SOCOTRACAPITAL
Fixed Income Secured by Real Estate

| INVESTOR NEWSLETTER | OCTOBER 2021

EXECUTIVE SUMMARY

Thank you for your investment in the Socotra Fund and the Socotra Opportunity Fund. This newsletter intends to inform you of recent fund performance and update you regarding our investment outlook changes. This newsletter is not to be used for risk management or to serve as an investor prospectus.

The Socotra Fund and The Socotra Opportunity Fund returned between ~7 percent and 9 percent over the trailing 12-month (TTM) period. Both funds' investment portfolios are exceptionally healthy, having invested in high-quality loans with high collection rates and the lowest loan-to-values in our industry. Investor yields continue to stabilize as capital efficiency approaches historical norms.

If you are considering an investment in real estate debt, please contact us.

SOCOTRA FUND

The Socotra Fund's trailing 12-month (TTM) investor yield is 7.8 percent and the TTM rate of return was 8.1 percent for reinvestment partners. The target rate of return for 2021 is ~8.0-8.25 percent. These expectations are subject to change given market conditions.

As we emerge from the pandemic economy, we continue to see significant demand for bridge capital. The Socotra Fund targets low loan-to-value opportunities with significant cash (or equity) at risk. Please get in touch with us if you are considering an investment in the Socotra Fund.

OPPORTUNITY FUND

The Socotra Opportunity Fund's trailing 12-month (TTM) investor yield is 9.2 percent and the TTM rate of return was 9.6 percent for reinvestment partners. The target rate of return for 2021 is ~9.0-9.5 percent. The Opportunity Fund redemption window is open in Q4 2021.

The Socotra Opportunity Fund continues to explore the acquisition of discounted notes and acquiring undervalued real estate. We will close the fund to new capital if we have a material portion of the portfolio in these more difficult-to-value assets. Please get in touch with us if you are considering an investment in the Socotra Opportunity Fund.

SOCOTRACAPITAL
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| SOCOTRA FUND

94.5%
PORTFOLIO CURRENT

50.6%
LOAN-TO-VALUE

7.8%
TTM YIELD

8.1%
TTM RATE OF RETURN

*As of Sep. 30, 2021, weighted by loan amount

CASH FLOWS

COLLECTIONS:

In Q3 2021, the Socotra Fund collected $24M in interest payments and loan payoffs. At the end of Q3, seven loans were delinquent more than 30 days and the fund held two real estate-owned properties from one loan (REO). A portion of the REO is in contract, and the other piece is listed for sale. The nonperforming loans have an average loan-to-value of ~47 percent. Between Sep. 30 & the distribution of this newsletter, one 90+ delinquent loan was paid off in full.

of Loans: 199 First Lien
Average Loan Size: $890,000
30-90-Day Delinquent Loans: 3
90+ Day Delinquent Loans/REO: 5
Loan Loss Reserve Balance: $2.9M

DISTRIBUTIONS & DISBURSEMENTS:

The fund made $3.6M in distributions, ~$1.5M was reinvested, and the other ~$2.1M was disbursed to income investors.

FUNDINGS, ADDITIONS, & WITHDRAWALS:

The fund closed on ~$39.3M in new loans during Q3 2021. The fund added $17.4M in new investor capital and processed $1.8M in investor withdrawals.

The Socotra Fund ended Q3 2021 holding a cash and loan portfolio of ~$192.5M. The portfolio remains healthy with ~95 percent of the portfolio current and an aggregate loan-to-value (LTV) of 50.6 percent. The portfolio is presently allocated ~75 percent to commercial properties and 15 percent to residential properties, while 10 percent is presently held in cash. The fund's largest loan is ~3.9 percent of total capital, indicating no key concentrations exist. The average term remaining on the portfolio is ~16 months. Near term, there are ~$22M in loans maturing within the next 90 days and ~$51M maturing within six months. The Socotra Fund's long-term goal is to deliver consistent monthly income by investing in high-quality real estate loans with low loan-to-value ratios.

SOCOTRA FUND - INVESTOR YIELD THROUGH SEPTEMBER 2021

PERFORMANCE	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION
Average Annual Yield	7.8%	7.6%	7.6%	8.6%
Average Annual Rate of Return	8.1%	7.9%	8.1%	8.8%

| SOCOTRA OPPORTUNITY FUND

91.3%	PORTFOLIO CURRENT
49.0%	LOAN-TO-VALUE
9.2%	TTM YIELD
9.6%	TTM RATE OF RETURN

*As of Sep. 30, 2021, weighted by loan amount

CASH FLOWS

COLLECTIONS:

The Socotra Opportunity Fund collected ~$1.2M in interest payments and loan payoffs during Q3 2021. The Socotra Opportunity Fund presently has three loans that are delinquent greater than 30 days.

of Loans: 45 First Lien, 1 Second Lien
Average Loan Size: $520,000
30-90-Day Delinquent Loans: 2
90+ Day Delinquent Loans/REO:1
Loan Loss Reserve Balance: $540K

DISTRIBUTIONS & DISBURSEMENTS:

The Socotra Opportunity Fund made ~$565K in distributions in Q3 2021, with ~$285K disbursed as income and ~$280K reinvested.

FUNDINGS, ADDITIONS, & WITHDRAWALS:

The Socotra Opportunity Fund closed on $4.9M in new loans during Q3 2021 and added $1.2M in new investor capital. The Socotra Opportunity Fund liquidity window is open for new redemption requests until the end of 2021.

The Socotra Opportunity Fund finished Q3 2021 with a cash and loan portfolio of ~$25M. The Socotra Opportunity Fund seeks scenarios with long-term upside, foregoing a consistent monthly return for longer-term gains. The portfolio contains ~62 percent commercial loans, ~33 percent residential loans, and 5 percent cash. The average term remaining in the portfolio is approximately seven months. Near term, there are ~$5.8M in loans maturing within the next 90 days and ~$14.1M maturing within the next six months. We seek unique opportunities to acquire distressed notes at favorable discounts or purchase real estate on courthouse steps below fair market value. We will close the Opportunity Fund to new capital once we obtain these assets at attractive entry points. As discussed in prior forums, these unique scenarios have not yet materialized. However, we expect market uncertainty within specific geographic markets and asset classes to create opportunity. Additionally, we expect to see longer-term impacts from the pandemic spill over into 2022 as we enter a rising interest rate environment.

SOCOTRA OPPORTUNITY FUND - INVESTOR YIELD THROUGH SEPTEMBER 2021

PERFORMANCE	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION
Average Annual Yield	9.2%	8.4%	8.6%	8.8%
Average Annual Rate of Return	9.6%	8.7%	9.0%	9.2%

| LOAN OF THE QUARTER

CHRIS BAUMANN
LOANS AND INVESTMENTS

Chris joined Socotra Capital in 2012 after an extensive career with Mercedes-Benz and Volkswagen. Chris leads the Business Development Team at Socotra Capital as the top Loan Originator in Northern California. An active member of his community, Chris guides others in professional development and is a member of numerous professional associations throughout California.

LOAN STATS

LOAN STATS
Loan Amount: $1,000,000
Interest Rate: 10.99%
19% Loan-to-Value
24-Month Term
Industrial Building

$1,000,000 REFINANCE OF A 41,400-SQUARE-FOOT MULTI-TENANT INDUSTRIAL BUILDING IN SACRAMENTO, CA

TRANSACTION SUMMARY

The borrower was previously the master tenant of the subject property and executed a lease option to purchase the property in early 2021. Final purchase price under the lease option was $2.5M, but the property appraised for $5.3M. After closing on the property, the borrower paid off all debts secured by the subject property.

Fast-forward to Q3 2021 when borrower had a high sense of urgency, needing quick cash in order to close on another transaction. The borrower requested a cash-out refinance secured by the subject property, but needed to close within the week. This loan scenario fits perfectly for our "Turbo Close" loan product as our team executed flawlessly, closing the loan in less than seven days.

| MARKET UPDATE

Taking stock of the U.S. economic recovery depends upon which indicators are considered when forming an opinion. Inflation continues to be a headlining topic. Home prices, energy, and other price increases have many market observers concerned that “real” disposable income is stagnating at best, potentially declining. Many attribute the growing inflation woes to supply chain challenges posed by the delayed side effects of COVID interruptions and the corresponding “bullwhip” effect. Throughout the supply chain, stakeholders took drastic measures to mitigate risk and reduce headcount when the pandemic broke but are now struggling to re-hire staff to meet rising demand. The competitive labor market also adds to inflationary trends, as employers raise wages to attract more talent. However, rising wages have not kept pace with the asset prices. Additionally, jobs growth has decelerated and appears to be growing at a more modest rate, even though job openings remain at all-time highs. The Fed seems to be poised to take measured steps to taper bond purchases and is likely to follow these steps with gradual rate hikes to bring long-term inflation back within its target band.

Q3 2021 saw a resurgence of COVID, primarily impacting unvaccinated Americans. The Delta variant spread across the U.S., but vaccine efficacy proved significant in preventing hospitalization and mortality, despite the near-record level of infections. Unfortunately, the U.S. COVID death toll rose another 100,000 in Q3, bringing the total to just over 700,000 in less than two years. U.S. vaccination efforts expect an uptick from a tandem of booster shots for “at-risk” individuals, and emergency FDA approval for children age 5 to 11, expected later this month. COVID has also hastened retirement timelines for many seasoned labor market participants, resulting in a sharp decrease in labor participation. However, these demographic trends should come as no surprise. Demographers have long projected that the 65+ segment will grow as the under-18 population shrinks due to falling fertility rates.

Bank loan balances increased in Q2 2021, marking the first increase in over a year.

Residential real estate values increased from last year on lower inventories and increased credit availability. Home listings remain below average norms, and increasing price points push buyers out of the market, as housing affordability plays a key role. Housing affordability also ties back into our first topic of inflation, because increasing home prices also influence rents across both single-family and multi-family properties. Commercial property values other than mall assets and hotels have also recovered. Some asset classes have even seen a boost to already elevated valuations, such as industrial and multi-family. Bank commercial real estate (CRE) loan performance improved, but some lingering loan delinquencies remain in lodging and high-density retail. Looking ahead, economic growth is expected to continue to alleviate the remaining loan delinquencies, including the aforementioned hospitality and retail sectors. CBRE Cap Rate Survey indicates real estate investor risk appetites increased in the first half of 2021. Survey respondents expect cap rates to remain stable or compress across markets and property types for stabilized assets with few exceptions.

U.S. bank deposits remain elevated above historical norms, and operating incomes are higher than they were pre-pandemic. Additionally, bank loan balances increased in Q2 2021, marking the first increase in over a year. As bank consolidation continues to unfold, we expect the demand for private credit to increase over time. Larger banking institutions inherently gravitate towards larger commercial loans or towards consumer home loans, leaving a huge void of underserved borrowers that do not fit either of those credit boxes. At Socotra Capital, we originate loans with low loan-to-value ratios and significant borrower cash at risk, and we invest our capital without any form of leverage.