SOCOTRA CAPITAL

Investor Newsletter

JANUARY 2023

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. 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 10 percent respectively over the course of 2022. 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. Our strategy entails using zero leverage and adhering to strict underwriting standards.

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

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SOCOTRA FUND

The Socotra Fund's 2022 average yield was 7.1 percent and the 2022 rate of return was 7.3 percent for reinvestment partners. Given the rising rate environment and premium on capital, we anticipate 2023 yields to increase relative to 2022. Currently, we project the 2023 yield to average between ~7.7-8.3 percent. These expectations are subject to change given market conditions.

The Socotra Fund prioritizes the preservation of principal and consistency of income by investing in low loan-to-value opportunities with significant cash (or equity) at risk. Please contact us if you are considering an investment in the Socotra Fund.

OPPORTUNITY FUND

The Socotra Opportunity Fund's 2022 average yield was 8.8 percent and the rate of return was 9.1 percent for reinvestment partners. The current projected rate of return for 2023 is ~8.5-9.5 percent. These expectations are subject to change given market conditions.

The Socotra Opportunity Fund prioritizes maximizing risk-adjusted returns, willing to forgo liquidity and consistency to achieve a higher rate of return. It focuses on the acquisition of high-interest loans, discounted notes, and undervalued real estate. Please get in touch with us if you are considering an investment in the Socotra Opportunity Fund.

The Socotra Fund

96.1%
PORTFOLIO CURRENT

49.4%
LOAN-TO-VALUE

7.1%
2022 YIELD

7.3%
2022 RATE OF RETURN

PORTFOLIO METRICS

243 First Lien
OF LOANS

$1,000,000
AVERAGE LOAN SIZE

2
31-90-DAY DELINQUENT LOANS

4
90+ DAY DELINQUENT LOANS/REO

$3.6 M
EXPECTED CREDIT LOSS RESERVE

*As of Dec. 31, 2022, weighted by loan amount

CASH FLOWS COMMENTARY

COLLECTIONS:

In Q4 2022, the Socotra Fund collected $26.4M in interest payments and loan payoffs. At the end of Q4, six loans were non-performing for more than 31 days. Of the six non-performing loans, two are in active foreclosure with auctions scheduled between the next 45-120 days. The remaining four loans are party to bankruptcy proceedings. We anticipate at the conclusion of the bankruptcy proceedings a full recovery of principal. The average loan-to-value for non-performing loans is ~50 percent. During the course of Q4, the Socotra Fund dispositioned an REO property via a "seller carry" transaction. The gain on sale from the transaction will be amortized over the life of the loan.

We anticipate the tightening credit environment and the slowing real estate market will induce more loans into default. While this may temporarily reduce collection rates, the investor yield is protected by the low loan-to-value, zero leverage, and ample reserves. In the long run, this should lead to higher yields.

DISTRIBUTIONS AND DISBURSEMENTS:

The fund made $4.6M in distributions, ~$2.0M was reinvested, and the other ~$2.6M was disbursed to income investors.

FUNDINGS, ADDITIONS. AND WITHDRAWALS:

The fund closed on ~$42.2M in new loans during Q4 2022. The fund added $9.2M in new investor capital and processed $4.1M in investor withdrawals. Redemptions are processed on a quarterly basis, and the Socotra Fund is not presently "Gated".

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SOCOTRA FUND: PORTFOLIO COMMENTARY

The Socotra Fund ended Q4 2022 holding a cash and loan portfolio of ~$249.0M. The portfolio remains healthy with ~96.1 percent of the portfolio current and an aggregate loan-to-value (LTV) of 49.4 percent. The portfolio is presently allocated ~80 percent to commercial properties and 18 percent to residential properties, while 2 percent is presently held in cash. The fund's largest loan is ~3.2 percent of total capital, indicating no loan concentrations exist. The average term remaining on the portfolio is ~18 months. Near term, there are ~$51M in loans maturing within the next 90 days and ~$78M 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.

INVESTOR YIELD THROUGH DECEMBER 2022

PERFORMANCE	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
Average Annual Yield	7.1%	7.6%	7.9%	8.4%
Average Annual Rate of Return	7.3%	7.6%	7.9%	8.8%

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.

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The Socotra Opportunity Fund

95.3%
PORTFOLIO CURRENT

49.5%
LOAN-TO-VALUE

8.8%
2022 YIELD

9.1%
2022 RATE OF RETURN

PORTFOLIO METRICS

65 Senior, 7 Junior
OF 1ST LIEN LOANS

$785,000
AVERAGE LOAN SIZE

0
31-90-DAY
DELINQUENT LOANS

4
90+ DAY DELINQUENT
LOANS/REO

$648 K
EXPECTED CREDIT
LOSS RESERVE

*As of Dec. 31, 2022, weighted by loan amount

CASH FLOWS COMMENTARY

COLLECTIONS:

In Q4 2022, the Socotra Opportunity Fund collected $3.3M in interest payments and loan payoffs. At the end of Q4, four loans were delinquent for more than 31 days which includes one real estate-owned property (REO). Two of the nonperforming loans are in active foreclosure, and we expect to have an auction scheduled within the next ~120 days. The other loan is subject to a bankrupty proceeding. The average loan-to-value for non-performing loans is ~55 percent.

We expect the deteriorating economic environment will push more loans into default. The Opportunity Fund tolerates scenarios that have a higher chance of default than the Socotra Fund. These defaults and foreclosures are what generate a higher rate of return, but can also make the Opportunity Fund less liquid, thus requiring more patient capital.

DISTRIBUTIONS AND DISBURSEMENTS:

The fund made ~$1.1M in distributions, ~$630K was reinvested, and the other ~$520K was disbursed to income investors.

FUNDINGS, ADDITIONS, AND WITHDRAWALS:

The fund closed on ~$11.8M in new loans during Q4 2022. The fund added $10.9M in new investor capital. The Opportunity Fund is currently accepting withdrawal requests that will be processed during Q4 2023.

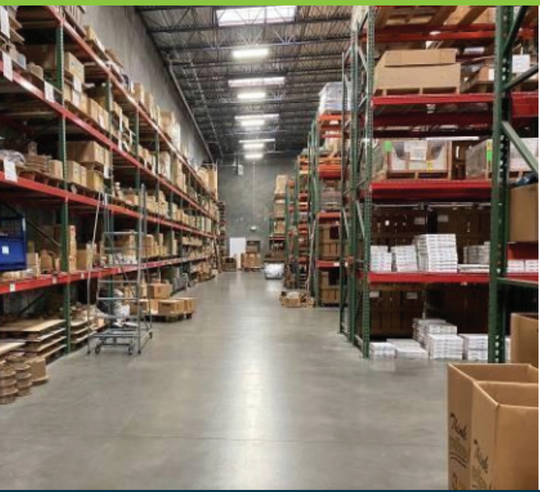
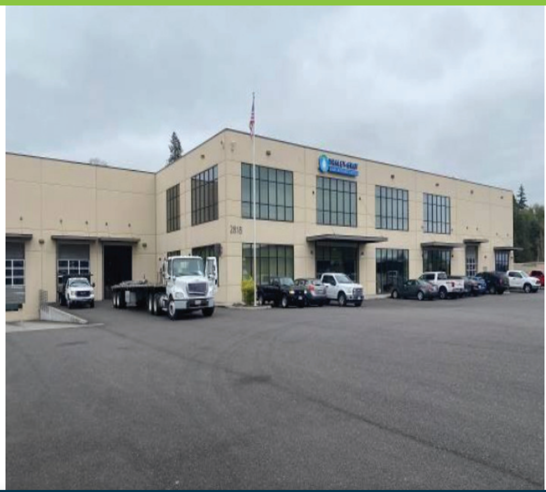
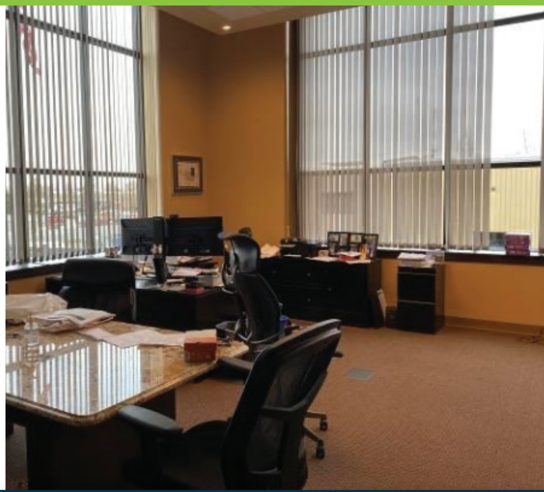
OPPORTUNITY FUND: PORTFOLIO COMMENTARY

The Socotra Opportunity Fund (SOF) ended Q4 2022 holding a cash and loan portfolio of ~$58M. The SOF seeks scenarios with long-term upside, foregoing a consistent monthly return for longer-term gains. The portfolio contains ~56 percent commercial real estate loans, ~41 percent residential loans, and 3 percent cash. The average term remaining in the portfolio is approximately thirteen months. Near term, there are ~$12.3M in loans maturing within the next 90 days and ~$16.9M maturing within the next six months. The SOF seeks unique opportunities, such as high-interest loans, distressed notes at favorable discounts, or the acquisition of real estate below fair market value. The SOF expects to stop accepting new capital once it acquires a material concentration of these more difficult-to-value assets at attractive entry points. Given the current economic climate, we anticipate the percentage of non-performing loans to increase which will prompt the closure of the SOF to new capital partners. Closing the SOF is to prevent the dilution of returns to the members who acquired the non-performing loans and preserve the potential upside in default interest or gains on foreclosure.

INVESTOR YIELD THROUGH DECEMBER 2022

PERFORMANCE	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION
Average Annual Yield	8.8%	8.6%	8.6%	8.8%
Average Annual Rate of Return	9.1%	8.9%	8.9%	9.2%

The Socotra Opportunity Fund's long-term goal is to maximize the risk adjusted return. It will forgo monthly consistency in exchange for higher returns in the long run.

Loan of the Quarter

MATT YU

LOANS AND INVESTMENTS

Graduating from the University of California, Davis with degrees in economics and biochemistry, Matthew Yu is an excellent problem solver, cleverly crafting fixes for unique scenarios.

A loan originator since 2013, Matt concentrates on the California Bay Area and Seattle, Washington markets. Matt grew up in San Francisco, enjoys fishing as often as possible, playing his drum set, and is happily married to his high school sweetheart.

$3,000,000 REFINANCE OF A 23,390 SQFT INDUSTRIAL FLEX FACILITY IN VANCOUVER, WA

TRANSACTION SUMMARY

The borrower acquired the property in July 2022 for $6.0M. The seller entered into a long term lease with the buyer (our borrower) for $28,500/month Triple Net ("NNN"), having previously owned and operated out of this property the preceding 10 years. The borrower bought the property all cash and was looking for cash out to infuse capital into other projects.

The borrower invests in a variety of real estate endeavors, including NNN investment properties, multifamily, and other single family development. The property includes a mixture of office and industrial warehouse space and is located within the greater Portland metropolitan area. The borrower needed reliable financing on a relatively short fuse, but intends to pay off our loan using conventional financing.

Loan Amount	$3,000,000
Interest Rate	10.99%
Loan-to-Value	50%
Term	24-Month
Property	Industrial

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Market Update

Equity markets modestly recovered in Q4 2022, with some seeing the Federal Reserve's posture beginning to soften. December's interest rate hike was only 50 basis points ("bps") compared to the four previous rate hikes which had been 75 bps making 2022 the fastest rate hike in Fed history, albeit starting from the lowest point in history as well. What often comes as a shock to most observers is that the Fed Funds rate only recently surpassed the 2018 Fed Funds target rate, illustrating how accustomed investors were to low-interest rates. More importantly, the Fed's December meeting shows that the committee intends to keep raising rates and does not envision any rate cuts in store for 2023, with a target Fed Funds rate between 5%-6%, another 50-100 bps higher than where they ended 2022.

Residential real estate values continue to decline under the weight of the Fed's rate hikes. Most observers note that from May 2022's peak, price points have declined 10%-20% from their peaks. However, average prices today are approximately level with where they were in late 2020, highlighting the meteoric rise in real estate values over the last two years. While many thought that a limited supply of new listings would keep prices elevated, the dramatic uptick in mortgage rates has offset any of those counterweights. Additionally, as mortgage rates make affordability insurmountable for would-be homebuyers, inventory sits and eventually accumulates as days on the market increase across the country. Commercial real estate values also declined at a similar pace of 10%-20% from their recent peaks, as rent growth across all asset classes hit their respective ceilings and capitalization rates increased on account of rising interest rates. Questions abound on specific asset classes that are acutely impacted by the pronounced shift towards the "work from home" following the pandemic, namely central business districts and their high-density office, high-density hospitality, and high-density retail. There is a continued growing movement to convert some of these high-density assets into multifamily conversions to address the ever-growing affordable housing deficit. Depending upon the size and scale of the projects, many of these could be viable candidates for the private lending industry.

The Federal Reserve's recent credit survey highlights that most participating banks are tightening both financial and non-financial covenants in their credit standards, while also looking to right-size their leverage ratios. Additionally, the Fed's credit survey also suggests that these changes are coming at a time when demand for new debt issuance continues to grow, all while bank liquidity positions tighten. Bank loan balances continue to grow, and interest margins widened, but deposits have continued their precipitous decline. At the time of this newsletter, we are still awaiting bank industry-wide data for Q4. Still, the consensus expectations are that loan balance growth is likely to reverse as banks tighten their credit boxes further and add provisions for loan-loss reserves as delinquencies begin to rise. As bank credit boxes tighten further, coupled with the ongoing bank consolidation that continues to unfold across the country, more borrowers are underserved by conventional banks. The expectation is that the coming months will present attractive lending opportunities for those that can effectively manage their liquidity. Adding new loans to the portfolio at higher prevailing rates and lower loan-to-values is expected to improve the risk-adjusted return for our partners.

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Amid these ever-changing market dynamics, our commitment to our core strategy is more critical than ever. At Socotra Capital, we originate loans with low loan-to-value ratios, significant borrower cash at risk, and invest our capital without any leverage. As the market headwinds begin to weigh on the industry, we expect this strategy to allow our investment vehicles to navigate out of non-performing loans quickly or generate considerable upside over the long run. Additionally, we anticipate that the discipline we invested in the years before the current economic downturn will enable our ability to capitalize on the upcoming opportunities.