for any particular time period.

#### *Reliance on the Lending Platforms*

The Funds and EF Accounts predominantly source Loans from the Lending Platforms, some of which will have a limited operating history. Although these Lending Platforms are not the issuers of the Loans, the bankruptcy of one or more Lending Platforms or the financial difficulties of such Lending Platforms would have several materially adverse effects on the Funds and EF Accounts. Due to limited operational and loan origination history, certain of these Lending Platforms may have limited historical performance data regarding borrower performance on the Loans, and the long-term loan loss experience may be uncertain.

As such, the Funds and EF Accounts will seek to source from Lending Platforms with low business risk, as well as increasing the number of Lending Platforms over time to mitigate concentration risk.

#### *Accuracy of Lending Platform Information*

The Firm selects investments for the Funds and EF Accounts on the basis of information and data provided by the borrowers on the Lending Platforms and obtained through the Lending Platforms themselves. The Firm has a very limited ability to independently verify the information being provided by any Lending Platform; hence, the Firm is not in a position to confirm the completeness, genuineness or accuracy of such borrower information and data. The results from investments made by the Funds and EF Accounts may be impacted by errors or omissions by a Lending Platform that, in the presence of correct or complete information, may have resulted in the Funds or EF Accounts making a different investment decision, and for which the Funds and EF Accounts have limited recourse against a Lending Platform.

#### *Borrower Fraud*

Information supplied by borrowers which is used to price the Loan may be inaccurate or intentionally false. Borrowers supply a variety of information, some of which is included in the information available to the Funds and EF Accounts. Certain Lending Platforms may not verify this information, and it may be inaccurate or incomplete. For example, a Lending Platform may not verify a borrower's stated tenure, job title, home ownership status or intention for the use of loan proceeds, and the information borrowers supply may be inaccurate or intentionally false.

Certain Lending Platforms may not verify a borrower's stated income, e.g., by verifying borrower paystubs, IRS Forms W-2, federal or state income tax returns, bank and savings account balances, retirement account balances, letters from employers, home ownership or rental records, car ownership records or any records related to past bankruptcy and legal proceedings.

The identity of borrowers is not revealed to a Fund or an EF Account, and it has no ability to obtain or verify borrower information either before or after a purchase of a Loan. If a Fund or an EF Account relies on false, misleading or unverified information supplied by borrowers in deciding to purchase a Loan, it may lose part or all of the purchase price and may have limited or no recourse to recover such amounts.

#### *Identity Fraud*

While Lending Platforms may take precautions to prevent borrower identity fraud, it is possible that identity fraud may still occur and adversely affect a Fund and an EF Account's ability to receive the principal and interest payments that a Fund and an EF Account expects to receive on Loans.

Certain Lending Platforms may conduct identity checks with a third-party provider to verify each borrower's identity and credit history. Notwithstanding these efforts, there is a risk that identity fraud may occur without a Lending Platform detecting it, and a loan obtained by identity fraud may simply default. While certain Lending Platforms may repurchase Loans in limited identity fraud circumstances involving the corresponding borrower, they are not otherwise obligated to repurchase a Loan from a Fund or an EF Account for any other reason. The Lending Platforms will retain the exclusive right to investigate claims of identity theft and determine, in its sole discretion, whether verifiable identity theft has occurred.

#### *Accuracy of Loan Pricing*

The proprietary pricing algorithms used by certain Lending Platforms may be based primarily upon the historical loan performance of actual borrowers that meet the requirements of the algorithm, the assumed performance of applicants that would have been approved under the current algorithm but were declined by prior methodologies, and the exclusion of borrowers that were approved under prior methodologies but would have been declined under the new algorithm, in addition to other factors and assumptions. Because the algorithm is based upon these assumed performances and the assumptions of management, the actual performance of a graded loan may differ materially versus previously issued, similarly graded loans or other grades that may result in a greater loss of a Fund and/or an EF Account's investment capital than anticipated. *Borrower Bankruptcy*

Borrowers may seek the protection of debtor relief under U.S. federal bankruptcy or state insolvency laws, which may result in the nonpayment of the Loans. If a borrower files for bankruptcy (or becomes the subject of an involuntary petition), a stay will go into effect that will automatically put any pending collection actions on hold and prevent further collection action absent bankruptcy court approval. If the Servicer receives notice that a borrower member has filed for protection under the federal bankruptcy laws, or has become the subject of an involuntary bankruptcy petition, it will put the borrower's Loan account into "bankruptcy status". This will terminate automatic monthly Automated Clearing House ("ACH") debits and the servicer will not undertake collection activity without bankruptcy court approval. Whether any payment will ultimately be made or received on a Loan after a bankruptcy status is declared, depends on the borrower's particular financial situation and the determination of the court. It is possible that the borrower's personal liability on the Loan will be discharged in bankruptcy. In most cases involving the bankruptcy of a borrower with an unsecured loan, unsecured creditors, including a Fund or an EF Account, will receive only a fraction of any amount outstanding on their Loans, if anything.

#### *Third-Party Processing and Servicing Reliance*

Certain of the Lending Platforms may rely on third-party vendors to disburse Loan proceeds and process Loan payments, and may rely on third-party computer hardware and software. If a Lending Platform is unable to continue utilizing these services, its business and ability to service the Loans may be adversely affected. Additionally, because the Lending Platforms are not banks, they cannot belong to and directly access the ACH payment network, and must rely on an FDIC-insured depository institution to process transactions, including loan payments and remittances to holders of the Loans. Under the ACH rules, if any party initiating debits to a consumer's bank account, including a Lending Platform, experiences a high rate of reversed transactions (known as "chargebacks"), it may be subject to sanctions and potentially disqualified from using the system to process payments. As such, there are risks in connection with a Fund and/or an EF Account purchases of the Loans related to the ability of the Servicer and its ability to continue to have access to these payment systems. If the Loans were unable to be repaid using the ACH system, it may cause significant losses to a Fund and/or an EF Account.

#### *Prepayment Risk*

Despite the Loans having stated maturities of various lengths, the borrowers have the ability to repay the entire amount of such Loans outstanding at any time, which results in "prepayment risk." If these prepayments become material to the overall Loan portfolio, a Fund or an EF Account may need to reinvest those loan proceeds at rates that are lower than the ones it enjoyed on the loan that prepaid, thereby reducing the future return prospects of the Fund or EF Account.

#### *Systemic Risk*

Credit risk may arise through a default by or because of one of several large institutions that are dependent on one another to meet their liquidity or operational needs. A default by or because of one institution may cause a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Funds and EF Accounts interact, including, without limitation, Lending Platforms, as well as borrowers under Loans. A systemic failure could have material adverse consequences on the Funds and EF Accounts and on the markets for the securities in which the Funds and EF Accounts seek to invest, including, without limitation, the Loans.

#### *Limited Liquidity of Fund and EF Account Investments*

To the extent that a Fund or an EF Account invests its assets in securities that are illiquid because it is restricted, thinly-traded, or otherwise, the Fund and/or EF Account may not be able to liquidate those investments if the need should arise, and its ability to realize gains, or to avoid losses in periods of rapid market activity, may therefore be affected. In addition, the value assigned to such securities for purposes of determining a client's participating percentages and determining net profits and net losses may differ substantially from the value the Fund and/or EF Account is ultimately able to realize.

The Lending Platforms typically use a consumer loan marketing and origination model that has, on occasion, been challenged by state and federal regulators and private plaintiffs. These legal challenges are predicated upon a number of different theories, including those premised upon state usury laws, other state interest rate limitations, or federal and state consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, and the Fair Debt Collection Practices Act. In these cases, regulators or borrowers may make claims regarding the enforceability of these obligations, or otherwise seek damages under these laws. Compliance with such regimes is also costly and burdensome although the Lending Platforms have made certain commitments in connection with their compliance with applicable laws in connection with their sale of the Loans to the Firm's clients.

The Lending Platforms operate programs that must comply with regulatory regimes applicable to all consumer credit transactions. The contractual relationships related to the marketing, origination, and servicing of these types of consumer loans provide for certain obligations between the parties, but can be subject to regulatory scrutiny or otherwise challenged. Certain state laws generally regulate interest rates and other charges and require certain disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the marketing, origination, servicing and collection of the Loans. If the business practices or the Lending Platforms were to face regulatory scrutiny or be prohibited, the Firm may be limited in its ability to acquire Loans or to receive payments with respect to the Loans that it holds at the time of such scrutiny or prohibition.

The Lending Platforms may not have been, and may not be, in compliance with these laws. Compliance with these requirements is also costly, time-consuming and limits operational flexibility. The Firm takes the position that its clients, as assignees of the Loans, do not need to be licensed under certain state and federal laws that govern consumer lending. If a regulator were to determine that a Fund or other client needed to be licensed in its role as assignee of the Loans, such compliance could be burdensome and costly and would likely impact the Fund's or client's ability to collect on the Loans at the interest rates contained in the underlying consumer obligations or may prohibit collection entirely.

#### *Use of Leverage*

When deemed appropriate by the Firm and subject to applicable regulations, a Fund or an EF Account may incur leverage in its investment program, whether directly through the use of borrowed funds, or indirectly through investment in certain types of financial instruments with inherent leverage, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent a Fund and/or an EF Account purchases securities with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of the Fund and/or EF Account. If the interest expense on this leverage were to exceed the net return on the investments made with borrowed funds, a Fund and/or an EF Account's use of leverage would result in a lower rate of return than if a Fund and/or an EF Account was not leveraged.

If the amount of leverage which a Fund or an EF Account may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of the Fund and/or EF Account's portfolio will have disproportionately large effects in relation to the Fund and/or EF Account's capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional leverage will generally cause the net asset value of the Fund and/or EF Account to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the leveraged capital fails to cover its cost to the Fund and/or EF Account, the net asset value of the Fund and/or EF Account will generally decline faster than would otherwise be the case.

Certain of a Fund or an EF Account's trading and investment activities may be subject to Federal Reserve Bank ("FRB") margin requirements, which are computed each day. At present, the FRB's Regulation T permits a broker to lend no more than 50% of the purchase price of "margin stock" bought by a customer.

When the market value of a particular open position changes to a point where the margin on deposit does not satisfy maintenance margin requirements, a “margin call” on the customer is made. If the customer does not deposit additional funds with the broker to meet the margin call within a reasonable time, the customer’s position may be closed out. In the event of a precipitous drop in the value of the assets managed by a Fund or an EF Account, a Fund and/or an EF Account might not be able to liquidate assets quickly enough to pay off the margin debt and might suffer mandatory liquidation of positions in a declining market at relatively low prices, incurring substantial losses. With respect to a Fund or an EF Account’s trading activities, the Fund and/or EF Account, and not underlying investors of the Funds (the “**Fund Investors**”) personally, will be subject to margin calls.

Overall, the use of leverage, while providing the opportunity for a higher return on investments, also increases the volatility of such investments and the risk of loss. The Fund Investors should be aware that an investment program utilizing leverage is inherently more speculative, with a greater potential for losses, than a program that does not utilize leverage.

#### *Hedging Transactions*

The Funds and EF Accounts are not required to hedge any of their positions, and their portfolio at any time may be partially or entirely unhedged. A Fund and an EF Account nonetheless may use financial instruments, both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of a Fund or EF Account’s investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect a Fund or EF Account’s unrealized gains in the value of a Fund and an EF Account’s investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in a Fund or an EF Account’s portfolio; (v) hedge the interest rate or currency exchange rate on any of a Fund or EF Account’s liabilities or assets; (vi) protect against any increase in the price of any securities a Fund or an EF Account anticipates purchasing at a later date or (vii) for any other reason that the Firm deems appropriate.

The success of any Fund and EF Account’s hedging strategy, if hedging occurs, will depend, in part, upon the Firm’s ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a Fund and an EF Account’s hedging strategy will also be subject to the Firm’s ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While a Fund or an EF Account may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund and EF Account than if they had not engaged in such hedging transactions. For a variety of reasons, the Firm may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent a Fund and an EF Account from achieving the intended hedge or expose such Fund or EF Account to risk of loss. The Firm may not hedge against a particular risk because no instruments are available for such purposes, because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk.

#### *Asset-Backed Securities*

The Firm may invest in asset-backed securities (“ABS”) on behalf of its clients. ABS are debt obligations or debt securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from underlying financial assets, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities. The structure of an ABS and the terms of the investors’ interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all ABS are similar, individual transactions can differ markedly in both structure and execution. Holders of ABS bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. In addition, concentrations of ABS of a particular type, as well as concentrations of ABS issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the holder to additional risk. As a result, clients’ investments in ABS could decline substantially in value.

### *Risks of Investments in Special Purpose Vehicles*

The Funds and EF Accounts may acquire equity interests in special purpose vehicles (“SPVs”) for leverage purposes. Investments in SPVs may be subject to legal or contractual restrictions on their resale. If a Fund or an EF Account requests a complete or partial withdrawal of its interest in the related SPV, the manager of such SPV may (i) not satisfy a Fund or an EF Account’s withdrawal request with respect to the portion of such investment’s assets represented by illiquid investments until the disposition of those illiquid investments, (ii) satisfy a Fund or an EF Account’s withdrawal request with an in-kind distribution of illiquid investments (either directly or through an in-kind distribution of interests in a special purpose vehicle or other investment vehicle established to hold such illiquid investments), or (iii) satisfy the withdrawal amount by valuing illiquid investments at the lower of cost or market or otherwise in the discretion of the applicable fund manager. If a Fund or an EF Account receives distributions in-kind from an investment, it may incur additional costs and risks to dispose of such assets.

### *Over-the-Counter and Other Derivative Instruments in General*

The Firm may use various derivative instruments, including futures, options, forward contracts, swaps and other derivatives which 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. Derivative instruments may not be liquid in all circumstances, so that in volatile markets the Firm may not be able to close out a position without incurring a loss to its clients. Trading in derivative instruments also may result in large amounts of leverage, which may magnify the gains and losses experienced by clients, as well as the volatility in their investment portfolios. The Firm may trade over-the-counter derivative instruments including swap transactions (including, without limitation, interest rate swaps, equity swaps and credit default swaps) and forward foreign currency transactions. Over-the-counter instruments, unlike exchange traded financial instruments, are negotiated, two-party contracts. Because performance of over-the-counter instruments is not guaranteed by any exchange or clearinghouse, client investing in over-the-counter instruments will be subject to the risk of the inability or refusal to perform with respect to such instruments on the part of the counterparties with which they trade.

### *Commodities and Futures Trading*

The Firm may invest in certain futures products on behalf of its clients. Substantially all trading in futures has as its basis a contract to purchase or sell a specified quantity of a particular asset for delivery at a specified time, although certain futures contracts, such as market index futures contracts, may be settled only in cash based on the value of the underlying composite index. Futures prices may be highly volatile, and can be influenced by a wide range of macro- and micro-economic variables. Futures trading also is subject to various regulatory limitations, including limitations on the maximum net long or net short positions that any trader (such as the Firm) may hold or control in particular futures contracts and limitations on daily price movements, which could limit the Firm’s ability to trade futures under certain circumstances. Because futures contracts are typically traded on “margin” – meaning that only a small portion of the total value of the futures contract must be posted with a broker to establish a futures position – a comparatively small commitment of cash or its equivalent may permit trading in futures contracts of substantially great value. As a result, price fluctuations may result in a contract profit or loss that is disproportionate to the amount of funds deposited as margin.

### *Trading in Currencies*

The Funds and EF Accounts may trade currencies and related financial instruments, including through swaps and forward contracts. The Funds and EF Accounts are expected to only trade such instruments in interbank and forward contract markets which the Firm believes to be well-established and of recognized standing. Nonetheless, the Funds and EF Accounts may be exposed in the interbank market to risks associated with any government or market action that might suspend or restrict trading or otherwise render illiquid, in whole or in part, the Funds and EF Account’s positions. Although certain currency trades may be effected through exchange-traded instruments, the foreign currency market remains predominantly an over-the-counter market, and is therefore subject to the risks typical to over-the-counter trading. The Firm may effect such trades with brokers, banks and other market participants which it believes to be creditworthy.



### *Options Trading*

The Funds and EF Accounts may trade options. An option is a right, purchased for a certain price, to either buy or sell the underlying instrument or product during or at the end of a certain period of time for a fixed price. The risks in trading options are different from the risks in trading the underlying instruments or products, and trading in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. For example, if a Fund or an EF Account buys an option, it will be required to pay a “premium” representing the market value of the option. The value of an option may decline because of a decline in the value of the underlying asset relative to the strike price, the passage of time, changes in the market’s perception as to the future price behavior of the underlying asset or any combination thereof. Unless the price of the underlying instrument or product changes and it becomes profitable to exercise or offset the option before it expires, such Fund or EF Account may lose the entire amount of the premium. Conversely, if a Fund or an EF Account sells an option, it will be credited with the premium, but will have to deposit margin due to its contingent liability to deliver or accept the underlying instrument or product in the event that the option is exercised. Sellers of certain options are subject to unlimited risk of loss, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the then-market value. The ability to trade in or exercise options may become restricted in the event that trading in the underlying asset becomes restricted.

### *Epidemics and Pandemics*

Many countries have been susceptible to epidemics, such as severe acute respiratory syndrome, avian flu, H1N1/09 flu and, currently, COVID-19 (commonly known as the “coronavirus”). The epidemic or pandemic outbreak of an infectious disease in a country or region of the world or globally, together with any resulting restrictions on travel, transportation or production of goods or quarantines imposed, could have a negative impact on the national, regional or global economy and business activity in any of the countries in which a Fund or an EF Account may invest and thereby adversely affect the performance of such Fund and/or EF Account’s investments. While the long-term economic impact of the ongoing global outbreak of the coronavirus is presently uncertain, such outbreak and any future outbreak of an infectious disease or any other serious public health concern in a country, region or globally could materially harm a Fund or an EF Account’s investments. In addition, the coronavirus has led to significant volatility in the securities, commodities and other markets and the coronavirus and any future outbreak of an infectious disease or any other serious public health concern may lead to additional volatility and illiquidity of a Fund or an EF Account’s investments.

### *Reliance on Quantitative Analysis*

The Firm’s investment strategies will primarily rely upon quantitative models and systems. Such models and systems may entail the use of sophisticated statistical calculations and complex computer systems, and there is no assurance that the Firm will be successful in carrying out such calculations correctly or that the use of these quantitative models and systems will not expose the Funds or EF Accounts to the risk of significant losses. The efficacy of the investment signals produced by each Fund and EF Account’s models and systems is dependent on a number of factors, including, without limitation, the analytical and mathematical foundation of such models and systems, the accurate incorporation of such principles in a complex technical and coding environment, the quality of the data introduced into such models and systems, and the successful deployment of the outputs into the investment process. In addition, the analytical techniques used by the Firm cannot provide any assurance that the Funds or EF Accounts will not be exposed to the risk of significant investment losses if the underlying patterns that form the basis for the quantitative models and systems employed by the Firm change in ways not anticipated by the Firm. The effectiveness of quantitative models and systems may diminish over time, and attempts to apply existing quantitative models and systems to new or different markets, strategies or financial instruments may prove ineffective.

To the extent that information regarding any Fund or EF Account positions or investments becomes or is required to be made publicly available, there is a material risk that other market participants may seek to reverse engineer the Firm’s quantitative investment strategies from such public information. The use of the Firm’s investment strategies by other persons, whether as a result of reverse engineering, “front

running” or other actions, may have a material adverse effect on the performance of the Funds and EF Accounts.

#### *Algorithmic Trading Risks*

The Firm will make significant use of “algorithmic” or “black box” investment strategies or systems. Algorithmic trading is generally accomplished through the use of computer algorithms and systems to automatically make trading decisions, submit orders and manage those orders after submission, all without human intervention. The Firm’s algorithmic trading activities, including risk management, depend on the integrity and performance of the hardware, software and communications systems supporting them, including, without limitation, co-location hardware and components rented from third-party service providers or vendors. Extraordinary transaction volume, hardware or software failure, programming defects or flaws, power or telecommunications failure or a natural disaster, including, without limitation, in respect of any co-location, could cause the Firm’s computer systems to operate at an unacceptably slow speed or even fail. Any significant degradation or failure of the systems the Firm uses to gather and analyze information, enter transaction orders, process data, monitor risk levels and for other purposes may result in substantial losses on transactions, liability to other parties, lost profit opportunities, increased operational expenses and/or diversion of technical resources. These factors could have a material adverse effect on the Firm’s revenues and materially reduce, or even eliminate, the Firm’s available capital.

#### *Increased Use in the Markets of Algorithmic and Quantitative Trading Methods*

In recent years, there has been a substantial increase in financial instrument trading systems, methods, and strategies employing algorithmic and other quantitative or black box trading methods. There also has been an increase in the overall volume of trading and liquidity of the financial instrument markets. While the effect of any increase in the proportion of funds invested pursuant to algorithmic or other quantitative trading approaches in recent years cannot be determined, any such increase could alter investment patterns or affect the completion of investments to the detriment of the Firm *Competition and Alpha Decay*

The Firm deploys investment signals that are derived from data sources that may be available to other investment managers as well. There is a chance that by looking at similar data sources, these other firms might construct similar signals, potentially leading to a situation where multiple firms are competing for exposure to a certain position or set of positions. Such competition could act as a force to push financial instrument prices in the direction of the Firm’s desired position before it is able to acquire its desired position size, thereby eroding potential returns. To the extent that information regarding the Firm’s positions or investments becomes or is required to be made publicly available, there is a material risk that other market participants may seek to reverse engineer the Firm’s quantitative strategies from such public information. As described above, the use of the Firm’s investment strategies by other persons, whether as a result of reverse engineering, “frontrunning” or other actions, may have a material adverse effect on the performance of the Funds and EF Accounts.

#### *Backtesting/Simulation*

The Firm develops models and sets return expectations based on simulation and backtesting. Backtesting and simulation have the following limitations: (i) they are designed with the benefit of hindsight, with limited ability to account for unanticipated events; (ii) they do not represent actual investments, only approximations thereof; and (iii) the interpretation of results is subjective to the researcher. While the Firm strives to create an accurate modelling environment for research purposes, there can be no assurance that future performance will match simulated results.

#### *Data*

In designing investment strategies, collects a significant amount of data from third party and other external sources. As a matter of practicality, it is not possible to use all of this data, so the Firm exercises discretion on which data it uses. The vast majority of the data is collected via automated processes. As such, it is not possible to guarantee that all of the data is always available at the time of an investment decision. If certain data sources are not available, the Firm may construct forecasts based on the data that is available at the time. Also, in its sole discretion, the Firm may decide that certain data sources are too expensive to acquire and may discontinue their use. There are inherent limitations on the accuracy

of the data, and inaccuracies can arise at any point in the process of gathering, filtering, cleaning, or analyzing any particular source of data. The Firm can provide no guarantee that any specific type of data will be utilized, no guarantee that data is accurate, and no guarantee that it is free of errors.

#### *Execution of Orders*

A Fund and an EF Account's investment strategies depend on the ability to establish and maintain an overall market position in a combination of financial instruments selected by the Firm. A Fund and an EF Account's investments may not be completed in a timely and efficient manner due to various circumstances, including, without limitation, systems failures or human error attributable to employees, loan platforms, agents or other service providers. In such events, a Fund and an EF Account might only be able to acquire some, but not all, of the components of such position, or if the overall position were to need adjustment, a Fund or an EF Account might not be able to make such adjustment. As a result, a Fund and an EF Account would not be able to achieve the market position selected by the Firm, and might incur a loss in liquidating its position.

#### *Investment Errors*

Investment errors are an intrinsic factor in any complex investment process and will occur notwithstanding the exercise of due care and the existence of procedures reasonably designed to prevent such errors. Such errors might include, for example, incorrect entry of a trade into an electronic investment systems, errors generated by automatic investment strategies or errors when reconciling investment activity. Except to the extent required by non-waivable provisions of federal or state securities laws and ERISA, the Funds and EF Accounts (and not Edge Focus Partners, LLC or the Firm) will bear any losses resulting from portfolio management, trading or administrative errors in connection with each Fund and EF Account's investment activities in the absence of fraud, willful misconduct or gross negligence by Edge Focus Partners, LLC or any of its affiliates, nor any of its or their respective principals, managers, members, partners, officers, directors, employees, equity holders, agents or other applicable representatives. Any gains or benefits that result from trade errors will also accrue to the Funds and EF Accounts. Coding errors related to each Fund and EF Account's trading models and systems generally are not considered to be "trade errors" under the Firm's trade error policies, as described above, and the Firm will not be liable to the Funds or EF Accounts for such coding errors.

#### *Concentration Risk*

Each Fund and EF Account will invest a substantial portion of its assets in Loans and the Funds' and EF Accounts' portfolios may at certain times be concentrated in Loans issued by only a few Lending Platforms. This concentration of risk will substantially increase the risk of material losses, even total losses, of investments held by the Funds and EF Accounts. This absence of diversity could expose a Fund and/or an EF Account to losses disproportionate to market movements in general if certain Lending Platforms become insolvent or run into significant financial difficulties. Loans are not expected to have any active trading markets. Upon the purchase of Loans, the Firm has a very limited ability to liquidate assets to meet withdrawal requests, or to reposition the portfolio in response to a change in economic events. In the event a forced liquidation were to take place, a Fund or an EF Account may be subject to sizable capital losses if the Firm is forced to create a market into which it would sell these assets.

#### *Availability of and Ability to Acquire Suitable Investments*

While the Firm believes that many attractive investments of the type in which a Fund and/or an EF Account may invest are currently available and can be identified, there can be no assurance that such investments will be available at any given time, or that available investments will meet a Fund and/or an EF Account's investment criteria. In such event, a Fund or an EF Account may be unable to find a sufficient number of attractive investment opportunities to meet its investment objective.

**THE ABOVE RISK FACTORS DO NOT COMPLETELY EXPLAIN THE RISKS OF INVESTING IN THE FUNDS AND EF ACCOUNTS AND DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED IN AN INVESTMENT IN THE FUNDS AND EF ACCOUNTS. PROSPECTIVE CLIENTS ARE URGED TO READ THE FUND'S**

**CONFIDENTIAL OFFERING MEMORANDUM CONSULT WITH THEIR OWN ADVISORS BEFORE DECIDING WHETHER TO INVEST IN A FUND OR AN EF ACCOUNT.**

Considering the Firm's method of analysis and investment strategy, clients should be aware that the investment recommendations are dependent on the Firm's judgment and abilities. All investments and recommendations are made exclusively by the Firm and based on the Firm's reports and analysis. Additionally, as the Firm utilizes proprietary models, trading strategies of the Firm are continually developing and evolving and may be changed without notice to the Firm's clients.

The Firm's investment recommendations seek to limit risk. However, the Firm's investment strategies will still subject the client to declines in the value of their portfolios, which can at times be dramatic and lengthy, particularly for clients who are aggressively seeking increased expected returns by accepting increased levels of market risks. Therefore, significant losses can occur if the client's trading model is not successful. Regardless of the steps taken to minimize risk, investments in securities and loans remains inherently uncertain especially with respect to future returns. The Firm does not represent or guarantee any future results.

The risk factors discussed above are not in any way intended to be an exhaustive listing of all potential risks associated with an investment utilizing the Firm's methods of analysis and/or investment strategies. Investors in Funds advised by the Firm should also review all additional risk factors discussed in the relevant Fund's Offering Memorandum.

## **9. Disciplinary Information**

The Firm is required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of the Firm or the integrity of the Firm's management. The Firm and its management do not have any such legal or disciplinary events to disclose.

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

### **Financial Industry Activities**

The Firm does not engage in any financial industry activities outside of its normal advisory business. Furthermore, the Firm has no other active or pending financial industry registrations.

### **Affiliations**

Except as described below, the Firm does not have any arrangements that are material to its advisory business or its clients with a related person who is a broker-dealer, investment company, other investment advisor, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships.

Edge Focus Partners, LLC, an affiliate of the Firm, acts as general partner to the Funds and receives the performance allocation from the EFHY Fund.

In addition, the Firm has admitted two asset management firms as strategic investors in the Firm (the "**Strategic Investors**") and will manage assets allocated to the Funds and/or EF Accounts by the Strategic Investors or related parties, including a "seed investment" in the EFA Fund made by one of the Strategic Investors that will be entitled to certain preferential terms, as further described in the EFA Fund's Offering Memorandum. The Strategic Investors will be entitled to a portion of the management fees and performance fees and allocations received by the Firm and its affiliates, and will be entitled to various consent rights with respect to their operations. The Strategic Investors, their affiliates and investors may conduct any other business, including any business within the securities industry, whether or not such business is in competition with the Firm. Among other things, the Strategic Investors may employ strategies substantially similar to those implemented by the Firm on behalf of its

clients, trade in the same financial instruments as clients and/or take positions in such financial instruments that are opposite to the positions taken by clients which, in each case, could adversely affect clients' portfolios. This results in certain potential conflicts of interest between the Firm's clients and the interests of the Strategic Investors; however, the Firm believes this conflict is mitigated because neither of the Strategic Investors nor their respective affiliates, principals, members, partners, employees or investors will be involved in formulating or providing any investment advice to Firm clients, nor will they be active in the management or day-to-day business activities of the Funds or EF Accounts managed by the Firm.

### **Other Business Relationships and Activities**

The Firm will devote as much of its time and resources to the activities of managing clients' accounts as it deems necessary and appropriate. Certain inherent conflicts of interest arise from the fact that the Firm and its affiliates will provide management and investment management services to multiple Funds, EF Accounts and proprietary accounts whose respective investment programs may or may not be substantially similar to one another. The portfolio strategies employed for one client could conflict with the transactions and strategies employed in managing another client's portfolio and affect the prices and availability of the securities and instruments in which such clients invest. Conversely, participation in specific investment opportunities may be appropriate, at times, for multiple clients. In such case, participation in such opportunities will be allocated on an equitable basis, taking into account such factors as the relative amounts of capital available for new investments, relative exposure to shortterm market trends, and the respective investment programs and portfolio positions of the participating clients. Such considerations may result in allocations of certain investments on other than a *pari passu* basis.

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

### **Code of Ethics**

The Firm has established a Code of Ethics that will apply to all of its associated and supervised persons. The Firm has a fiduciary duty to all of its clients which is the core underlying principle for its Code of Ethics. The Firm requires all employees, associated and supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times, including without limitation, the anti-fraud provisions of Rule 204A-1 of the Investment Advisers Act. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand and agree to comply with the Firm's Code of Ethics. The Firm has the responsibility to make sure that the interests of all clients are placed ahead of the Firm's or its supervised person's own investment interest. Full disclosure of all material facts and potential conflicts of interest will be provided to clients prior to any services being conducted. If a client or a potential client wishes to review the Firm's Code of Ethics in its entirety, a copy will be provided promptly upon request.

### **Participation or Interest in Client Transactions and Personal Trading**

The Firm and its associated persons may buy or sell securities and other investments that are also recommended for clients. The resulting conflict of interest, however, is actively mitigated by the Firm as the Firm (a) prohibits trading in a manner that takes personal advantage of price movements caused by client transactions and (b) in accordance with the Firm's Code of Ethics, the Firm and its associated persons will never be allowed to place their personal interests ahead of those of their clients.

Subject to applicable law, which may include the engagement and approval of an independent intermediary, the Firm may engage in principal transactions (i.e., a transaction in which the Firm causes a Fund or EF Account to purchase a financial instrument from, or sell a financial instrument to, the Firm or certain affiliated persons). This creates a potential conflict of interest between the Firm's duties to its

clients and the Firm's desire to maximize its own profits or obtain other benefits with respect to its proprietary trading activities.

In addition, the Firm may effect transactions between the different Funds and/or EF Accounts ("cross trades") where the Firm determines that such transaction is advantageous to both clients involved in the trade. Cross trades may be effected directly between clients or through open-market transactions. Effecting cross trades may increase brokerage commissions and may result in the relevant clients holding less of a profitable investment, or more of an unprofitable investment, than would be the case if there were no cross trades

## **12. Brokerage Practices**

### **Selecting Brokerage Firm**

Where applicable, the Firm may suggest brokers or custodians to its clients upon request but clients are free to use any brokerage or custodian services that they wish for EF Accounts. However, the Firm considers a number of factors in selecting and/or suggesting brokers and custodians for its clients' accounts, including, but not limited to, execution capability, experience and financial stability, reputation and the quality of services provided.

If applicable, the Firm selects brokers and/or custodians for the Funds it manages and the Firm may change such brokers from time to time.

The Firm does not have any affiliation with any customer brokerage or product sales firm.

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

The Firm does not currently receive research or other products or services ("soft dollar benefits") other than execution from a broker-dealer or a third party in connection with client securities transactions in compliance with SEC rules.

### **Directed Brokerage and Aggregated Orders**

The Firm will not require or engage in directed brokerage involving its clients.

## **13. Review of Accounts**

### **Periodic and Other Reviews**

Reviews of all accounts are performed on a daily basis. More reviews can be necessary due to the various factors, including, but not limited to, the client's circumstances, economic conditions, and general factors affecting the applicable portfolio investments.

### **Regular Reports**

The level of reporting will depend on the specific arrangements between the Firm and the applicable client. If applicable, clients with EF Accounts will receive transaction confirmations and monthly statements from their account custodians.

The Firm may, in its discretion, furnish investors in the Funds with periodic written unaudited performance reports on a monthly basis. On an annual basis, investors receive a copy of the relevant Fund's annual audited financial statements and, where applicable, a statement of taxable income (Schedule K-1).

## 14. Client Referrals and Other Compensation

The Firm does not directly or indirectly compensate any person for client referrals. However, the Firm may in the future engage duly qualified placement agents to solicit prospective investors for one or more of the Funds. Investors in the Funds will not be subject to a load or similar charge when a placement agent is used.

## 15. Custody

### Custody of Client Funds or Assets

#### *EF Accounts*

The Firm is generally deemed to have custody of client funds and securities whenever the Firm is given the authority to have fees deducted directly from EF Accounts. However, this is the only form of custody the Firm will maintain with respect to EF Accounts. It should be noted that authorization to trade in EF Accounts is not deemed by regulators to be custody. For accounts in which the Firm is deemed to have custody, the Firm has established procedures to ensure all client funds and securities are held at a qualified custodian in a separate account for each client under that client's name. Clients or an independent representative of the client will direct, in writing, the establishment of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, where applicable, account statements are delivered directly from the qualified custodian and/or an independent representative (e.g., the administrator) to each client, or the client's independent representative, at least quarterly. When clients have questions about their account statements, they should contact the Firm, the qualified custodian or the independent representative/administrator preparing the statement. When fees are deducted from an account, the Firm is responsible for calculating the fee and delivering instructions to the custodian. At the same time the Firm instructs the custodian to deduct fees from the client's account. The Firm will send the client an invoice itemizing the fee. Itemization will include the formula used to calculate the fee, the amount of assets under management the fee is based on, and the time period covered by the fee.

#### *Private Investment Funds*

Since Edge Focus Partners, LLC, an affiliate of the Firm, is the general partner of the EFHY Fund and the EFA Fund, the Firm is indirectly deemed to hold cash or securities for, or on behalf of such funds. All Fund cash and securities are maintained with third party qualified custodians.

With respect to the Firm's Funds, the Firm has implemented the following procedures:

- The Firm will distribute audited statements to all members within 120 days of each Fund's fiscal year end.
- A qualified custodian maintains cash for each Fund in a separate account(s) in the name of the fund.

The Firm urges investors in each Fund to carefully review all of the financial and account statements that they receive.

## 16. Investment Discretion

### **Discretionary Authority for Trading**

Generally, the Firm has authority to buy and sell securities or other instruments for its clients without specific ongoing client supervision. However, the Firm may be subject to client-imposed limits on the kind or amount of securities to buy or sell. The investors in the Funds generally may not place any limits on the Firm's authority beyond the limitations set forth in the offering and governing documents of such Funds.

## **17. Voting Client Securities**

### **Proxy Voting**

Because of the nature of the Firm's investment strategy, the Firm does not anticipate that it will regularly receive proxies with respect to investments made on behalf of its clients. However, EF Account clients are expected to vote their own proxies if applicable. The client will receive their proxies directly from the custodian of their account or from a transfer agent. When assistance on voting proxies is requested, the Firm may provide recommendations to the client. If a conflict of interest exists, it will be disclosed to the client.

If applicable, the Firm will have the authority to vote proxies for its Funds. The Firm has its own proxy voting policy. The policy provides that the Firm vote in the best long-term economic interest of its advisory clients and their beneficiaries, considering all relevant factors and without undue influence from individuals or groups who may have an economic interest in the outcome of a proxy vote. While the Firm does not expect to have a conflict involving proxy voting, if a conflict were to arise, the Firm will adhere to the proxy voting policy. Clients may obtain a copy of the proxy voting policy or a record of how proxies for the private fund in which they invested were voted free of charge by calling or writing the Firm at the number or address set forth on Page 1.

For EF Account clients subject to ERISA, an authorized plan fiduciary other than the Firm will retain proxy voting authority. A client's Investment Advisory Agreement and/or the plan's written documents will usually evidence and outline this authority.

## **18. Financial Information**

### **Financial Condition**

There are no financial conditions which are reasonably likely to impair the Firm's ability to meet contractual commitments to clients, and the Firm has not been the subject of a bankruptcy proceeding.

### **Prepayments**

The Firm does not require nor does it solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.