

The Socotra Fund





The Socotra Fund, LLC focuses on consistent cash flow by investing in “first trust deeds,” all secured by properties with a significant equity hedge. Similar in format to a mutual fund, investor capital is pooled collectively and invested in a portfolio of private money loans. These investment opportunities include bridge loans, commercial real estate loans, fix-and-flip residential projects, business purpose “turbo loans” that require a quick close, and cash-out refinances for business purposes.



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Disclosures: Minimums & Liquidity

The Socotra Fund requires a minimum investment of \$25,000 and an initial lockup period of 6 months. Investors who redeem within the first twelve months are assessed a 1% early exit fee, payable to the Fund, not the manager. Following the initial six-month lockup period, liquidity is available on a quarterly basis. Redemptions are subject to gate restrictions in the event more than 5% of the fund requests a redemption within one quarter. The performance quoted represents past performance and does not guarantee future results. Investment returns and the principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted, and numbers may reflect small variances due to rounding.

As of December 31, 2021



of Loans:
205 First Lien



Average Loan Size:
\$890,000



**30-90 Day
Delinquent Loans:**
1



**90+ Day
Delinquent Loans:**
3



**Real Estate Owned
(REO): 1**

How Mortgage Funds Work

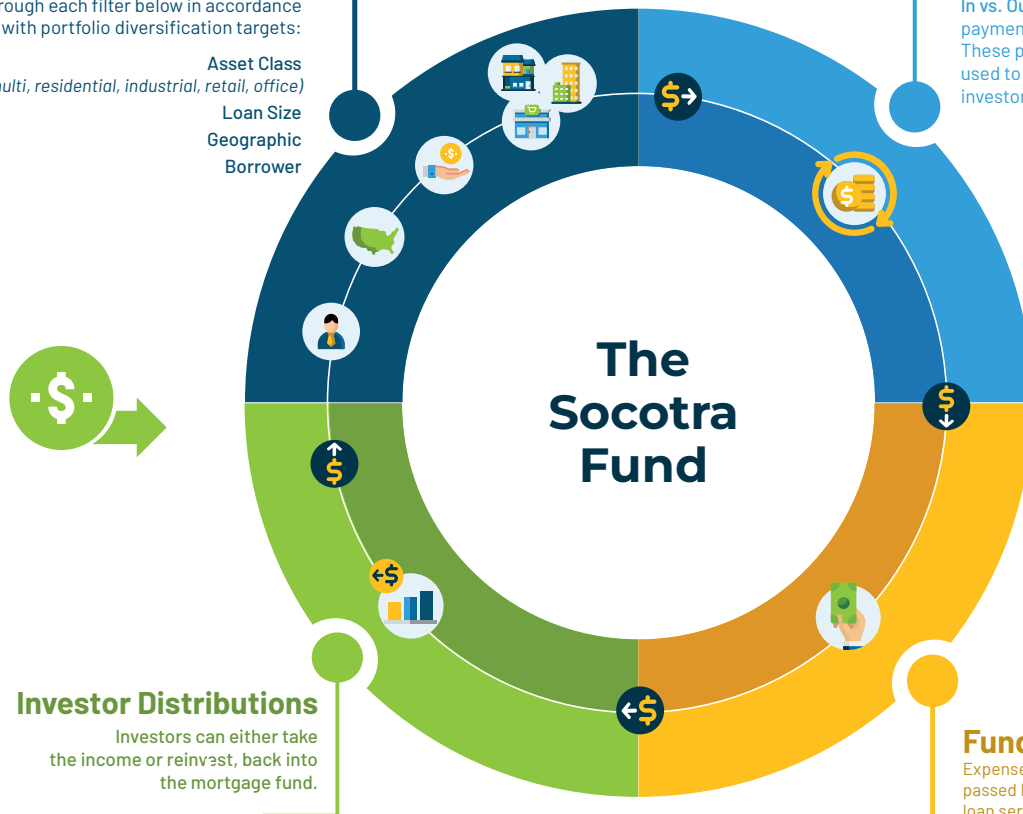
Originate & Invest in Loans

Pooled Investment & Portfolio Diversification: The pooled funds are invested into a diversified portfolio of real estate loans. Each loan is processed through rigorous underwriting and passed through each filter below in accordance with portfolio diversification targets:

- Asset Class
(multi, residential, industrial, retail, office)
- Loan Size
- Geographic
- Borrower

Collections on Loans

In vs. Out: manager services and collects payments from borrowers every month. These payments are pooled together and used to pay fund expenses and ultimately investor returns.



Investor Distributions

Investors can either take the income or reinvest, back into the mortgage fund.

Fund Expenses

Expenses are deducted and profits are passed back into the pool. Expenses include loan servicing fees, accounting and audit fees, and loan loss reserves. These are payments made to the manager and to independent third parties as well as non-cash expenses such as reserves.



The Socotra Fund presently holds more than \$200 million of investor capital. Investments in the Fund are subject to a lockup period of six months with liquidity becoming available thereafter on a quarterly basis. The Fund is structured so that the manager, Socotra Management, Inc., and the investors are fully aligned. The partners, employees, and family members of Socotra Capital now hold more than \$21 million in the Fund.

Investor returns were generated in the past with a high degree of consistency, even amid turbulent developments, all while subjecting investors to minimal amounts of risk. The Socotra Fund does not use any forms of leverage—ensuring investor returns are not negatively amplified in a downward market cycle—and loans are diversified across numerous geographies, property types, and borrowers, all with an average loan-to-value (LTV) ratio of 50 percent.

This conservative approach ensures the Socotra Fund can withstand both regional market downturns and larger market events, and it allows the Socotra Fund to maintain cash flow and make new loans even during an economic recession.

During market downturns, credit markets typically tighten and asset prices are compressed, which creates unique opportunities to make high-quality loans. In order to maintain our target yield during the next economic cycle, the focus of the Fund will be to target commercial loans. This market continues to be underserved by both conventional banking and non-bank lenders.

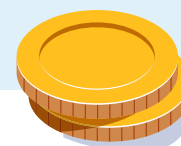


The partners, employees, and family members of Socotra Capital now hold more than \$21 million in the Fund.

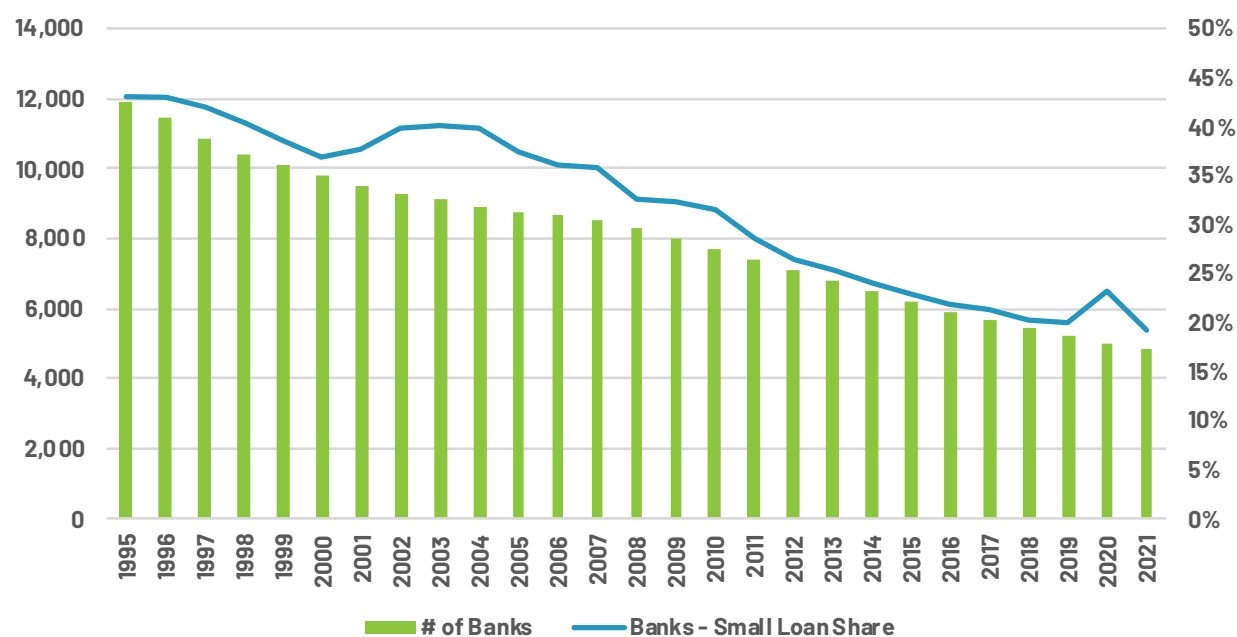
Since the inception of the Socotra Fund in 2012, the Fund’s managers have never lost any investor principal. This is due in large part to the Fund’s implementation of dynamic provisioning or estimating the potential for credit losses when making a loan. As a result, the Socotra Fund carries a material reserve account as the portfolio not only grows but also changes in composition.

The Socotra Fund is audited on an annual basis by CohnReznick LLP, a third-party, SEC-caliber CPA firm. This audit provides an independent assessment of the Fund’s performance. In addition, a subsidiary real estate investment trust (REIT) was established in 2019, which affords investors preferential tax treatment on their distributions relative to other fixed income investments.

Socotra Capital was established in 2007 in response to the fact that small balance commercial loans are declining as a share of all U.S. bank business loans, a decline that has been in progress for more than 20 years. These transactions represent small balance commercial loans that can often be more complex, or time-sensitive transactions that conventional banks may not be able to perform because of their internal costs and “red tape.”



US Banking Trends



Source: FDIC

There is no evidence of this trend attenuating, and this market segment is further underserved due to the decades-long demise of community banks throughout the United States either due to closure or acquisition by large, national banks. Consequently, the Fund has consistently enjoyed access to an extremely large market of loans in the \$1M-\$10M range which feature reduced competition, properties with significant value retention, and high-caliber borrowers with the capacity to keep notes current.

Socotra Capital takes extreme caution when it comes to making loans that generate investor returns for the Socotra Fund. To ensure the security of the Fund's investors, the Fund requires the use of independent third-party appraisals to determine property values, in addition to underwriting each borrower's desired use of funds. A great deal of discipline and patience goes into the process of underwriting each loan, particularly with regard to collateral, size of cash transactions, incentives, and the appropriate risk profile.

The manager, Socotra Management, Inc. provides, full transparency regarding Fund performance and the status of the portfolio. Most importantly, no leverage is used, protecting investor capital during downward cycles. The Fund's manager monitors and may advance either property taxes or property insurance on behalf of the Fund to protect investor capital.

Loans are originated "in-house" by Socotra Capital using traditional sales methods, including driving markets, meeting industry affiliates, and using traditional cold-calling techniques. We have spent more than 12 years cultivating relationships with mortgage brokers, listing agents, investors, and other local real estate experts. Our goal is to build upon our reputation as a lender that performs consistently and communicates with precision. These efforts have made Socotra Capital the premier private lender, allowing the firm exclusive access to time-sensitive deal flows that ultimately generate higher yields for our investors at low loan-to-value ratios.



Performance & Benchmarks

Socotra Fund - Annual Equivalent Yield

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Yield	Rate of Return
2012	10.3%	10.9%	10.2%	10.6%	9.9%	10.1%	9.2%	9.7%	10.1%	9.4%	9.6%	9.9%	10.0%	10.5%
2013	10.0%	10.5%	9.2%	10.0%	9.5%	10.1%	9.4%	9.6%	9.5%	9.5%	9.5%	9.4%	9.7%	10.1%
2014	9.3%	10.3%	8.6%	9.7%	9.1%	9.5%	9.1%	9.7%	9.3%	9.4%	9.4%	9.4%	9.4%	9.8%
2015	9.4%	9.1%	9.2%	9.0%	9.2%	8.9%	9.0%	9.0%	9.0%	8.9%	9.1%	8.7%	9.0%	9.4%
2016	8.9%	9.1%	8.9%	8.9%	8.6%	8.5%	8.8%	8.4%	8.3%	8.1%	8.0%	8.1%	8.6%	8.9%
2017	8.3%	7.6%	8.4%	8.0%	8.4%	8.2%	8.2%	8.1%	7.9%	8.1%	7.9%	8.2%	8.1%	8.4%
2018	8.3%	7.5%	8.2%	7.7%	8.4%	7.9%	8.0%	8.0%	7.8%	7.9%	7.6%	8.2%	8.0%	8.3%
2019	7.7%	7.6%	8.2%	8.3%	8.4%	8.0%	8.1%	8.0%	7.9%	8.0%	7.8%	7.9%	8.0%	8.3%
2020	7.6%	7.6%	6.0%	6.1%	6.4%	6.3%	7.1%	7.2%	7.2%	7.3%	6.4%	7.1%	6.9%	7.1%
2021	7.4%	7.1%	11.6%	7.7%	7.8%	7.8%	7.9%	7.9%	7.5%	7.9%	8.1%	8.1%	8.1%	8.4%



Socotra Fund—Statistics & Financial Summary

Data as of Dec. 31, 2021

The Socotra Fund is audited by CohnReznick LLP, one of the United States' top 25 largest independent accounting and auditing firms. CohnReznick audits some of the largest operators in the private lending industry and has a dedicated tax practice specifically for REITs, evaluating assets and portfolios in excess of \$10 billion.

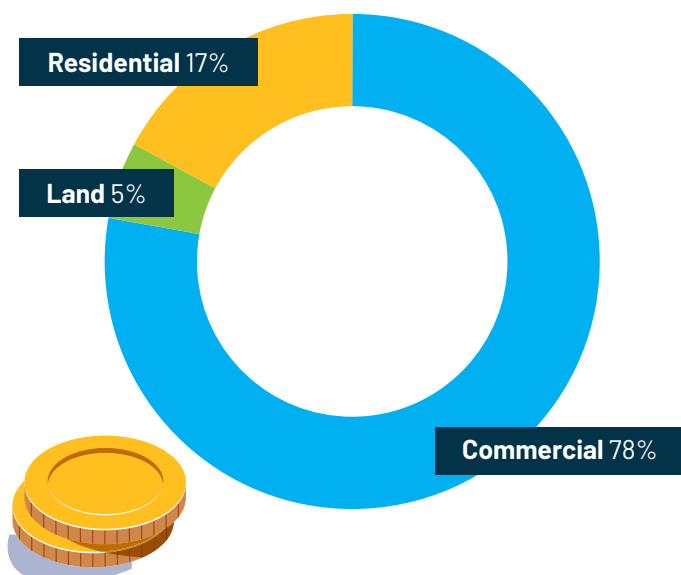
Change in Member Equity & Fund Income (\$K)	2017	2018	2019	2020	2021	2022 (F)
Equity Beginning of Year	\$55,189	\$74,421	\$96,382	\$129,662	\$145,628	\$206,436
Mortgage & Fee Income	\$6,551	\$8,527	\$10,755	\$12,934	\$16,373	\$21,676
Servicing Fees	\$780	\$1,031	\$1,292	\$1,552	\$1,834	\$2,601
Management Fees	\$183	\$185	\$265	\$344	\$431	\$578
Other Fees	\$75	\$101	\$121	\$180	\$272	\$180
Reserves	\$144	\$278	\$300	\$1,450	-\$80	\$610
Other Income/Loss	-\$70	-\$120	-\$147	-\$13	\$216	\$0
Net Income	\$5,298	\$6,812	\$8,630	\$9,394	\$14,132	\$17,707
Contributions	\$19,623	\$21,281	\$34,862	\$27,062	\$68,370	\$50,000
Withdrawals	-\$5,689	-\$6,111	-\$10,213	-\$20,614	-\$21,695	-\$20,644
Equity End of Year	\$74,421	\$96,382	\$129,662	\$145,503	\$206,436	\$253,499
Year End Balance Sheet (\$K)	2017	2018	2019	2020	2021	2022 (F)
Cash	\$841	\$3,373	\$3,300	\$21,969	\$23,289	\$10,000
Notes Receivable	\$73,706	\$93,765	\$128,620	\$127,441	\$186,129	\$248,206
Loan Loss Reserves	-\$899	-\$1,177	-\$1,477	-\$2,927	-\$2,847	-\$3,457
Other Assets	\$874	\$607			\$1,210	
Total Assets	\$74,522	\$96,568	\$130,443	\$144,525	\$207,781	\$252,249
Total Liabilities	\$101	\$185	\$781	\$979	\$1,345	\$1,250
Equity	\$74,421	\$96,382	\$206,436	\$145,503	\$206,436	\$253,499

Fixed Income Benchmarks

Relative to alternative investment vehicles, the Socotra Fund generates a high annual yield relative to traditional bond funds, mortgage REITs, and conventional REITs while also providing consistency and security in the long term. Key comparisons to consider include the Vanguard Mortgage-Backed Securities (VMBS), which has lagged the Socotra Fund in the trailing one-, three-, and five-year horizon. Other REIT alternatives show substantial volatility because of their use of leverage, making them subject to significant interest rate risk. Bond funds lag the Socotra Fund when looking at longer-term holds of 3-5 years.

Benchmark	1 Year	3 Year	5 Year
iShares Bond - MBB	-1.3%	3.0%	2.4%
iShares Com MBS - CMBS	-1.7%	4.6%	3.5%
iShares US REIT - USRT	43.1%	18.3%	10.7%
Vanguard MBS - VMBS	-1.3%	2.9%	2.4%
Vanguard REIT - VGSIX	40.2%	19.8%	11.1%
The Socotra Fund	8.1%	7.9%	8.1%

Portfolio by Type

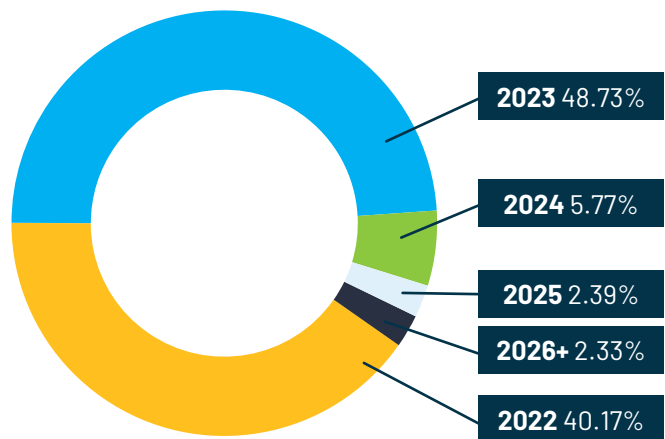


The Socotra Fund is composed of loans on a variety of asset types, diversifying its portfolio to hedge against potential market changes within any given asset type or region. Looking at the entire portfolio, about 78 percent of funds are invested in loans on a variety of commercial property types. Another approximately 17 percent have been used to make loans on residential properties, and the remaining 5 percent are allocated to loans on undeveloped land.

Residential loans in the Socotra Fund are primarily for single-family residences, whereas commercial loans are a blend of mixed use, both single- and multi-tenant retail, and industrial buildings. The firm has focused on growing the Fund's capital structure to more consistently meet the demand for loans in the \$1M-\$10M range.

Portfolio by Maturity

Generating a consistent, ongoing cash flow for investors requires both short-term cash management and forward-thinking strategies. The Socotra Fund accomplishes this with a portfolio of loans with a distributed range of maturity dates. Currently, a total of about 90 percent of the loans are due to mature by the end of 2023 with the remaining loans paving the way for the future.



Portfolio by Loan to Value Ratio

Loan-to-Value (LTV) ratios are a vital component to not only understanding risk, but managing risk. The Socotra Fund focuses on loan opportunities where there is significant borrower equity at risk, with an average LTV of ~50%, oftentimes with considerable amounts of cash investment from the borrowers. As LTVs increase, rates of return should also increase, and vice versa. The Socotra Fund, LLC invests in a range of property types, including residential, industrial, mixed-use commercial, multi-family, and undeveloped land. Commercial loans have an average LTV of ~50 percent, residential loans have an average LTV of ~48 percent, and loans on undeveloped land—which represents a very small minority of the Socotra Fund investments—have an average LTV of ~45 percent. The overall average LTV across all these property types is approximately 50 percent.

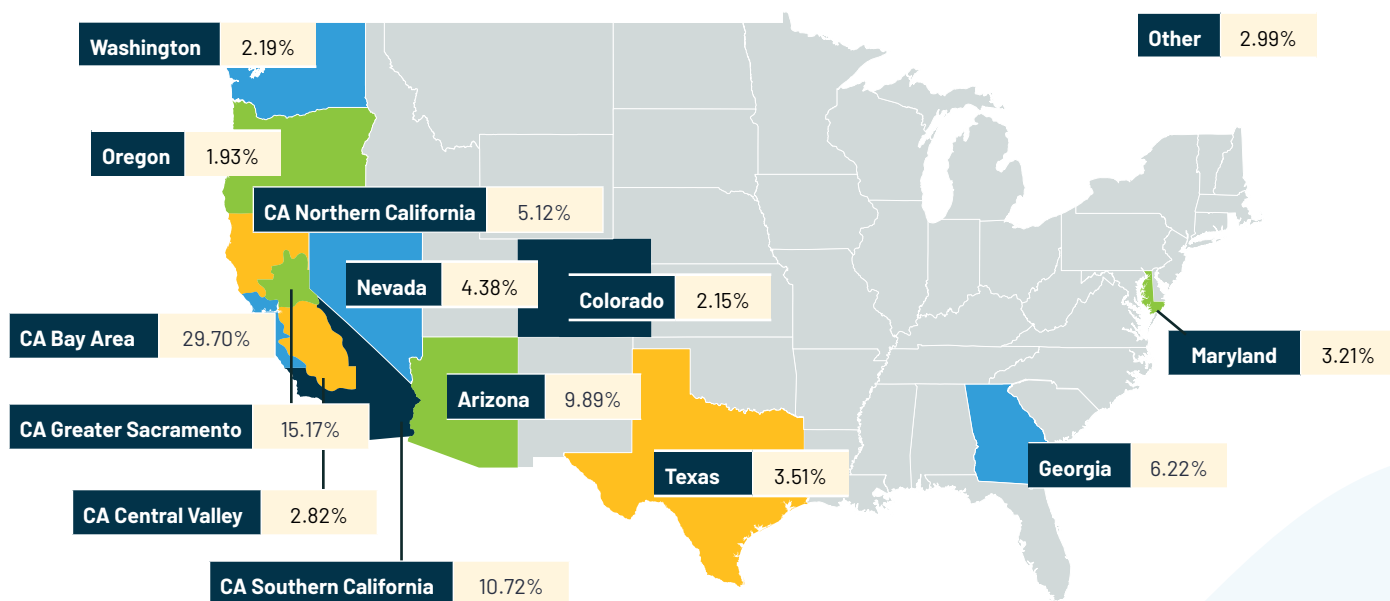
The Socotra Opportunity Fund



The overall average LTV across all these property types is approximately 50 percent.

Portfolio by Region

Historically, the Socotra Fund's investments have been concentrated in Northern California. This development was by design, as the local economy is diversified and our partner network has strong ties to our community. The Fund has increased its geographic diversification while also managing concentrations with no individual county except Sacramento County representing more than 10 percent of the investor capital.



About the Firm

Founded in 2007, Socotra Capital currently manages more than \$300 million in assets, including the \$200+ million in capital currently invested in the Socotra Fund. Socotra Capital specializes in business-use loans. All loan documents are prepared by Socotra Capital with all loans serviced in-house.

To ensure proper due diligence and to protect the interests of the firm's investors, Socotra Capital uses independent escrow and title companies as well as independent appraisers and environmental specialists. Socotra Capital has successfully funded over 1,800 transactions, resulting in annual yields averaging 7-9 percent over the past decade. Perhaps most importantly, to date Socotra Capital has never had a loss of investor principal on any of its loans.



Legal Disclosure

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted, and numbers may reflect small variances due to rounding. Standardized performance and performance data current to the most recent month end may be found in the Performance section.



If you want to learn more about investing in
hard money loans, visit our website at url.
socotracapital.com/who-we-serve-investors



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