

# CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

## AlphaFlow Holdings, LLC

### PAYMENT DEPENDENT CERTIFICATES

March 2, 2017

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AlphaFlow Holdings, LLC, a Delaware limited liability company (“*AlphaFlow*” or “*we*,” “*us*,” “*our*” or words to similar effect), is making a private offering to sell to accredited investors domiciled in the United States (each, an “*Investor*” or “*you*”) certain certificates of AlphaFlow that are dependent on payments that AlphaFlow receives from specific mortgage loan investments purchased or funded by AlphaFlow (the “*Payment Dependent Certificates*,” or the “*Certificates*”). The Certificates will be special, limited obligations of AlphaFlow and Investors will not have any security interest in any assets of AlphaFlow (including the mortgage loan investments). The Certificates are special limited recourse obligations of AlphaFlow, not full recourse obligations. Each Certificate corresponds to a portfolio of direct investments in real estate transactions or debt investments made in entities engaged in real estate transactions (each a “*mortgage loan investment*”), as further described below. The Certificates are being offered through the online investment platform [www.alphaflow.com](http://www.alphaflow.com) (the “*Platform*” or “*AFI Website*”). This Private Placement Memorandum is referred to herein as the “*PPM*.”

AlphaFlow, or an affiliate of AlphaFlow, will issue the Certificates on an ongoing basis and will issue the Certificates through the Platform which is owned and operated by AlphaFlow Inc., a Delaware corporation (“*AFI*”). AlphaFlow is a wholly owned subsidiary of AFI and is managed by AlphaFlow Advisor, LLC (“*AF Advisor*”), an investment adviser registered with the California Department of Business Oversight (“*DBO*”) under California Corporations Code Section 25230, as amended. AlphaFlow will conduct its activities using the AFI Website. AlphaFlow may hire AFI (or an affiliate of AFI; together with AFI, the “*AFI affiliates*”) to perform certain other services and activities associated with the Certificates described in this PPM, including loan origination, due diligence, servicing, payment processing, collections, asset management and work outs. AFI and any applicable AFI affiliates will receive a portion of any fees provided to AlphaFlow as compensation for these activities. The decision to use an affiliate to provide these services will be made only if, in AlphaFlow’s sole judgment, the affiliate is able to provide the service on terms equal or superior to other potential service providers. To the extent that AlphaFlow or its affiliate is the originator of a mortgage loan investment, additional disclosure will be provided in the Certificate Listing (as defined below), and you will be asked for consent to the purchase. Even if not expressly identified in this PPM, AFI may delegate services, duties and obligations of AFI described hereunder to AFI affiliates or third parties.

Each Certificate will correspond to a certain allocation of direct or indirect mortgage loan investments. Each mortgage loan investment is either (i) originated by AFI, AFI affiliates or AlphaFlow, (ii) originated by a third party (including AFI affiliates) and purchased by AFI or AlphaFlow, (iii) originated and held by a third party (including AFI affiliates) and participated in by AlphaFlow (in other words, AlphaFlow will invest alongside the third party) or (iv) a payment dependent note of a third party purchased and held by AlphaFlow, which is dependent on payments from an underlying loan originated and held by that third party. These mortgage loan investments may take the form of (a) loans with a first priority right of payment to other indebtedness (a “*senior loan*”), (b) loans that are subordinate in right of payment to other indebtedness (a “*mezzanine loan*”), (c) participations in senior or mezzanine loans (a “*participation loan*”), or (d) payment dependent notes based on one of the loan types described in (a)-(c) above (a “*payment dependent note*”). Senior loans, mezzanine loans, participation loans and payment dependent notes will each individually constitute a “*mortgage loan investment*.” We generally expect each mortgage loan investment to be secured, directly or indirectly, by a deed of trust, mortgage, security agreement or legal title to the underlying real estate. For purposes of this PPM, borrowers associated with a mortgage loan investment may be individually and collectively referred to herein as a “*borrower*.”

Investment proceeds will be used to purchase or fund mortgage loan investments over a period of up to forty-five (45) days (the “*Stabilization Period*”). During the Stabilization Period, AlphaFlow’s portfolio management team may mark a Certificate as stabilized once the Certificate has been allocated at least seventy-five (75) unique mortgage loan investments, at which point the Stabilization Period will conclude. Each Certificate will have a *pro rata* interest in the mortgage loan investments allocated to that Certificate and should expect their ratable interest in each mortgage loan investment to decrease as additional mortgage loan investments are allocated to their Certificate during the Stabilization Period. The “*pro rata*” interest or share of a Certificate in any mortgage loan investment means the proportion represented by dividing the dollar amount of such mortgage loan investment allocated to that Certificate by the aggregate dollar amount of such mortgage loan investment allocated to all Certificates. After the Stabilization Period, the resulting portfolio of mortgage loan investments (the “*Stabilized Certificate*”) may be rebalanced by AlphaFlow from time to time by reallocating mortgage loan investments initially allocated to the Stabilized Certificate to other Certificates and replacing them with allocations of new mortgage loan investments or mortgage loan investments previously allocated to other Certificates (the “*Rebalancing Period*”) to improve the diversification of the mortgage loan investments within the Certificate. Any mortgage loan investment added during the Rebalancing Period will have a maturity date no later than forty-five (45) days after the latest loan maturity date in the original Stabilized Certificate.

Each time we offer a Certificate, we will provide Investors with an ongoing disclosure supplement (available in each Investor’s AFI account under the “Managed Portfolio” section) with relevant information about the mortgage loan investments allocated to that Certificate. Each disclosure supplement is referred to as a “*Certificate Listing*” and will be updated on a weekly basis.

As part of using the Platform and participating as an Investor in the Certificates, you will be required to accept and agree to certain terms of service and investment (the “*Investor Agreement*”) set forth on the AFI website. Acceptance of the Investor Agreement will constitute

a legally binding agreement between you, AlphaFlow, AFI and AF Advisor. The Investor Agreement will set forth legal rights and obligations of each party and certain terms of the Certificates described in this PPM.

A capital account will be established for each Investor on AlphaFlow's books and records. Investors will have the option to receive any payments made on the Certificates to their AlphaFlow account or a designated bank account and may allow some or all of these payments to be reinvested in the Certificates. In all other respects, however, an investment in the Certificates is illiquid and subject to substantial restrictions.

A summary of the important terms of the Certificates include the following, each of which is described in greater detail elsewhere in this PPM:

- Our obligation to make payments on a Certificate will be limited to an amount equal to the Certificate's *pro rata* share of amounts we receive from mortgage loan investments allocated to that Certificate, net of any applicable fees. We do not guarantee payment of the Certificates or the mortgage loan investments.
- The Certificates will be special, limited obligations of AlphaFlow only and are not obligations of the borrowers or third-party lenders associated with any mortgage loan investment.
- The Certificates will be special, limited obligations of AlphaFlow, and Investors will not have any security interest in any of AlphaFlow's assets, including the mortgage loan investments, nor will the Certificates be secured by any assets of any borrower or third-party lender.
- We generally expect each senior loan, mezzanine loan, participation loan and payment dependent note to be secured, directly or indirectly, by a deed of trust, mortgage, security agreement or legal title to the underlying real estate. In the event of a default on a mortgage loan investment, any recovery by AlphaFlow will be shared with Investors *pro rata*, net of any applicable fees, costs and charges.
- Each Certificate will have a distinct allocation of mortgage loan investments that may continually change during the Stabilization Period and is subject to change during the Rebalancing Period. Generally, payments will be made on each Certificate from the date the first mortgage loan investment is allocated to that Certificate. Different Certificates will have different expected rates of return and have different expected repayment dates, depending on the allocation of mortgage loan investments within that Certificate.
- Because certain terms (e.g., expected return rate, expected date of repayment) will not be known until AlphaFlow produces a Stabilized Certificate and will remain subject change due to rebalancing, the form of Certificate will be posted on the AFI website along with the Certificate Listing, this PPM and the Investor Agreement. Investors will not have information as to the specific mortgage loan investments or

allocations thereof to a Certificate until after an investment is made and should evaluate any investment in that context. Investors will be electronically notified by AlphaFlow via the Certificate Listing of any material changes to Certificate terms, but clerical alterations to the final form of Certificates will be reflected in AlphaFlow's internal records without further Investor notification.

- All Certificates will be issued in electronic form only and are restricted securities; thus, they are generally not transferable and are subject to the legal restrictions governing private offerings generally. Accordingly, no public market for the Certificates is likely to develop. Investors must be prepared, therefore, to hold their Certificates until, at least, the time of their expected repayment dates. Further information regarding restrictions on transfers is provided herein.
- **To the extent we are unable to collect payments (or portions thereof) from any mortgage loan investments, we will not be obligated to make any corresponding payment (or portion thereof) under the Certificates.**
- Investors will have the option to receive any payments made on the Certificates to their AlphaFlow account or a designated bank account and may allow some or all of these payments to be reinvested in the Certificates.
- Your Certificate will not be issued until you complete all steps required of an investment, including acceptance of the Investor Agreement, verification of your accredited investor status and receipt of cleared funds by AlphaFlow, and your Certificate will not be entitled to payments from any mortgage loan investments until the proceeds from the Certificate are applied by AlphaFlow and mortgage loan investments are allocated to that Certificate. A delay in issuance of your Certificate will have the effect of reducing the effective rate of return on your investment. The date your Certificate is issued will be listed under your "My Portfolio" tab.
- Initially, the entirety of your investment may be allocated to as few as one (1) mortgage loan investment. AlphaFlow will dynamically reallocate your investment capital by adding additional mortgage loan investments during the Stabilization Period.
- **Only performing mortgage loan investments will be allocated to a Certificate. Any nonperforming mortgage loan investments already allocated to a Certificate will not be further reallocated to any other Certificate unless and until the mortgage loan investment is brought current.**
- We have a limited operating history, minimal operating capital, no significant assets and, as a subsidiary of an online company in the early stages of development, we face increased risks, uncertainties, expenses and difficulties. Our parent company, AFI, faces similar risks and will need to raise substantial additional capital to fund our operations; if it fails to obtain such additional funding, we may be unable to continue

operations. There is no financial information provided herein with respect to AlphaFlow or AFI and Investors are subject to the risk of the overall business and financial condition of AlphaFlow and, to some extent, AFI.

- The Certificates are structured as payment dependent certificates, meaning that payment on the Certificates is entirely dependent on AlphaFlow receiving payment from the borrower, third-party lender and/or issuers of payment dependent notes associated with a mortgage loan investment. Investors should evaluate any investment in this context.
- If we were to become subject to a bankruptcy or similar proceeding, your rights could be uncertain, your recovery of funds due on the Certificate may be substantially delayed and any funds you do recover may be substantially less than the amounts due or to become due on the Certificate.
- AlphaFlow was formed so that, in the event of a bankruptcy of AFI, the claims of AFI's creditors will be structurally subordinated to the mortgage loan investments, thereby protecting the interests of Investors in the Certificates and in the proceeds of the mortgage loan investments. Nevertheless, if AFI were to become subject to a bankruptcy or similar proceeding and it was determined by a bankruptcy court that AlphaFlow's assets should be consolidated with those of AFI, your rights could be uncertain, your recovery of funds due on the Certificates may be substantially delayed and any funds you do recover may be substantially less than the amounts due or to become due on the Certificate.
- The mortgage loan investments that are payment dependent notes will be dependent on the issuers of those payment dependent notes to collect payments from the underlying mortgage loan and to distribute those payments on the payment dependent notes to AlphaFlow. To the extent that the issuer of the payment dependent notes fails to make timely payments on the payment dependent notes to AlphaFlow, payments on the Certificates will be similarly delayed. If the issuer of the payment dependent notes were to become subject to a bankruptcy or similar proceeding, our rights under the payment dependent notes could be uncertain, our recovery of funds due on the payment dependent notes may be substantially delayed, and any funds we do recover may be substantially less than the amounts due or to become due on the payment dependent notes. To the extent that any of these events occur, payment on the Certificates would be similarly delayed or impaired.

**This offering is highly speculative and the Certificates involve a high degree of risk. The Certificates have not been approved or disapproved by, and they will not be insured by, any governmental agency. Investing in the Certificates should be considered only by persons who can afford the loss of their entire investment. This offering is open solely to accredited investors as defined in Rule 501 of The Securities Act of 1933, as amended, who are domiciled in the U.S. The discussion contained in this PPM is solely directed to Investors domiciled in the U.S. and no offer to sell, or solicitation to buy, is made to any**

## **individuals or entities domiciled outside of the U.S.**

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NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE CERTIFICATES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PPM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK THAT MAY NOT BE SUITABLE FOR ALL PERSONS. ONLY THOSE INVESTORS WHO CAN BEAR THE LOSS OF THEIR ENTIRE INVESTMENT SHOULD PARTICIPATE IN THE INVESTMENT. (SEE "RISK FACTORS.")

THIS PPM HAS BEEN PREPARED SOLELY FOR THE BENEFIT OF AUTHORIZED PERSONS INTERESTED IN THE OFFERING. IT CONTAINS CONFIDENTIAL INFORMATION AND MAY NOT BE DISCLOSED TO ANYONE OTHER THAN AUTHORIZED PERSONS SUCH AS ACCOUNTANTS, FINANCIAL PLANNERS OR ATTORNEYS RETAINED FOR THE PURPOSE OF RENDERING PROFESSIONAL ADVICE RELATED TO THE PURCHASE OF THE CERTIFICATES OFFERED HEREIN. IT MAY NOT BE REPRODUCED, DIVULGED OR USED FOR ANY OTHER PURPOSE UNLESS WRITTEN PERMISSION IS OBTAINED FROM ALPHAFLOW. THIS PPM DOES NOT CONSTITUTE AN OFFER TO OR SOLICITATION OF ANY PERSON EXCEPT THOSE PARTICULAR PERSONS WHO SATISFY THE INVESTOR QUALIFICATION STANDARDS FOR ACCREDITATION DESCRIBED HEREIN. THE SALE OF THE CERTIFICATES COVERED BY THIS PPM HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT" OR "THE SECURITIES ACT"), IN RELIANCE UPON THE EXEMPTIONS FROM SUCH REGISTRATION REQUIREMENTS SET FORTH IN SECTION 4(a)(2) OF THE ACT AND RULE 506 OF REGULATION D THEREUNDER. THESE SECURITIES HAVE NOT BEEN QUALIFIED OR REGISTERED IN ANY STATE, IN RELIANCE UPON THE EXEMPTIONS FROM SUCH QUALIFICATION OR REGISTRATION UNDER STATE LAW. THESE SECURITIES ARE "RESTRICTED SECURITIES" AND MAY NOT BE RESOLD OR OTHERWISE DISPOSED OF UNLESS A REGISTRATION STATEMENT UNDER THE ACT COVERING DISPOSITION OF SUCH SHARES IS THEN IN EFFECT, OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

THERE IS NO PUBLIC MARKET FOR THE CERTIFICATES AND NONE IS EXPECTED TO DEVELOP IN THE FUTURE. FUNDS INVESTED IN THE CERTIFICATES ARE SUBJECT TO SUBSTANTIAL RESTRICTIONS UPON WITHDRAWAL AND TRANSFER. THE CERTIFICATES OFFERED HEREBY SHOULD BE PURCHASED ONLY BY INVESTORS WHO HAVE NO NEED FOR LIQUIDITY IN THEIR INVESTMENT.

NO PERSON HAS BEEN AUTHORIZED IN CONNECTION WITH THIS OFFERING TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PPM; ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON. ANY PROSPECTIVE PURCHASER OF THE CERTIFICATES WHO RECEIVES ANY SUCH INFORMATION OR REPRESENTATIONS SHOULD CONTACT ALPHAFLOW IMMEDIATELY TO DETERMINE THE ACCURACY OF SUCH INFORMATION. NEITHER THE DELIVERY OF THIS PPM NOR ANY SALES HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF ALPHAFLOW OR IN THE INFORMATION SET FORTH HEREIN SINCE THE DATE OF THIS PPM SET FORTH ABOVE.

PROSPECTIVE PURCHASERS SHOULD NOT REGARD THE CONTENTS OF THIS PPM OR ANY OTHER COMMUNICATION FROM ALPHAFLOW AS A SUBSTITUTE FOR CAREFUL AND INDEPENDENT TAX AND FINANCIAL PLANNING. EACH POTENTIAL INVESTOR IS ENCOURAGED TO CONSULT WITH THEIR OWN INDEPENDENT LEGAL COUNSEL, ACCOUNTANT AND OTHER PROFESSIONALS WITH RESPECT TO THE LEGAL AND TAX ASPECTS OF THIS INVESTMENT AND WITH SPECIFIC REFERENCE TO THEIR OWN TAX SITUATION, PRIOR TO SUBSCRIBING FOR THE CERTIFICATES.

THE CERTIFICATES ARE OFFERED SUBJECT TO PRIOR SALE, ACCEPTANCE OF AN OFFER TO

PURCHASE AND TO WITHDRAWAL OR CANCELLATION OF THE OFFERING WITHOUT NOTICE. ALPHAFLOW RESERVES THE RIGHT TO REJECT ANY SUBSCRIPTIONS IN WHOLE OR IN PART.

THE INFORMATION CONTAINED IN THIS PPM HAS BEEN SUPPLIED BY ALPHAFLOW. THIS PPM CONTAINS SUMMARIES OF DOCUMENTS NOT CONTAINED IN THIS PPM, BUT ALL SUCH SUMMARIES, OTHER THAN ANY SUMMARIES OF THE DOCUMENTATION FOR INDIVIDUAL MORTGAGE LOAN INVESTMENTS, ARE INCORPORATED IN THEIR ENTIRETY BY REFERENCES TO THE ACTUAL DOCUMENTS. COPIES OF DOCUMENTS REFERRED TO IN THIS PPM, BUT NOT INCLUDED AS AN EXHIBIT, WILL BE MADE AVAILABLE TO QUALIFIED PROSPECTIVE INVESTORS UPON REQUEST.

#### **NASAA UNIFORM LEGEND**

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE MADE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

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## INTRODUCTION

### Overview

We are offering the Certificates directly to accredited investors domiciled in the United States only, through the AFI Website, for a purchase price of 100% of the face amount of the Certificates. The proceeds of the Certificates will fund the purchase or funding of mortgage loan investments as further described in “Use of Proceeds.” Payments on each Certificate are wholly dependent on payments that AlphaFlow receives on the mortgage loan investments allocated to that Certificate. The Certificates will be special, limited obligations of AlphaFlow and are not secured. Investing in the Certificates should only be considered by persons who can afford the loss of their entire investment. See “Risk Factors.”

Each Certificate will correspond to an allocation of whole and/or fractional mortgage loan investments in which each corresponding mortgage loan investment:

- (i) is made by AlphaFlow to a borrower;
- (ii) is made by AFI or another AFI affiliate and purchased by AlphaFlow;
- (iii) is purchased by AlphaFlow from a third-party lender;
- (iv) allows AlphaFlow to participate alongside a third-party lender; or
- (v) in which AlphaFlow purchases a payment dependent note issued by a third-party lender or subsequent purchaser of the loan from the third-party lender.

These mortgage loan investments will generally take the form of a senior loan or payment dependent note related to a senior loan. We generally expect each senior loan to be secured by a deed of trust, mortgage, security agreement or legal title to the underlying real estate.

Third-party lenders may be banks or similar lending entities or may be private lenders, including private funds. Any payment dependent notes may be issued by such third-party lender or a subsequent purchaser of the loan from the third-party lender. AlphaFlow will perform due diligence on any such lenders, however, no third-party lender from which AlphaFlow may purchase a loan or issuer of payment dependent notes corresponding to a loan is an agent of AlphaFlow and AlphaFlow takes no responsibility for the actions of any such lenders or issuers for their compliance with requirements with state or federal law.

The Certificates are issued to Investors who qualify as an Investor, remit funds to AlphaFlow, agree to the Investor Agreement, verify their accredited investor status and purchase a Certificate on the AFI Website, and that Certificate will not be entitled to payments from any mortgage loan investments until the proceeds from the Certificate are applied by AlphaFlow and mortgage loan investments are allocated to that Certificate. The minimum investment amount for an Investor’s first Certificate is \$10,000; subsequent Certificate purchases with new capital require a minimum investment amount equal to the greater of \$1,000 or the shortfall between \$10,000 and

the remaining face amount on previous Certificate investments; subsequent Certificate purchases using distributions from previously invested capital under the auto-reinvest option require a minimum investment amount of \$1,000. Certificate purchases, regardless if using reinvested funds or new funds, will purchase either (i) an increase in the balance of an existing Certificate held by that Investor, if purchased during the Stabilization Period of an existing Certificate held by that Investor or (ii) in a new Certificate, if purchased after the Stabilization Periods of all existing Certificates held by that Investor have ended. The Certificate will be entitled to payments beginning on the date that AlphaFlow first applies the proceeds of the Certificate to purchase or fund mortgage loan investments.

Certificates are issued in the face amount of Investors' respective investments. For each Certificate, AlphaFlow will begin to deploy the investment proceeds in mortgage loan investments over the Stabilization Period, during which time AlphaFlow will also reallocate portions of the purchased or funded mortgage loan investment among various Certificates in order to diversify the mortgage loan investments allocated to each Certificate.

AlphaFlow may from time to time rebalance Stabilized Certificate after the end of the Stabilization Period, which may include removing mortgage loan investments, adding mortgage loan investments or changing the total allocation in any given mortgage loan investment. For instance, if a number of similar mortgage loan investments allocated to a Stabilized Certificate were prepaid and the diversification of that Certificate was reduced, AlphaFlow may rebalance that Certificate to add additional diversity in the types of mortgage loan investments allocated to that Certificate. Any mortgage loan investments added to a Stabilized Certificate will have a maturity date no later than forty-five (45) days after the latest loan maturity date in the original Stabilized Certificate.

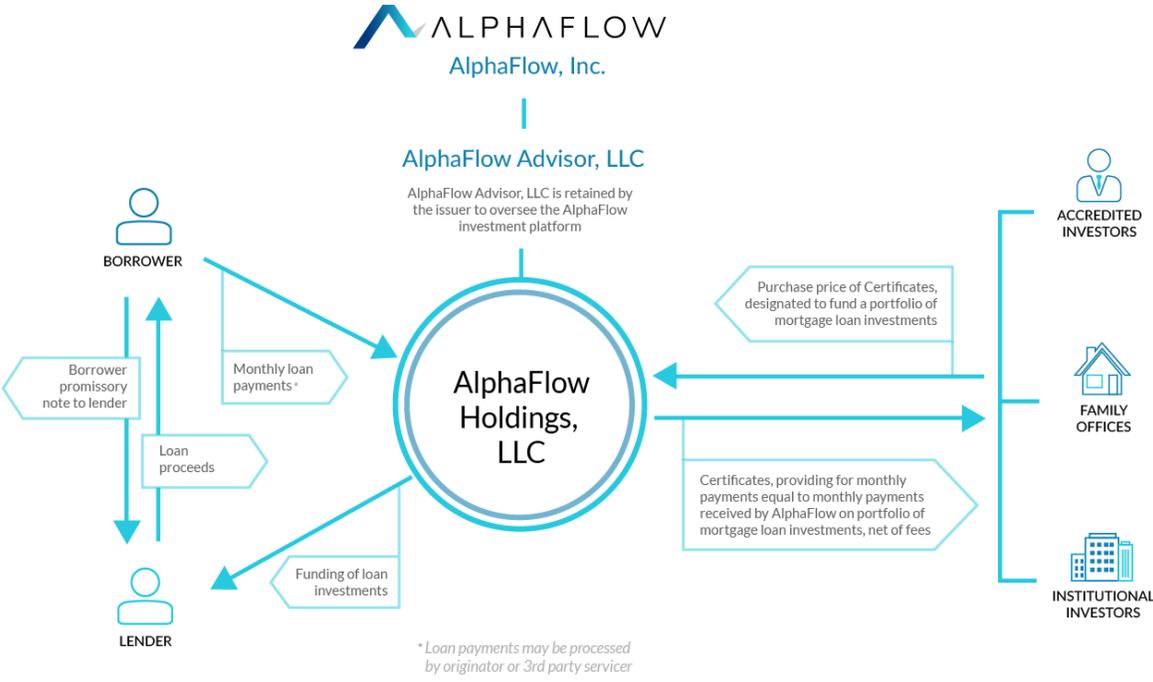
AlphaFlow will not reallocate mortgage loan investments in either the Stabilization Period or Rebalancing Period to other Certificates if those mortgage loan investments become nonperforming. If an initial mortgage loan investment allocated to a Certificate becomes nonperforming, that nonperforming mortgage loan investment will remain allocated to that Certificate in the same proportion until it is brought current. A mortgage loan investment will be considered "nonperforming" when the borrower fails to make required payment in full for thirty-five (35) days and will be considered "brought current" once all past-due payments on the mortgage loan investment have been paid.

In some cases, AlphaFlow may enter into a relationship whereby one or more third parties issues (and/or services) the mortgage loan investment and AlphaFlow then purchases that mortgage loan investment (or a participating interest therein or payment dependent note corresponding thereto) from the third party. Where AlphaFlow merely takes a participating interest in a mortgage loan investment, the third party may sometimes remain the lead investor or lender, as the case may be, on that mortgage loan investment and may retain control and servicing rights of the deed of trust, mortgage or other security documents, if any. In other cases, AlphaFlow may purchase all or a portion of a mortgage loan investment that had been previously been issued by a third party or may purchase a payment dependent interest in a mortgage loan investment.

In the future, AlphaFlow or its affiliates may also originate mortgage loan investments directly, which will be disclosed in the Certificate Listing. If AlphaFlow or an affiliate does

originate a loan, AlphaFlow expects to structure its activities or take other steps to permit AlphaFlow to minimize the potential tax impact to Investors from the change in its activities. See “Certain U.S. Federal Income Tax Considerations—Characterization of AlphaFlow.”

The following diagram shows the relationship between Investors, the Certificates, AlphaFlow, mortgage loan investments (other than mortgage loan investments that are payment dependent notes), borrowers and third-party lenders:



Investors can review, on the AFI Website, each Certificate Listing, which will provide Investors with an ongoing description of the mortgage loan investments allocated to that Certificate, including the allocation and certain terms (but not necessarily the name or identity of the borrower, or the nature of the security of the mortgage loan investment, if any). We expect the Certificate Listing to change dramatically during the Stabilization Period and to continue to change during the Rebalancing Period. Taken together, this PPM, the form of Certificate and the Certificate Listing will contain the authoritative description of any Certificate offered by AlphaFlow.

AlphaFlow will generally pay each Investor a *pro rata* share, based on the portion of any mortgage loan investment allocated to an Investor’s Certificate, of all principal and interest payments, if any, that AlphaFlow receives on the mortgage loan investments allocated to that Certificate, net of any AlphaFlow fees or other third party servicing fee, if applicable (including any advances made by AlphaFlow in connection with collection or similar pursuit efforts made with respect to such mortgage loan investments). Any such fees may vary with each mortgage loan investment. AlphaFlow reserves the right to offer incentives, such as lower servicing fees, to

individual or classes of Investors that may increase the rate of return for investors who receive those incentives (these incentives could be in the form of online promotions that are open to all Investors, but only certain Investors participate in, or may be offered to individual Investors in AlphaFlow's discretion). AlphaFlow will disclose any such arrangements.

We generally expect a wide variation of third-party fees and do not expect to disclose the various third-party charges and fees associated with each mortgage loan investment in the Certificate Listing. The funds available for payment on the Certificates will be also reduced by the amount of any attorneys' fees or collection fees that AlphaFlow, an affiliate or a third-party servicer or a collection agency imposes in connection with collection efforts related to the mortgage loan investments allocated to each Certificate.

AlphaFlow reserves the right, in its sole discretion, to not disclose all information available with respect to a particular mortgage loan investment, which information may include the name or identity of a borrower, the address or exact location of a property, charges and fees payable to third parties or other relevant information relating to a particular mortgage loan investment with respect to any Certificate. AlphaFlow's decision to not disclose all relevant information may be an internal business decision, or the result of confidentiality, legal, regulatory or contractual obligations. Neither AlphaFlow, AFI nor any AFI affiliate has any liability for any information provided by third parties and passed along to Investors.

AlphaFlow may earn revenue from servicing fees charged to Investors, which may vary among Certificates between 0% and 2% of the principal amount of each corresponding mortgage loan investment and may be paid out of the proceeds from the mortgage loan investments. In the future AlphaFlow may earn additional revenue from fees charged to borrowers or third-party lenders, which fees may be paid out of the proceeds from the mortgage loan investments and will not be passed on to Investors. These fees may include origination fees, exit fees, servicing fees and other similar fees. AlphaFlow may also earn interest on mortgage loan investments to the extent that we fund those mortgage loan investments ourselves. To the extent that AFI or another AFI affiliate is hired to perform activities associated with the Certificates, it may receive a portion of these fees. The decision to use an affiliate to provide these services will be made only if, in AlphaFlow's sole judgment, the affiliate is able to provide the service on terms equal or superior to other potential service providers. To the extent that AlphaFlow charges fees to third-party lenders, AlphaFlow may have an incentive to choose to purchase loans from third-party lenders based on the amount of fees they pay rather than the quality of the mortgage loan investment. Additionally, AF Advisor, the direct parent company and affiliate of AlphaFlow will also earn an advisory fee equal to 1% of the aggregate proceeds received on the Certificates, which will be paid from the funds received from each Investor.

Investors should review this PPM, the Certificate Listing and the Investor Agreement (all of which are made available to Investors on the AFI Website) prior to making any decision to invest in a Certificate. The Certificate Listing at the time of investment, however, will not be representative of expected returns or the final set of mortgage loan investments that will be allocated to a Certificate once it becomes a Stabilized Certificate.

AlphaFlow has been organized and is operated in a manner that is intended (i) to minimize the likelihood that it will become subject to bankruptcy proceedings and (ii) to minimize the

likelihood that it would be substantively consolidated with AFI, and thus have its assets subject to claims by AFI's creditors, if AFI files for bankruptcy. This is achieved by placing certain restrictions on AlphaFlow's activities and implementing certain formalities designed to expressly reinforce AlphaFlow's status as a distinct corporate entity from AFI. Nevertheless, if AFI were to become subject to a bankruptcy or similar proceeding and it was determined by a bankruptcy court that AlphaFlow's assets should be consolidated with those of AFI, your rights could be uncertain, your recovery of funds due on the Certificates may be substantially delayed and any funds you do recover may be substantially less than the amounts due or to become due on the Certificate. Furthermore, if AlphaFlow were to become subject to a bankruptcy or similar proceeding, your rights could be uncertain, your recovery of funds due on the Certificate may be substantially delayed and any funds you do recover may be substantially less than the amounts due or to become due on the Certificate.

## Summary of the Offering

<b>Issuer</b>	AlphaFlow Holdings, LLC, a Delaware limited liability company.
<b>Securities Offered</b>	<p>Certificates, with each Certificate corresponding to a specific allocation of mortgage loan investments, to be listed in the Certificate Listing on the AFI Website. Each Certificate is dependent for payment on payments that AlphaFlow receives on the mortgage loan investments allocated to that Certificate. AlphaFlow expects to purchase or fund and allocate mortgage loan investments over a Stabilization Period of up to forty-five (45) days and to rebalance the allocations of mortgage loan investments in a Certificate as needed thereafter. As a result, the mortgage loan investments and allocations thereof for each Certificate, as listed in the Certificate Listing, are expected to change over the duration of the investment.</p> <p>This offering is made solely to accredited investors under Regulation D, Rule 506 promulgated under Section 4(a)(2) of the Securities Act of 1933, as amended (the “<i>Securities Act</i>”).</p>
<b>Expected Rate of Return</b>	<p>The Certificates will not bear interest and will not be entitled to a particular rate of return. However, the expected rate of return, which will vary among Certificates, will be listed and updated in the Certificate Listing and is subject to change during the Stabilization Period and Rebalancing Period. Because of the payment dependent nature of the Certificates, the expected rate of return for each Certificate will be equal to the blended interest rate paid to AlphaFlow or its affiliates from the mortgage loan investments allocated to that Certificate, minus AlphaFlow’s servicing fee, which may vary among Certificates between 0% and 2% of the principal amount of each corresponding mortgage loan investment, and will be based on the assumption that all payments of principal and interest by the borrowers on all mortgage loan investments will be made exactly on the scheduled due date, without deductions for any expenses related to the mortgage loan investments, and any additional fees earned by AlphaFlow or paid to third parties. AlphaFlow’s servicing fee and any other fee earned by AlphaFlow and not passed on to Investors will always be identified on the AFI Website and Certificate Listing. The expected rate of return on the Certificates is only an estimate and the actual rate of return is not guaranteed and may be lower than expected or negative, due to delinquent payments, defaults or prepayments on the corresponding mortgage loan investments, or due to additional expenses related to the mortgage loan expenses, or other circumstances.</p>
<b>Servicing and Other Fees</b>	Any fees to be charged by AlphaFlow to Investors will be specified

in the Certificate Listing for that particular Certificate and will vary among Certificates between 0% and 2% of the principal amount of each corresponding mortgage loan investment and may be paid out of the proceeds from the mortgage loan investments. To the extent AlphaFlow or its affiliates originate a loan, it will earn and be paid certain origination fees, generally ranging from 0% to 3% of the principal amount of each corresponding loan, from the borrower. Such fees may be funded from the proceeds from the mortgage loan investments and will not be passed on to the Investors. Third-party fees will vary and will not be disclosed in the Certificate Listing.

AF Advisor will be paid an advisory fee equal to 1% of the aggregate proceeds received on the Certificates, which will be paid from the funds received from each Investor.

### **Ranking and Security**

The Certificates will be special, limited obligations of AlphaFlow and will rank junior to any indebtedness that AlphaFlow incurs. Investors will not have a security interest in the assets of AlphaFlow or any of its AFI affiliates, any mortgage loan investment, the proceeds of that mortgage loan investment, or of any underlying assets of the borrower or third-party lender.

**Expected Repayment Dates** Each Certificate is expected to be repaid as soon as reasonably practicable (and in any event within thirty (30) days after AlphaFlow receives payment on the mortgage loan investment) following the date of maturity of the mortgage loan investment with the latest maturity date that is allocated to that Certificate at the end of the Stabilization Period (the “*Initial Expected Repayment Date*”), subject to any extensions of the underlying mortgage loan investments or extensions due to rebalancing after the end of the Stabilization Period. The Initial Expected Repayment Date will not be known until the end of the Stabilization Period. Rebalancing activities may extend the Initial Expected Repayment Date up to an additional forty-five (45) days. If any payments of a mortgage loan investment allocated to a Certificate remain due and payable upon such date, the expected repayment date of the Certificates will be automatically extended to the time when all payments from the mortgage loan investments are received (the “*Final Expected Repayment Date*”). However, AlphaFlow reserves the right, in our sole discretion, and third parties may retain the right, to amend, modify, sell to a third-party purchaser or charge off mortgage loan investments at any time after their delinquency, in which event(s), certain or all mortgage loan investments may never reach the Final Expected Repayment Date and Investors may not receive any return on their investment relating to the mortgage loan investment that was charged off. Notwithstanding the foregoing, to the extent AlphaFlow retains servicing rights with respect to a mortgage loan

investment, AlphaFlow will use commercially reasonable efforts to “work out” delinquent or defaulted mortgage loan investments and/or pursue collection efforts with respect to those mortgage loan investments. To the extent AlphaFlow lacks servicing work out rights to the mortgage loan investments, as is expected where AlphaFlow merely participates in or holds a payment dependent note corresponding to the mortgage loan investment, AlphaFlow will not and will be under no obligation to enforce its work out rights or pursue collection efforts against the borrower. AlphaFlow will also have no liability to the extent any third parties default in their payment obligations, declare bankruptcy or fail in their bankruptcy remote protections and thereby allow their third-party creditors to collect from payments on the underlying mortgage loan investments. Other than expressly stated in this PPM, AlphaFlow’s only obligation is to disburse to Investors their *pro rata* share of amounts of principal and interest (and, in some cases, prepayment penalties) we receive with respect to the mortgage loan investments allocated to each Certificate, net of any applicable fees, costs and charges.

#### **Payment Dates**

Payments on each Certificate will depend on the *pro rata* allocations of mortgage loan investments corresponding to that Certificate and the terms of those mortgage loan investments. Generally, payments on Certificates are expected to be made over the term of the Certificate and are expected to be made as soon as reasonably practicable upon AlphaFlow’s receipt of such payments on the corresponding mortgage loan investment, and in any event within thirty (30) days after receipt. Payments on Certificates will only be made to the extent that AlphaFlow receives payments on the mortgage loan investments allocated to that Certificate.

#### **Prepayment Penalties**

The mortgage loan investments allocated to a Certificate may or may not require prepayment penalties of the borrower. Generally, AlphaFlow does not expect mortgage loan investments to include prepayment penalties. To the extent a borrower pays any prepayment penalty and any third parties agree to pay AlphaFlow some or all of the prepayment penalty, Investors with an allocation in that mortgage loan investment, as listed in the Certificate Listing, will typically be entitled to receive their *pro rata* share of that prepayment penalty. The Certificate Listing will not describe which mortgage loan investments include or do not include prepayment penalties.

#### **Use of Proceeds**

The proceeds of each Certificate will be used to pay an advisory fee equal to 1% of the aggregate proceeds received on the Certificates to AF Advisor, to purchase or fund mortgage loan investments and pay associated fees and, in some cases, to repay funds AlphaFlow has directly financed through a bridge loan or otherwise borrowed from a

third party or affiliate to purchase or fund mortgage loan investments in advance. The mortgage loan investments purchased or funded with the proceeds will be in accordance with our investment standards, as described in “Investment Standards and Policies” below.

## Investment Standards

Additional details regarding each mortgage loan investment allocated to a Certificate will be provided to Investors in the Certificate Listing. Each mortgage loan investment will be purchased in accordance with our investment standards and policies described in “Investment Standards and Policies” below, including:

Loan Size	\$1,000 to \$25,000,000
Loan Term	Six (6) months to five (5) years
Loan Type	First mortgage
Product Types	Single-family residential, office, industrial, multifamily, retail, land,
Loan Purpose	Acquisition, rehabilitation, bridge, new construction
Location	United States
LTV / LTC	Up to 80%
Debt Service Coverage Ratio	Flexible; in-place DSCR can be below 1.0X in some situations
Interest Rate	5.0% - 15.0%, generally fixed
Prepayment	Flexible
Amortization	Interest only, amortizing
Recourse	Both recourse and nonrecourse

If disclosed in the section of the Certificate Listing entitled “Investment Objective,” we may also purchase or fund mortgage loan investments on an opportunistic basis where the expected risk-adjusted return is at or above market-based returns. See “Investment Standards and Policies” below.

## Reinvestment Election

An Investor may elect to (i) receive monthly cash distributions to be held in their AlphaFlow account; or (ii) receive monthly cash distributions to be automatically withdrawn to a designated bank account; (iii) have their monthly distributions automatically reinvested in a new Certificate, subject to a \$1,000 minimum reinvestment amount; or (iv) some combination of (i), (ii), or (iii). Option (iii) will also allow each Investor to elect to reinvest its repaid original investment but not return-related distributions. Such election will become effective immediately once the election is made. If no election is made, then the cash will be distributed and remain in an Investor’s AlphaFlow account as described in (i). An election to reinvest distributions is revocable with thirty (30) days’ notice.

**Right of First Offer**

Prior to reselling or transferring any Certificates to any person or entity in a manner that otherwise complies with the restrictions noted herein or contained in the Investor Agreement, the Investor must offer the Certificates to AlphaFlow in writing for purchase, including in such written offer the price and terms upon which the Investor proposes to sell or transfer the Certificates. If AlphaFlow does not purchase the Certificates within thirty (30) days from the date upon which it receives written notice of the Investor's offer, then the Investor may resell or transfer the securities to another person or entity at any time during the ninety (90) days following the expiration of the thirty-day period, provided that the transfer or resale otherwise complies with the requirements and restrictions on transfer noted herein or contained in the Investor Agreement and the sale is on equal or better terms than those offered to AlphaFlow.

**Transfer Fee**

A transfer fee equal to five hundred dollars (\$500) will be charged for every transfer request made by an Investor to AlphaFlow for administrative, legal and other relevant costs.

**Restriction on Transfer**

No sales or transfers of a Certificate may be made by an Investor for at least one (1) year after the sale by AlphaFlow of that Certificate. No sale or transfer will be effective unless the buyer or transferee has executed and delivered to AlphaFlow all documents required by AlphaFlow for investing in the Certificates and paid the applicable transfer fee to AlphaFlow. The Investor shall be responsible for all applicable transfer taxes.

**U.S. Federal Income  
Tax Consequences**

No authority directly addresses the treatment of the Certificates or instruments similar to the Certificates for U.S. federal income tax purposes. AlphaFlow intends to treat the Certificates as equity of AlphaFlow for U.S. federal income tax purposes, and each investor, by its acceptance of a Certificate, will be deemed to have agreed to such treatment except as otherwise required by law. Prospective purchasers of the Certificates should consult their own tax advisors regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase and ownership of the Certificates, including any possible differing treatments of the Certificates. See "Certain U.S. Federal Income Tax Considerations" for more information.

## INVESTOR QUALIFICATIONS

With respect to each investment made by an Investor, that Investor will be required to electronically sign or acknowledge the Investor Agreement and verify through a process outlined on the AFI Website that he, she or it is an accredited investor. The federal securities laws define the term accredited investor in Rule 501(a) of Regulation D as:

1. An employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of \$5 million;
2. A bank, insurance company, registered investment company, business development company or small business investment company;
3. A charitable organization, corporation or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets exceeding \$5 million;
4. A director, executive officer or general partner of the company selling the securities, or any director, executive officer, or general partner of a general partner of that issuer;
5. A natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds \$1 million at the time of the purchase, excluding the value of the primary residence of such person;
6. A natural person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year;
7. A trust with assets in excess of \$5 million, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person; and
8. A business in which all the equity owners are accredited investors.

In addition, each person acquiring a Certificate will also be required to represent that he, she or it is purchasing for his, her or its own account for investment purposes and not with a view to resale or distribution, and that the Investor is domiciled in the United States. (See "Risk Factors".)

**This offering is open solely to accredited Investors domiciled in the U.S. The discussion contained in this PPM is solely directed to Investors domiciled in the U.S. and no offer to sell, or solicitation to buy, is made to any individuals or entities domiciled outside of the U.S. In addition, AlphaFlow may choose from time to time in its sole discretion to limit the offering of Certificates to Investors who reside in certain states.**

## THE CERTIFICATES

The Certificates are AlphaFlow's special, limited obligations that are tied to the performance of a specific allocation of certain mortgage loan investments that may change on an ongoing basis during the investment term, and Investors will not have any security interest in any assets of AlphaFlow (including the mortgage loan investments). The Certificates will be U.S. dollar denominated, without a limit on the aggregate face value of Certificates that AlphaFlow can issue.

Each Certificate will correspond to a specific allocation of mortgage loan investments that may change over the investment term, and payment to Investors will depend on payments we receive on those corresponding mortgage loan investments. We have no obligation to make any payments on a Certificate unless and only to the extent that, we have received payments from a mortgage loan investment allocated to that particular Certificate.

The exact form of Certificate and Certificate Listing for each particular Certificate offered to Investors through this offering will vary based on the terms and conditions of the specific transaction. Because certain terms (e.g., Initial Expected Repayment Date) of a Certificate may not be known until the Stabilization Period is completed and will be subject to changes due to rebalancing and extension of underlying mortgage loan investments, the form of Certificate will be posted on the AFI Website along with the Certificate Listing, this PPM and the Investor Agreement. Investors will only be electronically notified by AlphaFlow of any material changes to Certificate terms through the Certificate Listing and clerical alterations to the final form of Certificates will be reflected in AlphaFlow's internal records without further Investor notification.

All Certificates will be issued and tracked in electronic form only, through the AFI Website. The registration, processing and payment systems are automated and electronic. We do not have any physical branches, deposit-taking or interest payment activities. The AFI Website will provide detailed information about the Platform, including the full text of the necessary legal agreements, as well as the Certificate Listing applicable to each Certificate. The Certificate Listing will provide Investors with the specific allocation and certain terms of any mortgage loan investments that are allocated to that Certificate (but not necessarily the name or identity of the borrower, or the nature of the security of the mortgage loan investment, if any). In addition to the customer support materials available on the AFI Website, AFI and AlphaFlow will make additional customer support available to members by email and phone.

The Certificates will be sold to Investors who remit funds, verify their accredited investor status and agree to the Investor Agreement.

Certificates are issued in the amount of Investors' respective investments. Investors can place investments at any time and their specific Certificate Listing will depend on the time of the Certificate issuance. AlphaFlow currently accepts new investments in amounts of as little as \$10,000; subsequent Certificate purchases with new capital require a minimum investment amount of the difference between \$10,000 and the remaining face value on previous Certificate investments; subsequent Certificate purchases using distributions from previously invested capital under the auto-reinvest option require a minimum investment amount of \$1,000. All Certificate purchases, regardless if using reinvested funds, result in the purchase of a new Certificate; it does

not increase an Investor's interest in a preexisting Certificate. AlphaFlow anticipates that it will use proceeds from the sale of the Certificates to pay the 1% advisory fee to AF Advisor, to acquire or fund mortgage loan investments and to pay associated fees, but AlphaFlow may elect, in its sole discretion, to arrange bridge financing to fund or purchase a mortgage loan investment and then reduce AlphaFlow's interest in the mortgage loan investment or repay the bridge loan once more investment proceeds are received. To the extent AlphaFlow funds or bridge financing is used to purchase or fund mortgage loan investments in advance of receipt of funds from the Investors, Investors will receive additional details regarding the purchased investment in the Certificate Listing, will be provided with disclosure that bridge financing was used (if applicable) and will be asked for consent to the purchase. The Certificates will be entitled to payments from the mortgage loan investments allocated to that Certificate determined on a daily basis beginning on the date that AlphaFlow applies the proceeds of the Certificate to purchase or fund mortgage loan investments. Any investment made by AlphaFlow or its affiliates in the Certificates will be on the same terms and conditions as other Investors.

For some mortgage loan investments, AlphaFlow or its affiliates will issue a mortgage loan investment directly, which will be disclosed in the Certificate Listing. AlphaFlow may service the mortgage loan investment directly or, in certain cases, may put in place a third-party servicer. In addition, a servicer may be an AFI affiliate. In some cases, AlphaFlow may enter into a relationship whereby one or more third parties (including but not limited to an AFI affiliate, which will be disclosed in the Certificate Listing) issue (and/or service) a mortgage loan investment and AlphaFlow then purchases that mortgage loan investment (or a participating interest therein or a payment dependent note corresponding thereto) from the third party. Where AlphaFlow merely takes a participating interest in or holds a payment dependent note corresponding to a mortgage loan investment, the third party may remain the lead lender on that mortgage loan investment and may retain control of the deed of trust, mortgage or other security documents, as applicable. In other cases, AlphaFlow may purchase all, a portion of or a payment dependent note corresponding to a mortgage loan investment that had been issued by a third party. AlphaFlow may enter into a relationship with one or more third parties to have the third party undertake and service the mortgage loan investment and for AlphaFlow to then purchase the mortgage loan investment remittances from the third party. Investors will not have a security interest in the assets of AlphaFlow or any AFI affiliate, any mortgage loan investments or allocations thereof, the proceeds of that investment or of any underlying assets of the borrower or third party.

AlphaFlow disclaims any and all liability to the extent any third parties default in their payment obligations, declare bankruptcy, or fail in their bankruptcy remote protections and thus allow their third-party creditors to collect from payments on the mortgage loan investments.

Investors can review on the AFI Website each Certificate Listing describing each Certificate and the mortgage loan investments allocated to that Certificate. The Certificate Listing will provide Investors with the allocation and certain terms of the mortgage loan investments (but not necessarily the name or identity of the borrower, or the nature of the security of the mortgage loan investment, if any). The Certificate Listing is expected to materially change during the Stabilization Period, as well as during the Rebalancing Period, to the extent the Certificate is rebalanced. AlphaFlow may rebalance a Certificate, for instance, if a number of similar mortgage loan investments allocated to a Stabilized Certificate were prepaid and the diversification of that Certificate was reduced. Any mortgage loan investment added during the Rebalancing Period will

have a maturity date no later than forty-five (45) days after the latest maturity date in the originally Stabilized Certificate. The Certificate Listing (posted online) will, together with this PPM and the form of Certificate, contain the authoritative description of any Certificates offered by AlphaFlow.

### **Denominations, Form and Registration**

We will issue the Certificates in electronic form only. This means that each Certificate will be stored on the AFI Website. You can view a record of the Certificates you own and the form of your Certificates online and print copies for your records by visiting your secure, password-protected webpage in the “Dashboard” section of the AFI Website. We will not issue physical certificates for the Certificates. Investors will be required to hold their Certificates through AlphaFlow’s electronic Certificate register. The Certificates will not be listed on any securities exchange.

We will treat the Investors in whose names the Certificates are registered as the owners thereof for the purpose of receiving payments and for all other purposes.

### **Expected Rate of Return**

The Certificates will not bear interest and will not be entitled to a particular rate of return. However, the expected rate of return, which will vary among Certificates, will be listed and updated in the Certificate Listing and is subject to change during the Stabilization Period and Rebalancing Period, to the extent the Certificate is rebalanced. AlphaFlow may rebalance a Certificate, for instance, if a number of similar mortgage loan investments allocated to a Stabilized Certificate were prepaid and the diversification of that Certificate was reduced.

Because of the payment dependent nature of the Certificates, the expected rate of return for any Certificate will depend on the interest rates and other characteristics of the mortgage loan investments allocated to that Certificate. AlphaFlow expects that, in nearly all cases, the expected rate of return provided on a Certificate will be less than the rate of return payable on the corresponding mortgage loan investments, as AlphaFlow, its affiliates and/or a third-party lenders may receive fees and charges that will vary among Certificates, including a servicing fee of between 0% and 2% and origination fees of between 0% and 3%, to the extent applicable, as described below under “Investment Standards and Policies—AlphaFlow Fees.” The expected rate of return on the Certificates is only an estimate and the actual rate of return is not guaranteed and may be lower than expected or negative, due to delinquent payments, defaults or prepayments on the corresponding mortgage loan investments, or due to additional expenses related to the mortgage loan expenses, or other circumstances. To the extent the mortgage loan investments allocated to a Certificate are reallocated during the Stabilization Period or Rebalancing Period, the expected rate of return will change based on the new set of mortgage loan investments allocated to that Certificate.

The interest rates payable on each mortgage loan investment will vary among the mortgage loan investments, depending on various factors applicable to the underlying property, borrower and, as applicable, the third-party lender. The rate of return an Investor earns on one Certificate may differ from the rate of return earned by other Investors in other Certificates, because each Certificate will correspond to a different set of mortgage loan investments with different

allocations thereof. AlphaFlow also reserves the right to offer incentives to individual or classes of Investors that may increase the rate of return for those Investors who receive those incentives (these incentives could be in the form of online promotions that are open to all Investors, but only certain Investors participate in, or may be offered to individual Investors in AlphaFlow's discretion).

The Certificates will only be entitled to receive payments from the mortgage loan investments allocated to that Certificate once the proceeds of the Certificate are applied by AlphaFlow to purchase or fund mortgage loan investments. As a result, an Investors' actual rate of return will be lower where the time it takes for AlphaFlow to apply the Certificate proceeds is longer.

### **Expected Repayment Date**

Each Certificate will have varying terms, depending on the terms of the mortgage loan investments allocated to that Certificate. Most of the mortgage loan investments will have a typical term of between six (6) months and five (5) years. Thus, the Certificates will generally have an Initial Expected Repayment Date based on the last maturity date of a mortgage loan investment within the Stabilized Certificate at the end of the Stabilization Period, and AlphaFlow will make payment on the Certificates as soon as reasonably practicable, and in any event within thirty (30) days after receipt of payment on the mortgage loan investment. The Initial Expected Repayment Date of a Certificate generally will not be determined until the end of the Stabilization Period and is subject to extension due to extension of the corresponding mortgage loan investments or rebalancing. AlphaFlow may rebalance a Certificate, for instance, if a number of similar mortgage loan investments allocated to a Stabilized Certificate were prepaid and the diversification of that Certificate was reduced. Any extension of the Initial Expected Repayment Date of a Certificate due to rebalancing will not exceed forty-five (45) days beyond the Initial Expected Repayment Date of the originally Stabilized Certificate.

If there are amounts owing to AlphaFlow on any mortgage loan investment on the Certificate's Initial Expected Repayment Date, the term of the Certificates may be extended to allow for more time for AlphaFlow to receive further payments due under the corresponding mortgage loan investments and for Investors to thus receive further payments on the Certificates.

The Certificates may never reach their expected repayment dates, however, because we expect that in most cases mortgage loan investments may be prepaid without penalty and because we or third parties may, in our or their sole discretion and, subject to the applicable servicing standards, amend, modify, or assign or sell the rights under a loan to a third party, or charge off the mortgage loan investment at any time after any delinquency thereon. Our obligation to make payments on a Certificate will be limited to an amount equal to that Certificate's *pro rata* interest in amounts we receive with respect to the corresponding mortgage loan investments for such Certificate, net of any applicable fees, costs and charges.

### **Ranking; No Sinking Fund**

The Certificates will be special, limited obligations of AlphaFlow and Investors will not have any security interest in any assets of AlphaFlow (including the mortgage loan investments). In

the event of a bankruptcy or similar proceeding of AlphaFlow, the relative rights of the Investor as compared to the holders of unsecured indebtedness of AlphaFlow with respect to payment from the proceeds of the mortgage loan investments or other assets of AlphaFlow is uncertain. See “Risk Factors.” Each Certificate will correspond to a specific allocation of mortgage loan investments and payment to Investors will depend on payments we receive from the corresponding mortgage loan investments. The Certificates will not have the benefit of a sinking fund.

## **Servicing and Payments**

Subject to the limitations described below under “Limitations on Payments,” we will make payments on the Certificates upon receiving payments from mortgage loan investments allocated to that Certificate. Payments will be made on the Certificates as soon as reasonably practicable upon AlphaFlow’s receipt of such payments on the corresponding mortgage loan investment, and in any event within thirty (30) days after receipt. In some cases, AlphaFlow may collect payments on the mortgage loan investments, while in other cases AlphaFlow may enter into a relationship with a third party in order to have that third party issue, or act as the servicer of, the mortgage loan investment. In all cases, AlphaFlow, an affiliate or a third party will disburse to the Investors the corresponding payments on the applicable Certificate.

The servicing duties for the mortgage loan investments may be allocated between one or more third parties including (for example) a primary servicer, sub-servicer, master servicer and/or special servicer selected by AlphaFlow or an AFI affiliate, each of which may either be a rated or an unrated servicer. Such servicer(s) may charge a servicing fee and any such fee(s) will be paid prior to any distribution to Investors. Servicing duties may vary, but may include one or more of the following: collecting and properly allocating payments; collecting and administering escrows and the payment of real estate taxes and insurance; reporting and remitting payments; maintaining loan files for the various mortgage loan investments; serving as a primary contact with borrowers for notices and customer support; accounting for proper loan balancing; processing modification, consents and assumption as permitted by the mortgage loan investment documents; and administering prepayments as permitted by the mortgage loan investment documents.

The Certificate Listing will generally provide for payments over a term equal to the mortgage loan investment with the latest maturity date within the Stabilized Certificate (plus additional processing time of up to thirty (30) days of AlphaFlow’s receipt of payment for AlphaFlow to remit payments from the mortgage loan investments), subject to extensions due to rebalancing or extension of the corresponding mortgage loan investments. The Certificate Listing will specify the types of periodic payments (monthly, quarterly, etc.) applicable to mortgage loan investments allocated to that Certificate. After any mortgage loan investment is paid in full, either as a result of the borrower paying off the mortgage loan investment or as a result of a payoff in a foreclosure proceeding and proceeds are paid to AlphaFlow, AlphaFlow will make payments on the related Certificates with the proceeds received (net of any fees, charges and reimbursement of advances payable to AlphaFlow) as soon as reasonably practicable, and in any event within thirty (30) days after receipt.

We expect that, for each mortgage loan investment, we or third parties will receive a payment from borrowers (through the Automated Clearing House system of the U.S. Federal Reserve Board or a successor system providing electronic funds transfers between banks, which we

refer to as the “*ACH*”) on or about the payment due date. To the extent a third party must remit payment to AlphaFlow, as is expected to be the case with participations and payment dependent notes, AlphaFlow will receive payments when the third party remits such payments, which may take up to one (1) month. A payment by a borrower or remitted by a third party will be distributed to the applicable Investors’ AlphaFlow account as soon as reasonably practicable, and in any event within thirty (30) days after receipt. Investors can review their account statements online to track when such payments are received. The same process occurs upon maturity of mortgage loan investments. In the event payment is made after the applicable payment and maturity date of a mortgage loan investment, AlphaFlow will deem the payment date (and corresponding expected repayment date) on the Certificate to be the same as the dates applicable to the mortgage loan investment.

AlphaFlow expects that each mortgage loan investment will have varying terms, including different cure and grace periods, as well as different default terms.

AlphaFlow will communicate with Investors through the AFI Website at [www.alphaflow.com](http://www.alphaflow.com) or via electronic mail.

### **Limitations on Payments**

Any amounts received on mortgage loan investments will be forwarded by AlphaFlow to Investors holding the corresponding Certificates, net of any fees, charges or other reimbursements payable to AlphaFlow or AFI affiliates. Each Investor’s right to receive payments and other amounts in respect of that Certificate is limited in all cases to that Certificate’s *pro rata* portion of the amounts received by AlphaFlow in connection with the mortgage loan investment allocated to that Certificate as described in the Certificate Listing, including all payments of principal and interest, prepayments, partial payments, late payments or settlements, the proceeds from any foreclosure on collateral, the proceeds from an assignment to a collections agent, or redemption and preferred return payments (as applicable). To the extent we do not receive a required payment on a mortgage loan investment, we will not make any payments on the Certificate related to that payment (or the portion thereof that we do not receive, in the case of a partial payment) and an Investor will not have any rights against AlphaFlow, the borrower or any third-party lender in respect of the Certificate or the mortgage loan investment.

In the event a loan is serviced by a third-party servicer (whether or not affiliated with AlphaFlow), that servicer may charge a servicing fee on amounts collected and this fee will be paid prior to any distribution to Investors.

AlphaFlow may also charge an unsuccessful payment fee to a borrower or a third party or affiliated servicer or collection agency when a payment request is denied or a check is returned unpaid for any reason, including but not limited to, insufficient funds in the borrower’s or third party’s bank account or the closing of that bank account. Payments made to Investors may be affected by the amount of any unsuccessful payment fees.

AlphaFlow or a third-party lender may retain the authority to grant appropriate payment deferrals based on its overall assessment of a borrower, the property situation and market conditions generally. In such cases, the payment terms of the mortgage loan investments will be

correspondingly adjusted. In such event, AlphaFlow will communicate any adjustments to Investors on the AlphaFlow Website.

AlphaFlow and its affiliates generally do not anticipate advancing amounts necessary to protect the security of any mortgage loan investment, but it and third-party lenders retain the ability to do so, in their sole discretion. Such amounts may include the payment of taxes, prior encumbrances or liens, property and casualty insurance, foreclosure expenses, repair, litigation expenses and similar items and also for accountant fees, consultants, property maintenance and similar items. AlphaFlow, its affiliates or certain third-party lenders may make such advances when, in its sole discretion, it determines that the mortgage loan investment may be at risk of total or partial loss and believes that the making of such advances will ultimately be economically beneficial. AlphaFlow will notify Investors who have an applicable mortgage loan investment allocated to their Certificates through the AFI Website or via electronic mail. AlphaFlow will seek the Investor's consent prior to such advances and will notify Investors that the amount of such advances may be withheld as fees payable to AlphaFlow from payments that Investors would otherwise receive on the Certificates. AlphaFlow generally will not make such notifications when third parties choose to advance funds. AlphaFlow and its affiliates are not required to make any such advances and may choose whether or not to make any such advance in its sole discretion. Any advance made by AlphaFlow or its affiliates will bear interest from the date of closing until repaid at a rate of ten percent (10%) or, if borrowed from a credit facility or bridge loan, the cost of capital. Furthermore, in the event of foreclosure, AlphaFlow is entitled to recover the costs of foreclosure and any amounts advanced by AlphaFlow or its affiliates (with applicable interest thereon) in respect of the property being foreclosed upon prior to any payment or other distribution being made to Investors.

Each Certificate is expected to be repaid as soon as reasonably practicable (and in any event within thirty (30) days after receipt by AlphaFlow of payment on the mortgage loan investment) of its Initial Expected Repayment Date, subject to a maximum forty-five (45) day extension due to rebalancing, unless any scheduled payments in respect of any mortgage loan investments allocated to a Certificate remain due and payable upon the Initial Expected Repayment Date, in which case the expected repayment date of the applicable Certificates will be automatically extended to the Final Expected Repayment Date. To the extent AlphaFlow retains servicing and work out rights with respect to the mortgage loan investment, AlphaFlow will use commercially reasonable efforts to "work out" delinquent or defaulted mortgage loan investments and/or pursue collection efforts with respect to those mortgage loan investments and will disburse to Investors a *pro rata* share of amounts we receive with respect to a mortgage loan investment for each Certificate held by the Investor with an allocation of such mortgage loan investment, net of any applicable fees, costs and charges. Notwithstanding the foregoing, AlphaFlow reserves the right, in our sole discretion to amend, modify, sell to a third-party purchaser or charge off a mortgage loan investment at any time after its delinquency, in which event(s), a mortgage loan investment may never reach the Final Expected Repayment Date and Investors may not receive the return of their investment for the mortgage loan investment that was charged off. To the extent AlphaFlow lacks servicing and/or work out rights to certain mortgage loan investments, as is expected where AlphaFlow merely participates in or holds a payment dependent note corresponding to a mortgage loan investment, AlphaFlow will not and will be under no obligation to enforce its work out rights or pursue collection efforts against the borrower. AlphaFlow also has no liability to the extent any third parties default in their payment obligations, declare bankruptcy or fail in their bankruptcy remote

protections and thus allow their third-party creditors to collect from payments on the mortgage loan investments.

## **Prepayments**

To the extent that a borrower prepays a mortgage loan investment, holders of the Certificates that have been allocated an interest in that mortgage loan investment will typically be entitled to receive their *pro rata* share of the prepayment, net of any accrued or owing fees, advances, charges or other reimbursements otherwise due and payable to AlphaFlow or its affiliates—if any. Prepayment may decrease the total return or amount of payments received by Investors.

The mortgage loan investments allocated to a Certificate may or may not require prepayment penalties of the borrower. Generally, AlphaFlow does not expect mortgage loan investments to include prepayment penalties. To the extent a borrower pays any prepayment penalty and any third parties agree to pay AlphaFlow some or all of the prepayment penalty, Investors with an allocation in that mortgage loan investment, as listed in the Certificate Listing, will typically be entitled to receive their *pro rata* share of that prepayment penalty. The Certificate Listing will not describe which mortgage loan investments include or do not include prepayment penalties.

## **Certain Aspects of Mortgage Loan Investments**

To the extent AlphaFlow holds a mortgage loan investment in the form of a participation interest or payment dependent note, or otherwise lacks servicing, default, work out or foreclosure rights to a loan, AlphaFlow will not and will be under no obligation to enforce its work out rights or pursue collection efforts against the borrower.

As discussed above, to the extent AlphaFlow retains certain rights as a holder of the loan, if a borrower remains in default on a mortgage loan investment after any accommodation granted by AlphaFlow or third parties to the borrower to cure such default, AlphaFlow (or a servicer or third party) may, in the case of a senior loan and, if secured, a mezzanine loan, foreclose on the property underlying the mortgage loan investment. The terms of mortgage loan investment with respect to default and foreclosure will vary. AlphaFlow, its affiliates or other third parties may also determine that an advance is necessary and prudent to protect Investors' interests. Such instances might include the cancellation or expiration of casualty insurance or the delinquency of property taxes. Any such advances would bear interest from the date of closing until repaid at a rate of ten percent (10%) or, if borrowed from a credit facility or bridge loan, the cost of capital and, in the case of forced insurance, may be significantly more expensive than conventional casualty insurance. Any such advances would have a repayment priority over the existing underlying loan balance as fees payable to AlphaFlow, and so may delay payments on the existing underlying loan that would otherwise be provided to Investors in the corresponding Certificates.

Some mortgage loan investments may provide for monthly payments of interest, as applicable, and will require the borrower to make a “balloon” payment of the unpaid principal and interest at the end of the loan term. Some mortgage loan investment terms may require partial amortization and will require the borrower to make a “balloon” payment of the unpaid principal

and interest at the end of the loan term. AlphaFlow does not currently expect to make, arrange or purchase interests in mortgage loan investments that contain provisions for negative amortization.

From time to time, AlphaFlow or third parties may rewrite loan terms for certain mortgage loan investments. With respect to such rewritten terms, AlphaFlow may elect not to obtain a new appraisal or other evaluation of the property.

### *Construction, Rehabilitation, Home Improvement and Entitlement Loans*

AlphaFlow may use the proceeds from a Certificate to purchase or fund mortgage loan investments relating to construction loans for various types of properties, including single-family residential, condominiums, multi-family residential, industrial, office, retail, foreclosed (REO), unimproved land with entitlements and other types of real estate. The loan underwriting for construction, rehabilitation and unimproved land with entitlement loans is typically based upon a determined “as completed” value, *i.e.*, the projected value of the property *after* the completion of the construction or rehabilitation of a property. AlphaFlow or third-party lenders may require special builder’s risk insurance, or “course of construction” insurance, in these cases.

Although construction mortgage loan investments may be fully funded at their close, the proceeds of a construction loan will typically be disbursed to a construction or builder’s fund control company. The borrower will typically be required to enter into a construction loan agreement that governs the release of the loan proceeds. Disbursements would be made by the third-party lender, its authorized agent, or the construction or builder’s fund control company only as portions of the construction work are completed and only upon instructions from the third-party lender or its agent after monitoring such progress, with the amount of disbursement based upon a percentage of work completed. Disbursements may include interest on the construction loan and advance payments to the Investors. The amount of the disbursement to pay the contractor and the subcontractors generally would be based upon a percentage of completion of construction. Third-party lenders may require the retention of a percentage of the amounts paid to the contractor or subcontractors. Disbursements may be made directly to the borrower or contractors or subcontractors or jointly to the borrower and to the contractors or the subcontractors or jointly to the contractors and subcontractors. Some third-party lenders and in particular some real estate crowdfunding platforms, do not escrow or raise construction draw funds unless and until a borrower requests a construction draw. As a result, a third party’s inability to raise funds for subsequent construction draws may result in the failure of a mortgage loan investment. Unless AlphaFlow issues the loan itself or purchases whole construction loan notes, AlphaFlow typically does not retain significant control rights over the servicing and administration of any mortgage loan investments.

For rehabilitation loans, a portion of the loan proceeds will typically be disbursed directly to the borrower or to a construction or builder’s fund control company and the borrower would enter into a loan disbursement agreement that will govern the release of the portion of the loan proceeds that are intended to be used for repairs and rehabilitation. Typically, a lender will require the borrower to have already completed certain line items within the scope of work before they will be entitled to receive any loan proceeds. Construction or rehabilitation disbursements will be made based on the disbursement schedule and fund control authorization. The laws of some states compel only one disbursement of funds, or prohibit collection of monthly interest in funds not yet

disbursed. If the improvements have not been completed within the time period set forth in the construction or rehabilitation agreement, or if the balance of the loan proceeds is determined to be insufficient to complete the construction, then any remaining retained funds may be used to complete the construction or the borrower may be required to deposit additional funds.

Upon any default pursuant to the corresponding loan, the third-party lender or servicer may apply all or any portion of the amount in the trust account or held by the construction or builder's fund control company to amounts due under the corresponding loan, the payments of which will be disbursed to Investors that hold an interest in the applicable mortgage loan investment.

To the extent available, AlphaFlow will require that the terms of a loan require the borrower to obtain builder's risk insurance, which is also known as course of construction insurance. This specialized insurance is intended to insure structures, while they are under construction. Materials, fixtures and appliances that are intended to become an integral part of the structure being built are also insured. The insurance is provided for loss resulting from accidental direct physical damage to the structure under construction. The policies generally include broad coverage, but exclude earthquake, flood and damage caused by earth movement. Some builder's risk policies limit coverage to physical damage caused by specifically named perils, such as fire and theft. The coverage provided for specific perils would be specifically listed in the insurance policy or policies.

## **Government Regulation**

There are many levels of local, state and federal laws and regulations that may potentially affect AlphaFlow's business. In addition, the current state of the regulation of online investment platforms and robo-advisors is unsettled and subject to change.

As a threshold matter, if AlphaFlow is required to register under the Investment Company Act or become subject to the U.S. Securities and Exchange Commission's regulations governing broker-dealers, or if the Certificates were deemed to be asset-backed securities, it may be required to institute substantial compliance requirements and controls.

Additionally, some states may require AlphaFlow to qualify to "do business" and file registrations with the requisite offices of secretary of state or related governmental bodies. Further, some states require companies such as AlphaFlow, to obtain real estate and/or consumer credit licenses, including such licenses for the authority to engage in the business of mortgage lending, brokering, servicing, holding or collecting commercial mortgage loans. AlphaFlow does not intend to finance mortgage loan investments or engage in licensable activity in states where such licenses are required until it obtains the required license(s) in each jurisdiction, as required by applicable law. AlphaFlow may, in the future, do business with or affiliate itself with third parties (including banks or other depository institutions) in order to be able to offer loans in jurisdictions where AlphaFlow might otherwise be restricted from doing so without a license. It is possible that some of these states may still impose mortgage lender, broker or licensing requirements on AlphaFlow regardless of such affiliations and structures and if such requirements are imposed, AlphaFlow will obtain such required licenses in accordance with applicable law.

In addition, substantive requirements are imposed upon lenders in connection with the

origination, assignment and servicing of mortgage loans by numerous federal and some state consumer protection laws. These laws include the federal Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Home Ownership Equity Protection Act and similar statutes. Some of the mortgage loan investments may be subject to certain provisions of these and other applicable laws and regulations concerning loans. These laws generally impose additional disclosure and other substantive requirements on creditors with respect to mortgage loan investment where the loan funds are primarily used for personal, household or consumer purposes. See “Risk Factors.”

In many states, loans will be subject to state restrictions on interest rates and fees that may be imposed on AlphaFlow loans. We do not intend to make loans that violate these state laws.

As discussed above, AlphaFlow may in certain cases purchase loans originated by third-party lenders. Such lenders may be subject to licensing requirements in one or more states. AlphaFlow will engage in entity due diligence with respect to compliance with such licensing requirements, as well as operational due diligence on the third-party lenders’ origination and production channels, but cannot guarantee compliance by such lenders with any applicable laws or regulations and will rely on representations of such lenders with respect to their compliance with such licensing requirements. If a lender does not comply with state or federal requirements, the lack of compliance may affect the enforceability of loans purchased from that lender.

AF Advisor is a registered investment adviser registered with the state of California, CRD# 285210. As a registered investment adviser, AF Advisor is a fiduciary to its clients, and is expected to act in good faith, exercise the highest standard of care, and have a duty to only engage in activities that promote fair, equitable and ethical principles. AF Advisor is subject to minimum financial requirements, annual reporting requirements, and examination by the California Department of Business Oversight.

### **Binding Arbitration**

Under the terms of the Investor Agreement, the claims by Investors under the Investor Agreement or Certificates will be subject to binding arbitration in accordance with the then existing Commercial Arbitration Rules and Mediation Procedures of the American Arbitration Association with an arbitrator from JAMS (or if such entity is not in existence then an arbitrator from the American Arbitration Association) in San Francisco, California. The arbitrator will be jointly selected by AlphaFlow and the Investor. Any award or decision obtained from such arbitration proceeding will be final and binding on the parties. The non-prevailing party in any such arbitration proceeding will be responsible for the reasonable legal fees and expenses of the prevailing party, in addition to any other damages that may be awarded. No such arbitration proceeding will be determined on a class, representative or collective basis.

## **INVESTMENT STANDARDS AND POLICIES**

### ***Evaluation and Pricing of Financing Opportunities***

The financing of each mortgage loan investment generally commences with an individual, lender or third-party real estate company requesting a loan from a third-party lender, and in the

future these loans may be requested directly from AlphaFlow. The amount financed generally ranges from \$1,000 to \$25,000,000 and the term of the indebtedness generally ranges from six (6) months to five (5) years.

### ***Loan Underwriting and Procedures***

Subject to any exceptions set forth herein, AlphaFlow intends to invest in mortgage loan investments with the following characteristics:

Loan Size	\$1,000 to \$25,000,0000
Loan Term	Six (6) months to five (5) years
Loan Type	First mortgage
Product Types	Single-family residential, office, industrial, multifamily, retail, land, hospitality and special purpose
Loan Purpose	Acquisition, rehabilitation, bridge, new construction
Location	United States
LTV / LTC	Up to 80%, see below chart for detail
Debt Service Coverage Ratio	Flexible; in-place DSCR can be below 1.0X in some situations
Interest Rate	5.0% - 15.0%, generally fixed
Prepayment	Flexible
Amortization	Interest only, Amortizing
Recourse	Both recourse and nonrecourse

AlphaFlow reviews mortgage loan investment opportunities and pursues opportunities where the total amount of the loan will generally not exceed a certain percentage of the value of the property securing the loan (the “loan-to-value ratio”), as indicated in the chart below:

<b>Property Type</b>	<b>Maximum Loan-to-Value Ratio</b>
Existing - Commercial or Residential	80%
Rehabilitation - Commercial or Residential	75% (on as-completed value)
New Construction	75% (on as-completed value)
Land	75%
Special Purpose (e.g., marina, cold storage)	75%

Notwithstanding the foregoing, AlphaFlow may invest in mortgage loan investments with higher loan-to-value levels in certain instances, in which case AlphaFlow will provide additional disclosure of this fact in the Certificate Listing.

### ***Opportunistic Investments***

For opportunistic investment, AlphaFlow will review the investment and pursue investment opportunities where the expected risk-adjusted return is generally at or above general market-based

returns.

AlphaFlow may sometimes retain a licensed independent appraiser to assist with its confirmation of a property's fair market value. In other cases, AlphaFlow may rely on opinions of value from other sources, such as the price of a recent sale of that particular property or comparable properties and an opinion of value from AlphaFlow itself, the opinion of value provided by a lender AlphaFlow purchased the mortgage loan investment from, or a real estate broker knowledgeable in the area where the property is located. In many cases, however, AlphaFlow may determine that the cost or time to obtain an independent certified appraisal is not warranted or may rely on the appraisal of a third-party lender.

The appraisal or evaluation for construction loans, rehabilitation loans and entitlement loans will be prepared on either an "after-completed" basis, *i.e.*, assuming that the entitlements or the improvements for which the loan is obtained will be completed or on an "as-is" basis if the third-party lender or AlphaFlow, as applicable, is not holding back any monies for rehabilitation or construction. The appraiser may also assume that all public improvements to be funded by special assessment district bonds will be completed as proposed and that the property will be marketed and sold in the manner planned by the borrower. In the case of a construction loan, rehabilitation loan or entitlement loan, the loan-to-value ratio as estimated in the appraisal or evaluation and the budget for the project may exceed the loan-to-value ratios listed above at times during the term of the loan. This may occur because the appraisal or evaluation may be based upon the value of the property when the construction or improvements are completed or the entitlements obtained; however, before the construction, improvements or entitlements are completed, the value of the property will generally be less than the "as completed" appraised or evaluated value.

The interest rates that the borrower will pay and other loan terms are based on negotiations conducted by the loan originator with the borrower. AlphaFlow performs its own underwriting analysis, in its sole discretion, with respect to all mortgage loan investments. In the future, AlphaFlow or its affiliates may originate mortgage loan investments directly, which will be disclosed in the Certificate Listing, in which case AlphaFlow will negotiate directly with the borrower. If AlphaFlow or an affiliate originates a loan, AlphaFlow expects to structure its activities or take other steps to permit AlphaFlow to minimize the potential tax impact to Investors from the change in its activities. See "Certain U.S. Federal Income Tax Considerations—Characterization of AlphaFlow."

Borrowers may be required to maintain appropriate liability and property casualty insurance as required in the mortgage loan investment documents and AlphaFlow may (but will not always) be named as loss payee on any such to the extent AlphaFlow has an interest in the whole mortgage loan investment. Any payment made on such policies may be used to repair the property or to make payments on the applicable Certificates that have an allocation of that mortgage loan investment. AlphaFlow does not generally require that mortgage loan investments require the borrower to maintain property damage coverage for landslides, earthquakes, floods, or similar natural disaster events. Any hazard losses not then covered by the borrower's insurance policy would result in the mortgage loan investment becoming significantly under-secured and an Investor in a Certificate could sustain a significant reduction, or complete elimination of, the return and repayment of principal from that mortgage loan investment.

The Certificate Listing on the AFI Website will list which mortgage loan investments are allocated to each Certificate and the amount of each mortgage loan investment so allocated.

### ***Purchase of Certificates***

Any Certificates offered by us will be available for sale to accredited investors domiciled in the United States who agree to the Investor Agreement, provide sufficient funds to make the desired investment and, if any state residence limitations are applicable for such offering, who reside in the permitted states for such offering.

An Investor may purchase a Certificate on the AFI Website by indicating the amount they wish to invest, subject to the minimum or maximum investment amount, if any. The Investor will then be prompted to confirm the “order.” After such confirmation, the order will represent a complete subscription to purchase a Certificate, pending accredited investor verification. In the event we are required to amend this PPM or the applicable Certificate Listing—for example, as a result of material changes to the information contained herein—we will post a notice on the web page where the Certificates are listed, in each case advising Investors that a material amendment to the PPM or Certificate Listing is pending and applicable instructions and requirements related thereto.

Certificates are issued electronically, in “book entry” form, by means of registration of each investor’s ownership in our records.

### ***AlphaFlow Fees***

AlphaFlow or its affiliates may be paid a servicing fee at an annualized rate, generally between 0% to 2% of the principal amount of each corresponding mortgage loan investment, which will be described in the Certificate Listing, for the ongoing administration of payments on the mortgage loan investments, tax filings, reporting, property oversight and other administrative services, as applicable. Any servicing fee may be paid out of the proceeds from the mortgage loan investments and will not be passed on to the Investors. The decision to use an affiliate to provide these services will be made only if, in AlphaFlow’s sole judgment, the affiliate is able to provide the service on terms equal or superior to other potential service providers. In the cases of defaults, where AlphaFlow has special servicing rights, AlphaFlow may also collect prevailing market rate special servicing fees to work out delinquent or nonperforming real estate investments. AlphaFlow may also choose to outsource servicing and special servicing to a third-party servicing firm. Each Certificate Listing will describe the servicing fees payable to AlphaFlow on any mortgage loan investment allocated to that Certificate. The servicing fee will reduce the effective yield on your Certificates below their stated expected rate of return.

To the extent AlphaFlow or its affiliates originate a loan, it will earn and be paid certain origination fees, generally ranging from 0% to 3% of the principal amount of each corresponding loan, from the borrower. Such fees may be funded from the loan proceeds and will not be passed on to the Investors. The amount of the loan origination fee depends upon market conditions and is payable at the time the mortgage loan investment closes. To the extent that AlphaFlow (or an affiliate or a third party) charges the borrower certain loan origination fees (“points”), the principal amount of the loan may be increased, which may adversely affect the ability of the borrower to

repay the loan. In addition, loan fees or points, (when added to the amount of the loan) will increase the gross amount of the loan thereby decreasing the borrower's equity in his or her property and correspondingly decreasing the potential recovery on the security of a mortgage loan investment.

AF Advisor will also be paid an advisory fee equal to 1% of the aggregate proceeds received on the Certificates, which will be paid from the funds received from each Investor. This fee will reduce the amount of proceeds from the Certificates invested in mortgage loan investments, and will therefore reduce the amount earned by an Investor.

Although AlphaFlow and its affiliates generally do not anticipate advancing amounts necessary to protect the security of any mortgage loan investment, but it and third party lenders retain the ability to do so, in their sole discretion. To the extent that AlphaFlow does advance such amounts, it will be entitled to the amounts described above under "The Certificates—Limitations on Payments."

AlphaFlow will also charge a transfer fee equal to five hundred dollars (\$500) for every transfer request made by an Investor to AlphaFlow for administrative, legal and other relevant costs.

If the loan is a construction or rehabilitation loan, AlphaFlow (or an affiliate or a third party) may be reimbursed for its expenses and receive builder control fees for inspecting construction progress and monitoring disbursements from a loan disbursement account (if any). These fees and expenses generally will not exceed 3% of the principal amount of the loan, will be payable by the borrower, may be payable out of loan or sales proceeds and will not be passed on to the Investors.

Certain provisions of applicable law may limit AlphaFlow's compensation with respect to loans secured by single dwelling units in a condominium or a cooperative or a residential building containing four units or less.

Certain Certificates may also entitle AlphaFlow to other fees. Any such fees will be disclosed in the Certificate Listing.

If collection action must be taken with respect to a mortgage loan investment, AlphaFlow or a collection agency may charge a prevailing, market-rate special servicing fee, at a rate similar to what would be expected if negotiated in an arm's-length transaction. These fees will not be passed on to the Investors and will correspondingly reduce the amounts of any payments Investors may receive on the Certificates.

AlphaFlow's above-described compensation is not determined by arm's-length negotiations with any Investor.

## **RISK FACTORS**

*Investing in the Certificates involves a high degree of risk. In deciding whether to purchase Certificates, you should carefully consider the following risk factors. Any of the following risks*

*could have a material adverse effect on the value of the Certificates you purchase and could cause you to lose all or part of your initial purchase price or could adversely affect future payments you expect to receive on the Certificates. Only Investors who can bear the loss of their entire purchase price should purchase Certificates.*

### **Risks Related to the Certificates and the Mortgage Loan Investments on which Payments on the Certificates Are Dependent**

***You may lose some or all of your initial purchase price for the Certificates because the Certificates are highly risky and speculative. Only investors who can bear the loss of their entire purchase price should purchase Certificates.***

The Certificates are highly risky and speculative because payments on the Certificates are special, limited obligations of AlphaFlow that depend entirely on payments from the mortgage loan investments allocated to that Certificate. Certificates are suitable purchases only for Investors of adequate financial means. If you cannot afford to lose all of the money you plan to invest in Certificates, you should not purchase Certificates.

***Payments on the Certificates depend entirely on payments AlphaFlow receives on corresponding mortgage loan investments. If a borrower fails to make any payments on a mortgage loan investment allocated to your Certificate, payments on your Certificate will be correspondingly reduced.***

AlphaFlow will only make payments *pro rata* on the Certificates containing interests on a certain mortgage loan investment, net of our service charge, after it receives a payment on that mortgage loan investment. AlphaFlow and/or third-party lenders also will retain (and not pay to Investors) from the funds received from the relevant borrower and otherwise available for payment on the Certificates any non-sufficient funds fees and the amounts of any attorneys' fees or collection fees it, a third-party servicer or collection agency imposes in connection with collection efforts. If such fees are collected or imposed, it may reduce your return. Under the terms of the Certificates, if AlphaFlow does not receive any or all payments on a mortgage loan investment, payments on a Certificate to which that mortgage loan investment is allocated will be correspondingly reduced in whole or in part. If a relevant borrower does not make a payment on a specific loan payment date on a mortgage loan investment allocated to your Certificates, no payment will be made on your Certificate on the corresponding succeeding Certificate payment date.

***The Certificates are special, limited obligations of AlphaFlow only and are not secured by any collateral or guaranteed or insured by any third party.***

While a mortgage loan investment (or the components thereof) allocated to a Certificate may be secured, directly or indirectly, by a mortgage, deed of trust, security agreement or legal title, the Certificates themselves are special, limited obligations of AlphaFlow and will not represent an obligation of the borrower or any other party except AlphaFlow. The Certificates will not be secured by any collateral and are not guaranteed or insured by any governmental agency or instrumentality or any third party. Investors in the Certificates may look only to AlphaFlow for payment of the Certificates and only to the extent of *pro rata* portions of payments received with respect to a mortgage loan investment allocated to a Certificate. Furthermore, if a borrower fails to

make any payments on a mortgage loan investment allocated to your Certificates, you will not receive the corresponding payments on those Certificates. Investors will not be able to pursue collection against the borrower and are prohibited from contacting the borrower about a mortgage loan investment.

***AlphaFlow does not have significant historical performance data about performance on the mortgage loan investments. Loss rates on the mortgage loan investments may increase and prior to investing you should consider the risk of nonpayment and default.***

AlphaFlow is in the early stages of its development and has a limited operating history. The management team of AFI and AlphaFlow has experience in investment in real estate loans, but the performance of previous mortgage loan investments, AlphaFlow investment funds or diversification strategies may not be indicative of the future performance of the Certificates or the mortgage loan investments, and AlphaFlow cannot predict what its long-term loan loss experience will be.

***If payments on mortgage loan investments allocated to your Certificates are not paid, it is likely you will not receive the full repayment of your original investment and expected return on your Certificates.***

Whole senior loans and certain mezzanine loans will be secured by property and participations or payment dependent notes may be indirectly secured by property. If a mortgage loan investment becomes past due or is otherwise in default, to the extent AlphaFlow lacks servicing or special servicing rights on the mortgage loan investment, AlphaFlow will not have any control over default, work out or foreclosure procedures and policies.

To the extent AlphaFlow does retain any servicing or special servicing rights, AlphaFlow may need to foreclose on the property underlying the corresponding loan at a foreclosure sale unless the property is purchased by a third-party bidder at the foreclosure sale. AlphaFlow or one of its affiliates may act as manager for the foreclosed real estate and the costs of foreclosure may be advanced by AlphaFlow or its affiliate, but if AlphaFlow cannot quickly sell such property and the property does not produce any significant income, the cost of owning, maintaining and selling the property would reduce any proceeds gained through the sale. AlphaFlow may offer its Investors the opportunity to advance such costs as a priority loan at a market interest rate and Investors not willing to advance their *pro rata* share of such costs will be subordinate to such loan. If the foreclosed real estate cannot be sold for net proceeds that can fully return the *pro rata* outstanding amount of the mortgage loan investments, Investors whose Certificates have been allocated an interest in those mortgage loan investments will lose part or potentially all of their investment.

In certain cases, even when a loan is secured, AlphaFlow may not be able to recover any of the unpaid loan balance. As a result, an Investor whose Certificates have been allocated an interest in that mortgage loan investment may receive little, if any, of the unpaid principal and interest associated with its ratable allocation of that mortgage loan investment and thus, may receive a less than expected return under the Certificate. You must rely on the collection efforts of AlphaFlow or a third party that retains servicing and special servicing rights (and/or their servicers and sub-servicers), as applicable. You are not permitted to attempt to collect payments on the corresponding mortgage loan investments in any manner.

***Loss rates on mortgage loan investments corresponding to the Certificates may increase as a result of economic conditions beyond AlphaFlow's control and beyond the control of the borrower. As a result, loss rates on the Certificates may also increase.***

Mortgage loan investment loss rates may be significantly affected by economic downturns or general economic conditions beyond AlphaFlow's control and beyond the control of individual borrowers or third-party lenders. In particular, loss rates on mortgage loan investments may increase due to factors such as (among other things) local real estate market conditions, prevailing interest rates, the rate of unemployment, the level of business and consumer confidence, unemployment levels, the value of the U.S. dollar, energy prices, changes in consumer spending, the number of personal bankruptcies, disruptions in the credit markets and other factors. As a result, loss rates on the Certificates overall may also increase due to economic conditions outside AlphaFlow's control.

***When you subscribe to purchase a Certificate, you must commit funds toward your purchase, but the funds may not be applied toward the purchase of mortgage loan investments for an additional period after the Certificate is issued.***

AlphaFlow will issue a Certificate to an Investor once the Investor has remitted funds to AlphaFlow, agreed to the Investor Agreement and purchased the Certificate on the AFI Website. AlphaFlow will then deploy the investment funds, minus the 1% advisory fee paid to AF Advisor, over the Stabilization Period, to purchase or fund mortgage loan investments. From the time the Certificate is issued until the end of the Stabilization Period, some or all of the investment funds will not be applied toward the purchase of mortgage loan investments. During this time, you will not have access to your funds. Because your Certificates will not be entitled to payment from mortgage loan investments until the proceeds of your Certificates are applied by AlphaFlow and mortgage loan investments are allocated to your Certificates, the delay in deployment or allocation of funds will have the effect of reducing the effective rate of return on your investment.

***Your Certificate may not be diversified across mortgage loan investments for a period of time after the Certificate is issued. Any mortgage loan investment that becomes nonperforming will not be further allocated to any other Certificate until brought current. If a mortgage loan investment in your Certificate becomes nonperforming, it may reduce your effective rate of return on the Certificate.***

In order to maximize the effective rate of return on a Certificate, AlphaFlow may initially use the proceeds from the sale of a Certificate to purchase or fund as few as one mortgage loan investment, at which time that Investor's Certificate would depend solely on that mortgage loan investment. Over the Stabilization Period, AlphaFlow will reallocate the mortgage loan investments allocated to a Certificate to add interests in additional mortgage loan investments and reallocate interests in the initial mortgage loan investment to the Certificates of other Investors. From the time the Certificate is issued until the end of the Stabilization Period, your Certificate will not be as diversified as at the end of the Stabilization Period, and may not be diversified at all.

AlphaFlow does not reallocate mortgage loan investments to other Certificates if those mortgage loan investments become nonperforming. If an initial mortgage loan investment

allocated to your Certificate becomes nonperforming, your Certificate will contain a greater allocation of nonperforming mortgage loan investments than would be the case in a Stabilized Certificate, and may consist solely of one or more nonperforming mortgage loan investments. The allocation of that nonperforming mortgage loan investment will not decrease over the Stabilization Period, which may reduce the effective rate of return on the Certificate if payments are not received on that nonperforming mortgage loan investment. AlphaFlow will reallocate nonperforming mortgage loan investments once that mortgage loan investment is brought current.

***Borrower prepayments will extinguish or limit your ability to earn additional returns on a Certificate.***

Prepayment of a mortgage loan investment will occur if a borrower decides to pay some or all of the principal amount on a corresponding loan earlier than originally scheduled. Although your Certificate will be generally be entitled to a pro rata portion of any prepayment penalties collected from borrowers, we anticipate that most mortgage loan investments will allow the borrower to prepay all or a portion of the remaining principal amount or redemption amount at any time without penalty. Upon a prepayment of the entire remaining unpaid principal amount of a corresponding loan, you may receive your share of such prepayment, but further interest will not accrue after the date on which the payment is made. If prevailing commercial loan rates decline in relation to the effective interest rate on a mortgage loan investment, the borrower may choose to prepay that mortgage loan investment with lower-cost funds. If the borrower prepays a portion of the remaining unpaid principal balance on a mortgage loan investment allocated to your Certificate, the term for repayment of the corresponding loan will not change, but you will not earn a return on any prepaid portion and your anticipated total investment return may decrease accordingly. In addition, to the extent you decide to reinvest payments you receive on the Certificates, new Certificates purchased with reinvested funds may not yield a similar expected rate of return at the time at which the corresponding loan is prepaid. See “The Certificates.”

***The success of each mortgage loan investment and the Certificates is dependent on the performance of the borrower, third-party lenders and other third parties over which we have no control.***

With respect to a particular mortgage loan investment, the borrower is responsible for various management functions that are essential to the success of the property, including property marketing and leasing rates, payment of bills, maintenance of insurance and property management generally. Poor management on the part of the borrower could adversely affect the financial performance of the corresponding loan or expose it to unanticipated operating risks, which could reduce the property’s cash flow and adversely affect the borrower’s ability to repay the mortgage loan investment. With respect to a particular mortgage loan investment, a third-party lender (or its servicer) may have responsibility over servicing and special servicing strategy, policy and procedures. Neither AlphaFlow nor any AFI affiliate has any control over a borrower’s management of a property or third-party lender’s management of loan servicing.

***Information supplied by borrowers or third-party lenders may be inaccurate or intentionally false.***

Borrowers supply a variety of information regarding the current rental income, property valuations, market data and other information, some of which is included in the Certificate

Listings. Unless AlphaFlow originates the underlying mortgage loan investment, AlphaFlow will make no attempt to verify this information, which may be incomplete, inaccurate or intentionally false. Where AlphaFlow does make an attempt to verify this information, it will not be able to verify all of it as a practical matter. Borrowers may also misrepresent their intentions for the use of mortgage loan investment proceeds. AlphaFlow does not verify statements by applicants as to how loan proceeds are to be used. If a borrower supplies false, misleading or inaccurate information, you may lose all or a portion of your investment in the Certificate if that mortgage loan investment has been allocated to your Certificate.

Similarly, third-party lenders supply AlphaFlow with a variety of information about each mortgage loan investment, some of which is included in the Certificate Listings. AlphaFlow makes an attempt to perform some due diligence on these third parties and their due diligence efforts, but as a practical matter, cannot verify all information on the mortgage loan investments themselves, which may be incomplete, inaccurate or intentionally false. AlphaFlow is also limited in its ability to verify loan-level information particularly when purchasing fractional participatory interests in or payment dependent notes corresponding to a mortgage loan investment. In these cases, AlphaFlow relies primarily on the efforts of third-party lenders to verify loan information.

With the exception of mortgage loan investments which have a draw feature coupled with them, when AlphaFlow finances a mortgage loan investment, its primary assurances that the financing proceeds will be properly spent by the borrower are the contractual covenants agreed to by the borrower, along with the borrower's business history and reputation. Where AlphaFlow merely takes a fractional interest in a loan or purchases a payment dependent note issued by a third-party lender, AlphaFlow's primary assurances that third-party lenders have supplied accurate information are the contractual agreements agreed to with the third-party lender, along with the third-party lender's business history and reputation. Should the proceeds of a financing be diverted improperly, the borrower might become insolvent, which could cause the purchasers of Certificates with an interest in the corresponding mortgage loan investment to lose some or all of their investment.

***The borrower may have no operating history and the manager of the borrower may lack experience in developing projects similar to a property underlying a mortgage loan investment.***

Real estate companies are often organized solely for the purpose of developing a particular property. In that case, the borrower may have no history of operations. It therefore should be considered a development stage company and its operations will be subject to all of the risks inherent in the establishment of a new business enterprise, including, but not limited to, hurdles or barriers to the implementation of its business plans. Further, because there is no history of operations there is also no operating history from which to evaluate the borrower manager's ability to manage the borrower's operations and achieve its goals or the likely performance of the company. No assurances can be given that a borrower can operate profitably.

***Projected revenues from a property could fall short of the amounts projected.***

Where an underlying mortgage loan investment is on a property being renovated, that property often does not generate any current revenues. In these cases, the success of the project generally depends on the borrower being able to make a profitable sale following the renovation

work, or on the borrower recapitalizing the property after it has been “stabilized” with new tenants and the associated rental income. Borrowers may not qualify to refinance their properties, leaving them unable to pay off the bridge loan. Such projected sales or refinancing events may not bring the proceeds anticipated and those proceeds could be inadequate to repay the mortgage loan investment and thus mortgage loan investment, in full.

Where an underlying mortgage loan investment is on a property with existing cash flow, the payment schedules may be based on projected revenues generated by the property over the term of the mortgage loan investment. These projections are based on factors such as expected vacancy rates, expense rates and other projected income and expense figures relating to the property. The actual revenues generated by a property could fall short of projections due to factors such as lower-than-expected rental revenues, or greater-than-expected vacancy rates or property management expenses. In such event, the borrower’s cash flow could be inadequate to repay the mortgage loan investment in full.

***Insurance against risks faced by a property could become more costly or could become unavailable altogether.***

Real estate properties are typically insured against risk of fire damage and certain other property casualties, but are sometimes not covered by severe weather or natural disaster events such as landslides, earthquakes, or floods. Changes in the conditions affecting the economic environment in which insurance companies do business could affect the borrower’s ability to continue insuring the property at a reasonable cost or could result in insurance being unavailable altogether. Moreover, any hazard losses not then covered by the borrower’s insurance policy would result in the mortgage loan investment becoming significantly under-secured and an Investor in a Certificate with an allocation of the mortgage loan investment could sustain a significant reduction, or complete elimination of, the return and repayment of principal from its allocation of the mortgage loan investment under that Certificate.

***Environmental issues may affect the operation of a borrower property.***

If toxic environmental contamination is discovered to exist on a property underlying a mortgage loan investment, it might affect the borrower’s ability to repay the mortgage loan investment, resulting in a devaluation of the security of the mortgage loan investment. To the extent that the property is foreclosed and/or operated, potential additional liabilities include reporting requirements, remediation costs, fines, penalties and damages, all of which would adversely affect the likelihood that Investors would be repaid on the Certificates.

Of particular concern may be those properties that are, or have been, the site of manufacturing, industrial or disposal activity. These environmental risks may give rise to a diminution in value of the security property or liability for cleanup costs or other remedial actions. This liability could exceed the value of the real property or the principal balance of the related mortgage loan. For this reason, the contaminated property may not be foreclosed to avoid risk incurring liability for remedial actions.

Under the laws of certain states, an owner’s failure to perform remedial actions required under environmental laws may give rise to a lien on mortgaged property to ensure the reimbursement of remedial costs. In some states this lien has priority over the lien of an existing

mortgage against the real property. Because the costs of remedial action could be substantial, the value of a mortgaged property as collateral for a loan could be adversely affected by the existence of an environmental condition giving rise to a lien.

The state of law is currently unclear as to whether and under what circumstances cleanup costs, or the obligation to take remedial actions, can be imposed on a secured lender. If a lender does become liable for cleanup costs, it may bring an action for contribution against the current owners or operators, the owners or operators at the time of on-site disposal activity or any other party who contributed to the environmental hazard, but these persons or entities may be bankrupt or otherwise judgment-proof. Furthermore, an action against the borrower may be adversely affected by the limitations on recourse in the loan documents.

***AF Advisor has an incentive to cause AlphaFlow to fund or purchase as many mortgage loan investments as possible, which could impair its ability to devote adequate attention and resources to the selection and management of mortgage loan investments to the extent it possesses any servicing or collection rights.***

Substantially all of AlphaFlow's and AF Advisor's revenues are derived from fees or spreads generated through the investment advisory services offered by AF Advisor and AlphaFlow's management services on the mortgage loan investments. As a result, AF Advisor has an incentive to take an interest in as many mortgage loan investments as possible to diversify each Certificate and maximize the amount of fees AlphaFlow is able to generate. Increased loan volume increases the demands on its management resources and its ability to devote adequate attention and resources to the selection and management of mortgage loan investments. In the event that AlphaFlow takes on loan volumes that exceed its ability to manage outstanding mortgage loan investments, our ability to make timely payments on the Certificates will suffer.

***The property valuation models used by AlphaFlow in determining whether to fund or purchase a mortgage loan investment may be deficient and may increase the risk of default.***

Real estate valuation is an inherently inexact process and depends on numerous factors, all of which are subject to change. Appraisals or opinions of value may prove to be insufficiently supported and AlphaFlow's review of the value of the underlying property in determining whether to fund or purchase a mortgage loan investment and the value of the security of such mortgage loan investment may be based on information that is incorrect or opinions that are overly optimistic. The risk of default in such situations is increased and the risk of loss to Investors will be commensurately greater.

***The real property security for the mortgage loan investments may decline in value.***

The value of the real property security for a mortgage loan investment will be subject to the risks generally incident to the ownership of improved and unimproved real estate, including changes in general or local economic conditions, increases in interest rates for real estate financing, physical damage that is not covered by insurance, zoning, entitlements and other risks. Many real estate companies expect to use resale proceeds to repay their mortgage loan investment. A decline in property values could result in a loan amount being greater than the property value, which could increase the likelihood of the borrower failing to make payments on a mortgage loan

investment.

Although real estate prices are generally cyclical in nature, AlphaFlow's operating history since its inception does not yet span any prolonged down cycles in the real estate market.

***In some cases, AlphaFlow relies on third parties to manage loans, provide certain services, or remit payments on loans, which may result in increased risks to Investors.***

In some cases, AlphaFlow relies on third parties to manage loans, provide certain services, or even remit payments from a mortgage loan investment. Because the payments we distribute to Investors are dependent on payments distributed to us, any failure of a third party to pursue collections or remit payments to AlphaFlow may result in a lower return for Investors. For example, to the extent a third party received payment on a mortgage loan investment and declares bankruptcy before remitting payment to AlphaFlow, those payments may instead go to general creditors of the third party rather than to AlphaFlow.

***Loans ending with large "balloon" payments carry particular risks.***

Some of the mortgage loan investments may be interest-only loans, or loans that do not fully amortize, providing for relatively small monthly payments with a large "balloon" payment of principal due at the end of the term. Real estate companies may be unable to make principal payments out of their own funds and will be compelled to refinance or sell their property. Fluctuations in real estate values, interest rates and the unavailability of mortgage funds could adversely affect the ability of real estate companies to refinance their loans at maturity or successfully sell the property for enough money to pay off corresponding loans.

***Construction and rehabilitation investments carry particular risks.***

Construction and rehabilitation loans involve a number of particular risks, involving, among other things, the timeliness of the project's completion, the integrity of appraisal values, whether or not the completed property can be sold for the amount anticipated and the length of ultimate sale process.

If construction work is not completed (due to contractor abandonment, unsatisfactory work performance, or various other factors) and all the mortgage loan investment funds have already been expended, then significant additional funds may be required to complete the construction work in the event of default. Any such investment would be recuperated by the advancing lender prior to an Investor being paid back. If the value of an uncompleted property is materially less than the amount of the loan, even if the work were completed, then upon a default additional funds might be needed in order to recoup all or a portion of the investment. Default risks also exist where it takes a borrower longer than anticipated either to construct or then sell the property, or if the borrower does not receive sufficient proceeds from the sale to repay its loan in full.

Some third-party lenders do not fund escrow or raise construction draw monies unless and until a borrower requests a construction draw. As a result, a third party's inability to raise construction funds upon request may be unable to fulfill their obligations under a mortgage loan investment, which may result in the failure of the construction project.

***Security of certain mortgage loan investments does not remove the risks associated with foreclosure.***

Senior loans and certain mezzanine loans will be secured by a first lien security interest such as a mortgage, deed of trust or security deed on the underlying real estate. Participations and payment dependent notes may be indirectly secured, but will not themselves be directly secured by the underlying real estate.

Different property types involve different types of risk in terms of realizing on the collateral in the event that the borrower defaults. These risks include completion costs in the case of an incomplete project, partial resale for condominiums and tracts and lease-up (finding tenants) for multi-family residential, office, retail, commercial and industrial properties. A foreclosed commercial property, for example, may not be able to be sold before expending efforts to find tenants to make the property more fully leased and more attractive to potential buyers.

Moreover, foreclosure statutes vary widely from state to state. Properties underlying defaulted loans will need to be foreclosed upon in compliance with the laws of the state where such property is located. Many states require lengthy processing periods or the obtaining of a court decree before a mortgaged property may be sold or otherwise foreclosed upon. Further, statutory rights to redemption and the effects of anti-deficiency and other laws may limit the ability to timely recover the value of its loan in the event that a borrower defaults on a loan.

***A bankruptcy of the borrower will prevent AlphaFlow or a third-party lender from exercising its foreclosure remedy promptly.***

Where a mortgage loan is secured, if the borrower enters bankruptcy, an automatic stay (the equivalent of an injunction) of all proceedings against the borrower's property will be granted. This stay will prevent a lender from foreclosing on the property or otherwise enforcing any remedies under the borrower's loan documents or at law unless relief from the stay can be obtained from the bankruptcy court. There are a number of factors that a bankruptcy court will consider in deciding whether to grant a lender relief from the automatic stay, including the property's loan-to-value ratio and the borrower's need to retain the property to effectively reorganize. There is no guarantee as to whether or when any such relief may be obtained. Significant legal fees and costs may be incurred in attempting to obtain relief from a bankruptcy stay from the bankruptcy court and, even if such relief is ultimately granted, that process may take several months or more. In such event, a lender will be unable to promptly exercise its foreclosure or other remedies and realize any proceeds from a property foreclosure sale.

In addition, bankruptcy courts have broad powers to allow the borrower to use the rents generated by the operation of the property, if any, to pay its expenses (including perhaps its attorneys and professionals) while making zero or reduced payments to its lender, permit a sale of the real property free of the lender's lien, to compel the lender to accept an amount less than the balance due under the loan and to modify the terms of the borrower's loan such as by extending its term to something substantially longer than the original term of the loan, or reducing the interest rate or payment terms of the loan and thus accordingly under this Certificate.

***Some loans on which the Certificates are dependent may not restrict borrowers from incurring***

***additional unsecured or secured debt. Further, the loans might not impose any financial restrictions on borrowers during the term of the loan, which may increase the likelihood that a borrower may not make payments on the mortgage loan investments in accordance with their terms.***

If a borrower incurs additional debt after the funding of a mortgage loan investment, that additional debt may adversely affect the borrower's creditworthiness generally and could result in the financial distress, insolvency, or bankruptcy of the borrower. This circumstance could ultimately impair the ability of that borrower to make payments on the loan and your ability to receive the principal and interest payments that you expect to receive on Certificates with an allocation of that mortgage loan investment. To the extent that the borrower has or incurs other indebtedness and cannot pay all of its indebtedness, the borrower may choose to make payments to other creditors, rather than to us or the third-party lender who remits payment to us.

***The Certificates limit your rights in some important respects.***

The Investor Agreement restricts Investors' rights to pursue remedies as a class in connection with a breach of the Investor Agreement or the Certificates and requires that any claims against AlphaFlow under the Investor Agreement or the Certificates be resolved through binding arbitration rather than in the courts. The arbitration process may be less favorable to Investors than court proceedings and may limit your right to engage in discovery proceedings or to appeal an adverse decision.

***The Certificates are restricted securities, will not be listed on any securities exchange and no liquid market for the Certificates is expected to develop.***

The Certificates are being offered in reliance on Rule 506 of Regulation D of the Securities Act under the "nonpublic" offering exemption of Section 4(a)(2) of the Securities Act. The Certificates will not be listed on any securities exchange or interdealer quotation system. There is no trading market for the Certificates and we do not expect that such a trading market will develop in the foreseeable future, nor do we intend in the near future to offer any features on our Platform to facilitate or accommodate such trading. Although the Certificates by their terms are prepayable at any time without penalty, there is no obligation on our part to repurchase or otherwise prepay any Certificates at the election of an Investor. Therefore, any investment in the Certificates will be highly illiquid and Investors in the Certificates may not be able to sell or otherwise dispose of their Certificates in the open market. Accordingly, you should be prepared to hold the Certificates you purchase until they mature.

***Purchasers of Certificates will not have the protection of a trustee, an indenture or the provisions of the Trust Indenture Act of 1939.***

Because this offering is being made in reliance on an exemption from registration under the nonpublic offering exemption of Section 4(a)(2) of the Securities Act, it is not subject to the Trust Indenture Act of 1939. Consequently, purchasers of Certificates will not have the protection of an indenture setting forth obligations of AlphaFlow for the protection of Investors or a trustee appointed to represent their interests.

***The U.S. federal income tax consequences of an investment in the Certificates are uncertain.***

No statutory provisions, Treasury Regulations, published rulings or judicial decisions directly address the characterization of the Certificates or instruments similar to the Certificates for U.S. federal income tax purposes. We intend to treat the Certificates as equity interests for U.S. federal income tax purposes unless and until there is a change or clarification in the law, by Treasury Regulation or otherwise, that would require a different characterization of the Certificates. Where required, we intend to file information returns with the Internal Revenue Service (“**IRS**”) in accordance with such treatment. Each Investor, by its acceptance of a Certificate, will be deemed to have agreed to such treatment except as otherwise required by applicable law.

Based on such treatment, each Investor will be taxed on its *pro rata* share of the income, gains, losses and deductions of the underlying set of mortgage loan investments (whether or not such income or gains are distributed). If a mortgage loan investment allocated to a Certificate has “original issue discount” (“**OID**”) for U.S. federal income tax purposes, Investors would be required to recognize income subject to tax prior to the receipt by AlphaFlow (and the Investor) of cash payments corresponding to that income. Furthermore, in the case of Investors that are individuals, the ability to utilize certain specific items of deduction attributable to the investment activities of AlphaFlow may be limited, among other things, under the investment interest limitation in Section 163(d) of the Internal Revenue Code of 1986, as amended (the “**Code**”), and the 2% floor on miscellaneous itemized deductions (including investment expenses) in Section 67 of the Code.

You should be aware that the characterization of the Certificates for U.S. federal income tax purposes is subject to substantial uncertainty, the IRS is not bound by our characterization and the IRS or a court may take a different position with respect to the Certificates’ proper characterization. For example, the IRS could determine that the Certificates are debt instruments subject to the rules regarding “contingent payment debt instruments.” In that event, U.S. Holders would be required to accrue into income original issue discount on the Certificates every year at a “comparable yield” determined at the time of issuance and recognize all income and gain in respect of the Certificates as ordinary income. Alternatively, the IRS could seek to treat the Certificates as a different financial instrument (including a derivative financial instrument). Any different characterization of the Certificates could significantly affect the amount, timing and character of income, gain or loss recognized by an Investor in respect of a Certificate.

In addition, while AlphaFlow expects to be treated as a partnership for U.S. federal income tax purposes, as discussed in “Certain U.S. Federal Income Tax Considerations,” the IRS may attempt to treat AlphaFlow as a “publicly traded partnership” under Section 7704 of the Code or as a “taxable mortgage pool” under Section 7701(i) of the Code, which attempt (if successful) would cause AlphaFlow to be taxable as a corporation. Specifically, AlphaFlow currently expects not to originate loans or engage in other activities that might cause AlphaFlow to be engaged in a financial or insurance business and therefore expects to be able to rely on a passive income exception to publicly traded partnership status. If AlphaFlow or its affiliates originate loans in the future, AlphaFlow expects to structure its activities or take other steps to permit AlphaFlow to qualify for an exemption from treatment as a corporation under the publicly traded partnership rules, notwithstanding the change in its activities. However, there is no authority regarding what activity constitutes a financial business under circumstances similar to those of AlphaFlow, and

there can be no assurance that the IRS will agree with our conclusions. If AlphaFlow were taxable as a corporation, AlphaFlow would pay U.S. federal income tax at corporate rates on its net income, which would reduce the amount of cash available for distribution to the Investors, and therefore have a significant adverse effect on an Investor's investment in the Certificates.

You are urged to consult your tax advisor as to the tax consequences of investing in the Certificates, including with respect to the application of state, local or other tax laws. See "Certain U.S. Federal Income Tax Considerations" for more information.

## **Risks Related to AlphaFlow**

### ***AlphaFlow does not intend to provide Investors with audited financial statements.***

AlphaFlow does not intend to make the large expenditures necessary to provide audited financial statements to Investors. There will be no independent certified public accountant reviewing AlphaFlow's finances, and Investors will therefore not be in a position to independently evaluate AlphaFlow's financial health in determining whether to purchase the Certificates.

***If AlphaFlow were to become subject to a bankruptcy or similar proceeding, the rights of the Investors could be uncertain and the recovery, if any, of a holder on a Certificate may be substantially delayed and substantially less than the amounts due and to become due on the Certificate.***

AlphaFlow was formed so that, in the event of a bankruptcy of AFI, the various mortgage loan investments that we own are expected to be shielded from claims by creditors of AFI, thereby protecting the interests of Investors in the Certificates and in the proceeds of mortgage loan investments. Nevertheless, if AFI were to become subject to a bankruptcy or similar proceeding and it was determined by a bankruptcy court that AlphaFlow's assets should be consolidated with those of AFI, the rights of Investors to continue receiving payments on the Certificates could be subject to substantial risks and uncertainties, including the following:

- The right of the Certificates to the payments made on the mortgage loan investments allocated to those Certificates may not accrue during a bankruptcy proceeding. Accordingly, if Investors received any recovery on their Certificates in bankruptcy, any such recovery might be based on the Investors' claims for the face value of the Certificate and any interest accrued on the mortgage loan investments allocated to that Certificate only up to the date the proceeding commenced.
- Our obligation to continue making payments on the Certificates would likely be suspended until the conclusion of the proceedings, even if the funds to make such payments were available. Because a bankruptcy or similar proceeding may take months or years to complete, even if the suspended payments were eventually resumed, the suspension might effectively reduce the value of any recovery that an owner of a Certificate might receive by the time such recovery occurs.
- The Certificates are not secured and are junior to any indebtedness that AlphaFlow may incur, and Investors do not have a security or ownership interest in the

mortgage loan investments allocated to their Certificates. Accordingly, the Investors may be treated as equity holders or general creditors of AlphaFlow, and the proceeds of all mortgage loan investments could therefore be pooled to pay administrative and priority expenses of the proceeding and make a *pro rata* distribution to all investors and other equity holders or general creditors, without regard to the fact that each investor purchased their Certificates with respect to specific corresponding loans and loan documents.

- Because the terms of the Certificates provide that they will be repaid only out of the proceeds of the mortgage loan investments allocated to those Certificates, Investors might not be entitled to share in the other assets of AlphaFlow (or any of the AFI affiliates) available for distribution to equity holders or general creditors, if any, even though other equity holders or general creditors might be entitled to a share of the proceeds of the mortgage loan investments.
- If a borrower or third party has paid AlphaFlow on any mortgage loan investments before the bankruptcy proceedings are commenced and those funds are held in the clearing account and have not been used by AlphaFlow to make payments on the corresponding Certificates, there can be no assurance that AlphaFlow will be able to use such funds to make payments on the Certificates and such funds could be pooled with some or all of the other funds held by AlphaFlow to pay administrative and priority expenses of the proceeding and make a *pro rata* distribution to all equity holders or general creditors.
- If a bankruptcy proceeding commences after the purchase price of Certificates has been paid, Investors may not be able to obtain a return of the purchase price even if the offering proceeds have not yet been deployed in a mortgage loan investment and such funds could be pooled with some or all of the other funds held by AlphaFlow to pay administrative and priority expenses of the proceeding and make a *pro rata* distribution to all equity holders or general creditors.
- To the extent that any claim by an Investor is deemed by the bankruptcy court to be a claim arising from the rescission of a purchase or sale of a security of AlphaFlow, for damages arising from the purchase or sale of such a security or for reimbursement or contribution on account of such claim, the Investor's claim would be subordinated by the bankruptcy court to all claims or interests that are senior to or equal to the claim or interest represented by such security. In that circumstance, payments to owners of Certificates could be impaired and could reduce any recovery that an owner of a Certificate might receive.
- Our ability to transfer our obligations to a backup entity may be limited and subject to the approval of the bankruptcy court or other presiding authority. The bankruptcy process may delay or prevent the implementation of backup services, which may impair collection on mortgage loan investments to the detriment of the Certificates.

***If AlphaFlow were to enter bankruptcy proceedings, the activities with respect to the mortgage loan investments and the Certificates could be interrupted.***

If AlphaFlow were to enter bankruptcy proceedings or were to cease operations, we could be required to find other ways to meet obligations regarding (a) servicing the mortgage loan investments, (b) making payments on the Certificates, (c) maintaining records sufficient to determine which Certificates are entitled to be paid on account of any payments received from borrowers on any mortgage loan investments and (d) maintaining the Platform and keeping it operational. Such alternatives could result in the cessation of operations of the Platform (in which case, investors would have limited or no access to information on the Platform, including regarding their accounts or Certificates) or delays in the disbursement of payments on your Certificates or could require us to pay significant fees to another company that we engage to perform services for the mortgage loan investments and the Certificates.

***In a bankruptcy or similar proceeding of AlphaFlow, there may be uncertainty regarding the rights of an Investor, if any, to access funds sent to AlphaFlow.***

Investors may not have access to or the ability to draw funds out of their accounts maintained with AlphaFlow until the conclusion of the proceedings, if ever. Under those circumstances, investors would be unable to use those funds to make other investments or pay household or other expenses. Investors may have to seek a bankruptcy court order lifting the automatic stay and permitting them to withdraw their funds.

Moreover, U.S. bankruptcy courts have broad powers and a bankruptcy court could determine that some or all of such funds were beneficially owned by AlphaFlow and therefore that they are available to the creditors of AlphaFlow. In such a case, Investors may experience the same types of risk and uncertainties described above with respect to AlphaFlow's bankruptcy. AlphaFlow has imposed restrictions upon itself and adopted formalities under its organizational documents to minimize the likelihood of its becoming subject to a bankruptcy or similar proceeding.

***In a bankruptcy or similar proceeding of AlphaFlow, a trustee could be appointed to administer AlphaFlow and all of its assets and business affairs.***

If AlphaFlow became a debtor in a bankruptcy proceeding, the legal right to administer AlphaFlow's assets and business affairs could be vested in a third-party trustee appointed by a bankruptcy court. A trustee would not be as familiar with the business operations and assets of AlphaFlow, such as the mortgage loan investments. Also, a trustee may not have the staff or resources available to service the mortgage loan investments, make or account for payments due under the Certificates, maintain the Platform or select new mortgage loan investments to apply the Certificate proceeds to. Under such circumstances, the trustee may need to engage one or more other companies or consultants to perform those services. Since the trustee and its third-party vendors and consultants will be less familiar with our operations and the mortgage loan investments, they may not achieve collections or operating results on a par with our management and the trustee and his vendors and consultants could incur significant fees that could reduce the value of any recovery that an Investor might receive. Additionally, the trustee may elect to sell off some or all of the mortgage loan investments to third-party investors, subject to bankruptcy court approval. Distressed asset sales or liquidation sales sometimes result in a recovery of less than fair market value, which could also reduce any recovery that an Investor might receive.

***AlphaFlow and AFI have minimal operating capital, no significant assets, limited revenue from operations and AFI will incur operating losses for the foreseeable future.***

AlphaFlow and AFI have minimal operating capital and for the foreseeable future will be dependent upon its ability to finance its operations from the sale of equity or other financing alternatives. There can be no assurance that AlphaFlow or AFI will be able to successfully raise operating capital. The failure to successfully raise operating capital and the failure to source quality mortgage loan investments and sufficient Investor subscriptions for Certificates, could result in the bankruptcy of AlphaFlow or AFI or other event, which would have a material adverse effect on AlphaFlow or AFI. AlphaFlow has no significant assets or financial resources, so such an adverse event could put your investment dollars at significant risk.

***The market in which we participate is competitive and, if we do not compete effectively, our operating results could be harmed.***

The real estate investment market is competitive and rapidly changing. We expect competition to persist and intensify in the future, which could harm our ability to originate, source, or diversify across quality mortgage loan investments.

Our principal competitors include private equity funds and real estate investment trusts, as well as other online lending platforms. Competition could result in reduced volumes, reduced fees, reduced diversification profiles, or the failure of Platform to achieve or maintain more widespread market acceptance, any of which could harm our business. In addition, in the future we may experience new competition from more established Internet companies possessing large, existing customer bases, substantial financial resources and established distribution channels. If any of these competitors decided to enter the online lending or real estate investment business, acquire one of our existing competitors or form a strategic alliance with one of our competitors, our ability to compete effectively could be significantly compromised and our operating results could be harmed.

Most of our current or potential competitors have significantly more financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their platforms and distribution channels. Our potential competitors may also have longer operating histories, more extensive customer bases, greater brand recognition and broader customer relationships than we have. These competitors may be better able to develop new products, to respond quickly to new technologies and to undertake more extensive marketing campaigns. Our industry is driven by constant innovation. If we are unable to compete with such companies and meet the need for innovation, the demand for our loans and corresponding Certificates could stagnate or substantially decline.

### **Risks Related to AFI and the AFI Investment Platform**

***AFI has a limited operating history. As a company in the early stages of development, AFI faces increased risks, uncertainties, expenses and difficulties.***

AlphaFlow's parent company, AFI, and its affiliates have limited operating histories. AFI's affiliates began offering online real estate investments in 2016 and have not issued Certificates

prior to this offering, nor have they to date directly held or serviced any loans that are tied to securities such as the Certificates.

For AlphaFlow and AFI to be successful, the volume of dollars deployed in mortgage loan investments will need to increase, which will require AFI to increase its facilities, personnel and infrastructure to accommodate the greater obligations and demands on the Platform. AlphaFlow is dependent upon the AFI Website to maintain current Certificate Listings and transactions in the Certificates. AlphaFlow is also dependent on AFI to constantly update its software and website, expand its customer support services and retain an appropriate number of employees to maintain the operations of its Platform. If AFI is unable to increase the capacity of its Platform and maintain the necessary infrastructure, you may experience delays in receipt of payments on the Certificates and periodic downtime of the AFI systems through which AlphaFlow operates.

***AFI will need to raise substantial additional capital to fund its operations and if it fails to obtain additional funding, it may be unable to continue operations.***

At this early stage in its development, AFI has funded substantially all of its operations with proceeds from private financings from individual investors. To continue operations and development of its Platform, AFI will require substantial additional funds. To meet its operational and financing requirements in the future, it may raise funds through equity offerings, debt financings or strategic alliances. Raising additional funds may involve agreements or covenants that restrict AFI's business activities and options. Additional funding may not be available to it on favorable terms, or at all. If AFI is unable to obtain additional funds, it may be forced to reduce or terminate its operations. Any inability of AFI to fund operations could have a substantial and deleterious effect on the viability and operations of AlphaFlow, which may affect AlphaFlow's ability to continue offering Certificates on the Platform, perform stabilization or rebalancing services, or collect and remit funds to Investors.

***AlphaFlow and AFI have incurred net losses in the past and expect to incur net losses in the near term.***

AFI has incurred net losses in the past and both AlphaFlow and AFI expect to incur net losses in the near future. The failure of AFI to become profitable could impair the operations of the Platform by limiting its access to working capital to operate the Platform. AFI has not been profitable since its inception and it may not become profitable. In addition, both AFI and AlphaFlow expect operating expenses to increase in the future as they expand their operations. If AlphaFlow's or AFI's operating expenses exceed its expectations, its financial performance could be adversely affected. If its revenue does not grow to offset these increased expenses, it may never become profitable. In future periods, AlphaFlow may not have any revenue growth, or its revenue could decline.

#### ***Competition with clients and AFI affiliates***

AlphaFlow is an indirect wholly owned subsidiary of AFI and a direct wholly owned subsidiary of AF Advisor. AFI or AF Advisor may sponsor the formation of other investment products like these Certificates or other funds, and AF Advisor may serve as investment manager for those products or funds. When considering each mortgage loan investment opportunity, AF Advisor will have to decide to which client it will allocate an interest in a mortgage loan

investment. This will compel AF Advisor to make decisions that sometimes favor persons other than AlphaFlow or you. Under the Investor Agreement, AF Advisor has agreed that, where there are investment opportunities that are potentially suitable for more than one of its clients, AF Advisor will establish policies and procedures that will allocate the investments fairly and equitably among its investors over time. Because of this, any single investment decision may be more or less favorable to a given investor, but the policies and procedures will be designed to allocate the investments fairly and equitably over time.

***If AFI were to enter bankruptcy proceedings, the operations of the AFI Platform and the activities with respect to the mortgage loan investments and Certificates could be interrupted.***

If AlphaFlow were to enter bankruptcy proceedings or were to cease operations, we would be required to find other ways to meet obligations regarding the mortgage loan investments and the Certificates. Such alternatives could result in delays in the disbursement of payments on your Certificates or could require us to pay significant fees to another company that we engage to perform services for the AFI Platform, mortgage loan investments and the Certificates.

***In a bankruptcy or similar proceeding of AFI, there may be uncertainty regarding the rights of the Investors, if any, to access funds held by AlphaFlow.***

If AFI became a debtor in a bankruptcy proceeding, the legal right to administer the assets of AFI would vest with the bankruptcy trustee or debtor in possession. While AlphaFlow has taken precautions to make itself “bankruptcy remote” from AFI, there can be no assurance that a bankruptcy court would observe these restrictions in a bankruptcy of AFI. Moreover, U.S. bankruptcy courts have broad powers and a bankruptcy court could determine that some or all of such assets were beneficially owned by AFI and therefore that they should become available to the creditors of AFI generally. In the event that a bankruptcy court consolidated the assets of AlphaFlow with those of AFI, Investors may have to seek a bankruptcy court order lifting the automatic stay and permitting Investors to realize the returns on their Certificates. Investors may suffer delays in accessing any available returns from their Certificates as a result.

***If we fail to retain our key personnel, we may not be able to achieve our anticipated level of growth and our business could suffer.***

Our future depends, in part, on our ability to attract and retain key personnel. Our future also depends on the continued contributions of our executive officers and other key personnel, each of whom would be difficult to replace. In particular, Ray Sturm, the Founder and Chief Executive Officer of AFI is critical to the management of our business and operations and the development of our strategic direction. The loss of the services of Ray Sturm or other executive officers or key personnel and the process to replace any of our key personnel would involve significant time and expense and may significantly delay or prevent the achievement of our business objectives.

***We rely on third-party banks and on third-party computer hardware and software. If we are unable to continue utilizing these services, our business and ability to service the mortgage loan investments may be adversely affected.***

We rely on third-party and FDIC-insured depository institutions to process our transactions, including payments on mortgage loan investments and remittances to Investors. Under the ACH rules, if we experience a high rate of reversed transactions (known as “chargebacks”), we may be subject to sanctions and potentially disqualified from using the system to process payments. In addition, AFI relies on computer hardware purchased and software licensed from third parties to operate the Platform. This purchased or licensed hardware and software may be physically located off-site, as is often the case with “cloud services.” This purchased or licensed hardware and software may not continue to be available on commercially reasonable terms, or at all. If AFI or AlphaFlow cannot continue to obtain such services elsewhere, or if it cannot transition to another processor quickly, our ability to process payments will suffer and your ability to receive payments on the Certificates will be delayed or impaired.

***If the security of our Investors’ confidential information stored in AlphaFlow’s and AFI’s systems is breached or otherwise subjected to unauthorized access, your secure information may be stolen.***

The Platform, AlphaFlow, AFI and AFI affiliates may store Investors’ bank information and other personally identifiable sensitive data. Any accidental or willful security breach or other unauthorized access could cause your secure information to be stolen and used for criminal purposes and you would be subject to increased risk of fraud or identity theft. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, AlphaFlow, AFI and/or AFI’s third-party hosting facilities may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach are costly to implement and often lead to widespread negative publicity, which may cause our Investors, affiliates and partners to lose confidence in the effectiveness of our data security measures. Any security breach, whether actual or perceived, would harm our reputation, we could lose Investors and the value of your investment in the Certificates could be adversely affected.

***Any significant disruption in service on the AFI Website or in its computer systems could reduce the attractiveness of the Platform and result in a loss of users.***

If a catastrophic event resulted in a Platform outage and physical data loss, AlphaFlow’s ability to perform its obligations would be materially and adversely affected. The satisfactory performance, reliability and availability of AlphaFlow’s technology and its underlying hosting services infrastructure are critical to AlphaFlow’s operations, level of customer service, reputation and ability to attract new users and retain existing users. AFI’s hosting services infrastructure is provided by a third-party hosting provider (the “**Hosting Provider**”). AFI also maintains a backup system. The Hosting Provider does not guarantee that users’ access to the AFI Website will be uninterrupted, error-free or secure. AlphaFlow’s operations depend on the Hosting Provider’s ability to protect its and AFI’s systems in its facilities against damage or interruption from natural disasters, power or telecommunications failures, air quality, temperature, humidity and other environmental concerns, computer viruses or other attempts to harm our systems, criminal acts and similar events. If AFI’s arrangement with the Hosting Provider is terminated, or there is a lapse of service or damage to its facilities, AlphaFlow could experience interruptions in its service, as well

as delays and additional expense in arranging new facilities. Any interruptions or delays in AlphaFlow's service, whether as a result of an error by the Hosting Provider or other third-party error, AlphaFlow's own error, natural disasters or security breaches, whether accidental or willful, could harm our ability to perform any services for mortgage loan investments or maintain accurate accounts and could harm AlphaFlow's and/or AFI's relationships with its users and customers and AlphaFlow's and/or AFI's reputation. Additionally, in the event of damage or interruption, any applicable AlphaFlow's insurance policies may not adequately compensate AlphaFlow for any losses that we may incur. Neither AlphaFlow nor AFI has tested a disaster recovery plan under actual disaster conditions and any disaster recovery plans may not have sufficient capacity to recover all data and services in the event of an outage at a facility operated by the Hosting Provider. These factors could prevent us from processing or posting payments on the Certificates, damage AFI's and/or AlphaFlow's brand and reputation, divert its employees' attention and cause users to abandon the Platform.

### **Risks Related to Compliance and Regulation**

***Non-compliance with laws and regulations may impair our ability to arrange, service or hold mortgage loan investments.***

Failure to comply with the laws and regulatory requirements applicable to our business may, among other things, limit our ability or a third party's ability to collect all or part of the payments on mortgage loan investments on which the corresponding Certificates are dependent for payment. In addition, our non-compliance could subject us to damages, revocation of required licenses or other authorities, class action lawsuits, administrative enforcement actions and civil and criminal liability, which may harm our business and ability to maintain our Platform and may result in third-party lenders, borrowers and real estate companies not doing business with us.

***If AlphaFlow is required to register under the Investment Company Act or became subject to the SEC's regulations governing broker-dealers or securitizations, its ability to conduct its business could be materially and adversely affected.***

The SEC heavily regulates the manner in which "investment companies" and "broker-dealers" are permitted to conduct their business activities. AlphaFlow believes it has conducted its business in a manner that does not result in it being characterized as an investment company or broker-dealer, as AlphaFlow believes that the nature of its investments in the mortgage loan investments qualify for exemption from status as an investment company under Section 3(c)(5) of the Investment Company Act of 1940 (the "***Investment Company Act***") and that it is not engaged in the business of (i) effecting transactions in securities for the account of others as described under Section 3(a)(4) of the Securities Exchange Act of 1934, as amended (the "***Exchange Act***"), or any similar provisions under state law or (ii) buying and selling securities for our own account, through a broker or otherwise as described under Section 3(a)(5) of the Exchange Act or any similar provisions under state law, except as may be provided by a valid exemption from registration as a broker-dealer under the Exchange Act or rules promulgated thereunder. AlphaFlow intends to continue to conduct its business in such manner. If, however, AlphaFlow is deemed to be an investment company or a broker-dealer, AlphaFlow may be required to institute burdensome compliance requirements, its activities may be restricted and it may face penalties or fines for the past conduct of its business, each of which would materially and adversely affect its

business. To the extent that AlphaFlow, in the event of such a determination, is not able to meet the compliance requirements, AlphaFlow's business may be further adversely affected.

Additionally, the SEC regulates asset-backed securitization transactions, including by imposing certain risk retention requirements on sponsors of securitization transactions. AlphaFlow does not believe that the transactions described in this PPM would be "securitization transactions" within the U.S. Risk Retention requirements for asset-backed securities set forth in section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the final regulations related thereto (collectively, the "**U.S. Risk Retention Rules**"), because AF Advisor will choose particular mortgage loan investments to allocate to an Investor's Certificates and therefore the Certificates are not a "pooled" investment as contemplated by the definition of "Issuing Entity" under the U.S. Risk Retention Rules. If, however, the transactions described in this PPM are deemed to be securitization transactions, AlphaFlow may face penalties or fines for the past conduct of its business and may be required to comply with risk retention or other requirements, in which event no assurance can be given as to the impact such determination may have on the marketability of the Certificates or on AlphaFlow's ability to perform under the Investor Agreement and the Certificates.

***Purchasers of Certificates will not have the protection of the Investment Advisers Act of 1940.***

AlphaFlow and AF Advisor are not registered as investment advisers under the Investment Advisers Act of 1940 ("**Advisers Act**"). As an investment adviser registered in the state of California, AF Advisor is subject to heightened investment disclosures, registration of investment adviser representatives, and annual financial reporting, but Investors in the Certificates will not have the protections provided by the Advisers Act.

***We are not subject to the banking regulations of the Office of Comptroller of the Currency, Federal Deposit Insurance Corporation, the National Credit Union Administration, or the Board of Governors of the Federal Reserve.***

We are not subject to the periodic examinations to which depository institutions are subject, such as national banks and federal thrifts. Consequently, our financing decisions and our decisions regarding establishing loan loss reserves are not subject to periodic review by a governmental agency. Moreover, we are not subject to regulatory oversight relating to our capital, asset quality, or management. We are subject to some state licensing regimes and regulatory oversight by state banking departments and other state agencies and the federal Consumer Financial Protection Bureau.

***Recent legislative and regulatory initiatives have imposed restrictions and requirements on financial institutions that could have an adverse effect on our business, and the future regulatory and policy climate is uncertain.***

The financial industry has become more highly regulated over the past several years and, while the current regulatory environment is uncertain, may continue to become more highly regulated. There has been and may continue to be, a related increase in regulatory investigations of the trading and other investment activities of alternative investment funds. Such investigations may impose additional expenses on us, may require the attention of senior management and may

result in fines if we are deemed to have violated any regulations. Additionally, the regulatory and policy climate in the United States is uncertain, and it is difficult for AlphaFlow to forecast future regulatory changes that may have an adverse impact on its business. To the extent that AlphaFlow is unable to foresee and prepare for or adapt to future regulatory changes, AlphaFlow's business may be materially and adversely affected.

***Mortgage loan investments underlying the Certificates may be subject to a variety of onerous regulations, including the Truth-In-Lending Act.***

Some of the mortgage loan investments may also be subject to certain provisions of the Truth-In-Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Home Ownership Equity Protection Act and similar statutes, and other applicable state laws and rules concerning loans. These provisions generally impose additional disclosure and other substantive requirements on creditors with respect to mortgage loans where funds are primarily used for personal, household or consumer purposes. These provisions can impose specific statutory liabilities upon creditors who fail to comply with their provisions and may affect the enforceability of the related loans. In addition, any assignee of the creditor may generally be subject to all claims and defenses that the consumer could assert against the creditor, including the right to rescind the loan. Furthermore, most states have enacted laws that contain substantive requirements on loans. These statutes and ordinances can place a significant burden of proof on the lender to justify its loan terms and lending practices, with some risk of rendering the loan unenforceable.

***Third-party lenders from which AlphaFlow purchases loans are responsible for their compliance with applicable state and federal lending laws and AlphaFlow has no control over such compliance.***

The lending industry is a highly regulated industry. Although AlphaFlow may purchase loans from and participate in loans with, third-party lenders, including banks and/or private lenders, those lenders are not agents of AlphaFlow and AlphaFlow has no control over the compliance of such lenders with applicable state or federal laws. Although AlphaFlow will conduct due diligence on such lenders, there is no guarantee of their compliance with applicable laws. In the event that a lender has not complied with such laws, it is possible that the loans originated by the lender would be deemed void in full or in part or would be otherwise unenforceable. As a result, payments on such loans would be reduced or never paid to AlphaFlow and, therefore, to Investors whose Certificates have an allocation in those loans.

***As Internet commerce develops, federal and state governments may adopt new laws to regulate Internet commerce or investment, which may negatively affect our business.***

As Internet commerce and investment continues to evolve, increasing regulation by federal and state governments becomes more likely. Our business could be negatively affected by the application of existing laws and regulations or the enactment of new laws applicable to lending or investment. The cost to comply with such laws or regulations could be significant and would increase our operating expenses and we may be required to pass along those costs to our Investors in the form of increased fees. In addition, federal and state governmental or regulatory agencies may decide to impose taxes on services provided over the Internet. These taxes could discourage the use of the Internet as a means of commercial financing or investment, which would adversely

affect the viability of our Platform.

***Laws intended to prohibit money laundering may require AlphaFlow to disclose investor information to regulatory authorities.***

The Uniting and Strengthening America By Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “***PATRIOT Act***”) requires that financial institutions establish and maintain compliance programs to guard against money laundering activities and requires the Secretary of the U.S. Treasury (“***Treasury***”) to prescribe regulations in connection with anti-money laundering policies of financial institutions. The Financial Crimes Enforcement Network (“***FinCEN***”), an agency of the Treasury, has announced that it is likely that such regulations would subject certain pooled investment vehicles to enact anti-money laundering policies. It is possible that there could be promulgated legislation or regulations that would require AlphaFlow or its service providers to share information with governmental authorities with respect to prospective Investors in connection with the establishment of anti-money laundering procedures. Such legislation and/or regulations could require AlphaFlow to implement additional restrictions on the transfer of the Certificates. AlphaFlow reserves the right to request such information as is necessary to verify the identity of prospective Investors and the source of the payment of subscription monies, or as is necessary to comply with any customer identification programs required by FinCEN and/or the U.S. Securities and Exchange Commission. In the event of delay or failure by a prospective investor to produce any information required for verification purposes, or our failure to adequately verify such information, an application for or transfer of the Certificates may be refused.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This PPM contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this PPM regarding real estate investments, real estate companies, our strategy, future operations, future financial position, Certificate Listings, mortgage loan investments, future revenue, projected costs, prospects, plans, objectives of management and expected market growth are forward-looking statements. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “will,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about:

- our future operations and business plans, including our investing and lending activities;
- expected rates of return and interest rates;
- the attractiveness of our Platform;
- our financial performance;
- regulatory developments; and
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing.

We may not actually achieve the plans, intentions or expectations disclosed in forward-looking statements and you should not place undue reliance on forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in forward-looking statements. We have included important factors in the cautionary statements included in this PPM, particularly in the “Risk Factors” section, that could cause actual results or events to differ materially from forward-looking statements contained in this prospectus. Forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this PPM, the Investor Agreement, the form of Certificate and the Certificate Listings for your Certificates completely and with the understanding that actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

### **USE OF PROCEEDS**

AlphaFlow will use the proceeds of each Certificate to pay an advisory fee equal to 1% of the aggregate proceeds received on the Certificates to AF Advisor, to purchase or fund mortgage loan investments and pay associated fees and, in some cases, to repay funds AlphaFlow has directly financed through a bridge loan or otherwise borrowed from a third party or affiliate to purchase or fund mortgage loan investments in advance. The mortgage loan investments purchased or funded with the proceeds will be in accordance with our investment standards, as described in “Investment Standards and Policies” above.

### **PLAN OF DISTRIBUTION**

The Certificates will be offered by AlphaFlow through the AFI Website at [www.alphaflow.com](http://www.alphaflow.com).

### **ABOUT ALPHAFLOW AND AFI**

#### ***Overview***

AFI, which wholly owns AlphaFlow, was formed as a Delaware corporation in 2015 by Ray Sturm, who previously co-founded RealtyShares, one of the largest real estate crowdfunding platforms. AFI provides peer to peer (“P2P”) investors with a Platform designed to allow consolidated reporting, portfolio analytics and unique opportunities to invest in diversified pools of assets from multiple platforms with one investment. AFI has launched multiple diversified funds beginning in 2016.

AlphaFlow was formed as a Delaware limited liability company on February 16, 2017 as a special purpose entity to issue the Certificates and acquire the corresponding mortgage loan investments AlphaFlow is a directly held wholly owned subsidiary of AF Advisor, a California registered investment advisor.

#### ***Properties***

AlphaFlow's headquarters are located in San Francisco, CA, at the following mailing address: 564 Market Street, Suite 450, San Francisco, CA 94104.

### ***AlphaFlow Financial Information***

AlphaFlow was formed in 2017 and has had no business operations prior to the initial issuance of the Certificates. To date, AFI has incurred business losses and anticipates such losses will continue for the foreseeable future. AlphaFlow is financed by its parent company AFI. Prospective Investors can review information posted from time to time on the AFI Website for updated information about AFI and its financial background.

In the event that AFI is unable to generate profits and cannot obtain adequate financing, AlphaFlow's operations and activities may be adversely affected. Any deterioration of the financial condition of AFI may present significant challenges to the Investors in terms of recouping their respective investments and returns in the Certificates.

### ***AlphaFlow Management***

The following section sets forth information regarding the management of AFI and AF Advisor and AlphaFlow as its wholly owned subsidiaries.

#### **Ray Sturm**

Ray is an entrepreneur in financial technology. Prior to launching AlphaFlow, he co-founded RealtyShares, an established platform for real estate investing in the industry. His early career in finance included investment banking at Bear Stearns, restructuring at Lazard Frères and private equity at CCMP Capital. Ray has a BBA-Finance from the University of Notre Dame and a JD/MBA from the University of Chicago.

#### **Bogdan Cirlig**

Originally from Bucharest, Romania, Bogdan co-founded GoldenClick, Romania's first local online ad network. He also served as CTO of AdPerk and founded Zilpy, a platform offering real estate analytics, including rent estimates and market trends. Bogdan has extensive experience shipping products and running engineering teams for large companies.

Bogdan has an MBA with a focus on MIS and Finance from Romanian-American University in Bucharest.

### ***Technology***

AlphaFlow intends to utilize the AFI Platform for the offer and sale of the Certificates. The AFI Platform and supporting services run on a cloud-based platform. AFI owns, operates and maintains elements of this system, but significant elements of the system are operated by third parties that AFI does not control. In particular, a significant portion of the system is hosted by the Hosting Provider, which uses multiple locations. The Hosting Provider provides AFI with computing, storage capacity and other services pursuant to an agreement that continues until

terminated by either party. The agreement requires the Hosting Provider to provide AFI with the Hosting Provider's standard computing and storage capacity and related support in exchange for timely payment by AFI. AFI also maintains backups at a separate region within its cloud infrastructure. It backs up all customer data daily and replicates this data to a separate region within its cloud infrastructure via an encrypted connection.

AFI continuously monitors the performance and availability of its Platform. It has a scalable infrastructure that utilizes standard techniques such as load-balancing and redundancies. It has developed its architecture to work effectively in a flexible cloud environment that has a high degree of elasticity to enable it to quickly respond to significant changes in demand.

AFI expects to process electronic deposits and payments by originating ACH transactions. The Platform is designed and built as a highly scalable, multitier, redundant system. The Platform incorporates technologies designed to prevent any single point of failure within the infrastructure from taking the entire system offline. AFI expects to maintain a complete backup of the AFI website and supporting services within a separate region of its cloud infrastructure in order to minimize service disruptions in the event of significant regional outages.

### ***Data Integrity and Scalability***

All sensitive data that is transmitted to and from our customers and service providers is transacted using a secure transport protocol. Communication of sensitive data via the website to its customers is secured utilizing SSL 2048-bit enabled encryption certificates provided by GoDaddy, Inc. Communication of sensitive data with AlphaFlow's service providers is secured utilizing authenticated SSL 2048-bit encryption and SSH protocols depending on the requirements.

Access to the data and services by AlphaFlow's and AFI's employees is expected to be restricted based upon a least-privilege principle such that employees have access only to the information and systems needed to perform their function. Logging and monitoring of host systems is done in real time to a centralized database with web-based reporting and additional notification to the appropriate staff for any remediation.

AlphaFlow collects nonpublic personal information from several sources, including Investor applications, authorized verifications, credit reporting agencies and title insurance companies. AlphaFlow's privacy policies with respect to such information are set forth on the AFI Website at [www.alphaflow.com/privacy-policy](http://www.alphaflow.com/privacy-policy).

### ***Competition***

AlphaFlow's business is highly competitive. AlphaFlow faces competition from traditional private equity funds and real estate investment trusts and other online lending and investment platforms, as well as individuals.

We may also face future competition from new companies entering our market, which may include large, established companies. These companies may have significantly greater financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their consumer lending platforms. These potential competitors may be in a stronger position to respond quickly to new technologies and may be able

to undertake more extensive marketing campaigns. These potential competitors may have more extensive potential customer bases than us. In addition, these potential competitors may have longer operating histories and greater name recognition than us. Moreover, if one or more of our competitors were to merge or partner with another of our competitors or a new market entrant, the change in competitive landscape could adversely affect our ability to compete effectively.

### ***Conflicts of Interest***

AlphaFlow will provide notice or disclose all conflicts of interest if such conflict is likely to materially impact Investors.

AlphaFlow is a wholly owned subsidiary of AFI and sponsors the formation of other investment products like these Certificates or other funds and AF Advisor, a wholly owned subsidiary of AFI, serves as investment manager to those funds. When considering each mortgage loan investment opportunity, AF Advisor or AFI will have to decide which client may hold an interest in the mortgage loan investment. This will compel AF Advisor or AFI to make decisions that sometimes favor persons other than AlphaFlow. Under the Investor Agreement between AF Advisor and AlphaFlow, AF Advisor has agreed that, where there are investment opportunities that are potentially suitable for more than one of its clients, AF Advisor will establish policies and procedures that will allocate the investments fairly and equitably among its investors over time. Because of this, any single investment decision may be more or less favorable to a given Investor, but the policies and procedures will be designed to allocate the investments fairly and equitably over time.

AlphaFlow and its affiliated entities reserve the right to acquire properties in foreclosure, including properties that were subject to loans originated, funded, or purchased by AlphaFlow relating to the Certificates described in this PPM. AlphaFlow and its affiliates may serve as the original or substituted trustee of a deed of trust and may be entitled to all or some portion of the statutory trustee fees upon foreclosure (*i.e.*, the fees that would otherwise be payable or paid to a third party serving as the trustee).

AlphaFlow and its affiliated entities may arrange and service other loans for other Investors at the same time that Certificates are being offered to Investors (such loans may not be part of this offering) and these loans may be more secure or more profitable than the loans funded pursuant to this offering. In addition, AlphaFlow may also arrange multiple loans for a single borrower or purchase multiple loans relating to a single borrower. Where a borrower with multiple loans arranged or purchased by AlphaFlow defaults, AlphaFlow may choose or be required to enforce or forbear from enforcing this loan to the detriment of the Investors while not enforcing or forbearing on another loan with the same borrower arranged by AlphaFlow and managed or administered by AlphaFlow.

AlphaFlow may provide or purchase some loans with short terms. This type of lending will typically occur through a bridge financing facility between AlphaFlow and affiliates of AlphaFlow or a third-party lender. In some instances, AlphaFlow may fund or purchase portions of the mortgage loan investments through the purchase of Certificates, or AlphaFlow may provide bridge financing in order a loan to be closed or purchased until investment funds are available to fully fund the loan, and in such instances it will seek consent prior to such transaction.

AlphaFlow or an affiliate may itself purchase or fund Certificates. AlphaFlow or its affiliate will hold all such Certificates in parity with the other Investors and will have the same rights as any other Investor. As such, AlphaFlow may have interests in the loan as both the investor in the Certificates and the holder of the mortgage loan investment. Any investment made by AlphaFlow to pre-purchase mortgage loan investments for the Certificates will be sold to Investors on the same terms and conditions, and additional details regarding the mortgage loan investment, including the fact that AlphaFlow is selling these Certificates for its own account, will be provided in the Certificate Listing and you will have the ability to consent to the transaction.

Some mortgage loan investments originated by AlphaFlow may provide for prepayment penalties to be imposed on the borrower in the event of certain early payments on the mortgage loan investments. Such penalties are typically allowed by applicable law. To the extent AlphaFlow does receive payment of a prepayment penalty on a mortgage loan investment, AlphaFlow will pass on payment of that amount to the Certificates that have been allocated portions of that mortgage loan investment.

AlphaFlow may also receive certain fees from third-party lenders. To the extent that AlphaFlow receives these fees, AlphaFlow may have an incentive to choose to purchase loans from third-party lenders based on the amount of fees they pay rather than the quality of the mortgage loan investment. AlphaFlow will disclose in the applicable Certificate Listing the specific fees charged to the third-party lender for a mortgage loan investment.

Some of the Investors and principals in AlphaFlow may be affiliated with or part of entities or organizations with which AlphaFlow may hold a past, present or future business or commercial relationship. AlphaFlow may, in its sole discretion, conduct business with such affiliated parties and without any notice or disclosure thereof to Investors. These arrangements may create a potential conflict of interest for Investors. AlphaFlow will provide notice or disclose such conflicts of interest if: (i) it involves a current relationship and (ii) the relationship is likely to materially impact Investors.

## **DOCUMENTATION AND INFORMATION AVAILABLE TO THE INVESTOR**

In addition to this PPM, the following documentation will be available to each Investor on the AFI Website at [www.alphaflow.com](http://www.alphaflow.com):

1. the Certificate and/or any related certificate, or a copy of the same,
2. the Investor Agreement; and
3. the Certificate Listing.

## **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion sets forth certain material U.S. federal income tax considerations generally applicable to the acquisition, ownership and disposition of the Certificates by Investors that are U.S. Holders (as defined below) and that acquire the Certificates pursuant to our offering. This discussion is based on the Code, Treasury regulations promulgated thereunder (the “*Treasury*

**Regulations**”), administrative pronouncements of the IRS and judicial decisions, all as currently in effect and all of which are subject to change and to different interpretations. Changes to any of the foregoing authorities could apply on a retroactive basis and could affect the U.S. federal income tax consequences described below.

This discussion does not address all of the U.S. federal income tax considerations that may be relevant to a particular Investor’s circumstances and does not discuss any aspect of U.S. federal tax law other than income taxation, or any state, local or non-U.S. tax consequences of the acquisition, ownership and disposition of the Certificates. This discussion applies only to Investors who hold the Certificates as “capital assets” within the meaning of the Code (generally, assets held for investment). This discussion does not address U.S. federal income tax considerations applicable to Investors that may be subject to special tax rules, such as:

- securities dealers or brokers, or traders in securities electing mark-to-market tax treatment;
- banks, thrifts or other financial institutions;
- insurance companies;
- regulated investment companies or real estate investment trusts;
- tax-exempt organizations;
- persons holding Certificates as part of a “straddle,” “hedge,” “synthetic security” or “conversion transaction” for U.S. federal income tax purposes, or as part of some other integrated investment;
- partnerships or other pass-through entities;
- persons subject to the alternative minimum tax; and
- persons whose functional currency is not the U.S. dollar.

In addition, this discussion does not address withholding taxes which may be imposed pursuant to Sections 1471 through 1474 of the Code and the Treasury Regulations thereunder.

As used herein, a “**U.S. Holder**” is a beneficial owner of Certificates that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, or (iii) an estate or trust whose income is subject to U.S. federal income tax regardless of its source.

If an entity treated as a partnership for U.S. federal income tax purposes holds Certificates, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. A partnership holding Certificates and partners in such a partnership should consult their own tax advisors with regard to the U.S. federal income tax consequences of the acquisition, ownership and disposition of the Certificates by the partnership.

The Certificates are not intended for non-U.S. investors. There would likely be adverse tax consequences to a holder of a Certificate that is not a U.S. person for U.S. federal income tax purposes.

THIS DISCUSSION OF U.S. FEDERAL INCOME TAX CONSEQUENCES IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE INVESTORS SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE CERTIFICATES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

### **Characterization of the Certificates**

No statutory provisions, Treasury Regulations, published rulings or judicial decisions directly address the characterization of the Certificates or instruments similar to the Certificates for U.S. federal income tax purposes. We intend to treat the Certificates as equity interests in AlphaFlow for U.S. federal income tax purposes unless and until there is a change or clarification in the law, by Treasury Regulation or otherwise, that would require a different characterization of the Certificates. Where required, we intend to file information returns with the IRS in accordance with such treatment. Each Investor, by its acceptance of a Certificate, will be deemed to have agreed to such treatment except as otherwise required by applicable law.

U.S. Holders should be aware that the characterization of the Certificates for U.S. federal income tax purposes is subject to substantial uncertainty, the IRS is not bound by our characterization and the IRS or a court may take a different position with respect to the Certificates' proper characterization. For example, the IRS could determine that the Certificates are debt instruments subject to the rules regarding "contingent payment debt instruments." In that event, U.S. Holders would be required to accrue into income OID on the Certificates every year at a "comparable yield" determined at the time of issuance (which would generally differ from the cash payments received) and recognize all income and gain in respect of the Certificates as ordinary income. Alternatively, the IRS could seek to treat the Certificates as a different financial instrument (including a derivative financial instrument).

Any different characterization of the Certificates could significantly affect the amount, timing and character of income, gain or loss recognized by a U.S. Holder in respect of a Certificate. As discussed below under "Characterization of AlphaFlow," a different characterization of the Certificates could also affect AlphaFlow's treatment as a partnership for U.S. federal income tax purposes. The remainder of this discussion assumes that the Certificates will be treated as equity of AlphaFlow for U.S. federal income tax purposes.

### **Characterization of AlphaFlow**

Pursuant to applicable Treasury regulations, an entity such as AlphaFlow will generally be classified as a partnership for U.S. federal income tax purposes unless it makes an election to be classified as an association taxable as a corporation. AlphaFlow does not intend to make such an election. Therefore, subject to the discussion below regarding the "publicly traded partnership" and "taxable mortgage pool" rules, AlphaFlow is expected to be classified as a partnership for U.S.

federal income tax purposes. However, AlphaFlow has not sought a ruling from the IRS that it will be treated for U.S. federal income tax purposes as a partnership rather than as an association taxable as a corporation.

An entity that is otherwise classified as a partnership may be treated as a corporation if it is a “publicly traded partnership” (“**Publicly Traded Partnership**”). A Publicly Traded Partnership is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. Regulations issued under Code Section 7704 provide safe harbors under which the interests in a partnership will not be considered readily tradable on a secondary market (or its substantial equivalent). In addition, an entity will generally not be treated as a Publicly Traded Partnership if (i) it is not required to register as an “investment company” and (ii) 90% or more of its gross income is “qualifying income” (which includes interest and gains from a sale of debt securities or real property, in each case, that is not derived in the conduct of a financial or insurance business). Currently, AlphaFlow and its affiliates do not expect to originate loans or engage in other activities that might cause AlphaFlow to be engaged in a financial or insurance business and therefore AlphaFlow does not expect to be treated as a Publicly Traded Partnership. If AlphaFlow or its affiliates do originate loans in the future, AlphaFlow expects to structure their activities or take other steps that would nonetheless permit AlphaFlow to qualify for an exemption from treatment as a corporation under the Publicly Traded Partnership rules. However, there is no authority regarding what activity constitutes a financial business under circumstances similar to those of AlphaFlow. Therefore, there can be no assurance that the IRS will agree with our conclusions.

An entity, or portion of an entity, may be classified as a taxable mortgage pool (“**TMP**”) under Section 7701(i) of the Code if (i) substantially all of its assets consist of debt obligations or interests in debt obligations; (ii) more than 50% of those debt obligations are mortgages or interests in mortgages as of specified testing dates; (iii) the entity has issued debt obligations (liabilities) that have two or more maturities and (iv) the payments required to be made by the entity on its debt obligations “bear a relationship” to the payments to be received by the entity on the debt obligations that it holds as assets. Where an entity, or portion of an entity, is classified as a TMP, it is generally treated as a taxable corporation for U.S. federal income tax purposes. Because we intend to treat the Certificates as equity for tax purposes (as described above), we do not expect to be treated as a TMP. However, the IRS may not agree with this conclusion or may attempt to treat the Certificates as debt instruments under an anti-avoidance provision of the TMP rules.

If AlphaFlow were classified as an association (or a Publicly Traded Partnership or TMP) taxable as a corporation, AlphaFlow would pay U.S. federal income tax at corporate rates on its net income, and distributions to the Investors would in general be dividends to the extent of the earnings and profits of AlphaFlow, with distributions in excess thereof being treated first as a return of capital and thereafter as capital gain. Such tax would result in a reduction in the amount of cash available for payment to the Investors on the Certificates, and therefore have a significant adverse effect on an Investor’s investment in the Certificates. The remainder of this discussion assumes that AlphaFlow will be treated as a partnership for U.S. federal income tax purposes.

### **Taxation of Investors on Mortgage Loan Investment Income**

Assuming that AlphaFlow is treated as a partnership for U.S. federal income tax purposes,

AlphaFlow as an entity will not be subject to U.S. federal income tax. Instead, each Investor will be taxed on its *pro rata* share of the income, gains, losses and deductions of the underlying set of mortgage loan investments (whether or not such income or gains are distributed). An Investor must treat Company items in a manner consistent with AlphaFlow's treatment of those items, unless the Investor notifies the IRS of the inconsistent treatment. We expect that a majority of AlphaFlow's income will be ordinary interest income for U.S. federal income tax purposes. Information necessary for the Investors to prepare their annual tax returns will be furnished by AlphaFlow on a Schedule K-1 after the close of AlphaFlow's taxable year. It is possible that the IRS could seek to reallocate certain items to Investors other than the Investors to which they were originally allocated by AlphaFlow.

AlphaFlow may acquire mortgage loan investments that are deemed to have OID for U.S. federal income tax purposes. Subject to a *de minimis* exception, OID is generally equal to the difference between an obligation's issue price and its principal amount. AlphaFlow must recognize as income in each year the portion of the OID that accrues during that year in accordance with a constant-yield method based on a compounding of interest, even though it does not receive cash in that year in the amount of the OID. As a result, U.S. Holders would be required to recognize income subject to tax prior to the receipt by AlphaFlow (and the U.S. Holder) of cash payments corresponding to that income.

AlphaFlow may also acquire mortgage loan investments that are subject to the market discount provisions of the Code. These rules generally provide that if a holder acquires debt for an amount that is less than its adjusted issue price the amount of the difference generally will be treated as market discount for U.S. federal income tax purposes, unless this difference satisfies a *de minimis* test. If debt has market discount, a holder will generally be required to treat any principal payment or any gain on the sale or other taxable disposition of the debt as ordinary income to the extent of the market discount accrued on the debt at the time of the payment or disposition unless the holder has previously included this market discount in income. In addition, a holder may be required to defer, until the maturity of the debt or its earlier disposition (including in one of certain nontaxable transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry the debt.

Special issues may arise if AlphaFlow holds distressed loans. For example, U.S. federal income tax rules are not entirely clear as to when AlphaFlow may cease to accrue interest, OID or market discount on distressed debt obligations; when and to what extent deductions may be claimed for bad debts; how payments received on obligations in default should be allocated between principal and interest; and, depending on the facts, whether modifications or exchanges of debt obligations in a bankruptcy or workout are taxable. Furthermore, losses that result from AlphaFlow holding wholly worthless debts will generally be treated as short-term capital losses, which are subject to limitations.

In addition, in the case of U.S. Holders that are individuals or certain types of corporations, the ability to utilize any tax losses generated by AlphaFlow may be limited under the "at risk" limitations in Section 465 of the Code, the passive activity loss limitations in Section 469 of the Code and other provisions of the Code. Furthermore, in the case of U.S. Holders that are individuals, the ability to utilize certain specific items of deduction attributable to the investment activities of AlphaFlow may be limited, among other things, under the investment interest

limitation in Section 163(d) of the Code, and the 2% floor on miscellaneous itemized deductions (including investment expenses) in Section 67 of the Code. Because AlphaFlow generally intends to take the position for U.S. federal income tax purposes that its operations and activities constitute an investment activity rather than the active conduct of a trade or business, non-capitalized investment expenses (including servicing or other fees paid to AFI) incurred by AlphaFlow generally will be treated by Investors who are individuals as miscellaneous itemized deductions. As a result, a U.S. Holder's taxable income in a given year from an investment in the Certificates may exceed the cash payments it receives in that year.

Under current law, certain non-corporate U.S. Holders are subject to a 3.8% tax, in addition to the regular tax on income and gains, on some or all of their "net investment income," which generally will include interest recognized on a Certificate and any net gain recognized upon a sale or other taxable disposition of a Certificate. U.S. Holders should consult their tax advisors regarding the applicability of this tax in respect of the Certificates.

### **Transfer of a Certificate**

The sale or exchange of a Certificate by a U.S. Holder will generally result in the recognition of capital gain or loss equal to the difference between the U.S. Holder's tax basis in the Certificate and the amount of consideration received. A U.S. Holder's tax basis will generally equal the U.S. Holder's cost for the Certificate, (i) increased by income and gains allocated to the U.S. Holder and (ii) decreased by losses and deductions allocated to the U.S. Holder and any amounts distributed to the U.S. Holder. However, upon the sale or exchange of a Certificate, a U.S. Holder may recognize ordinary income or loss attributable to the U.S. Holder's share of certain of AlphaFlow's assets (including, without limitation, market discount and short-term debt obligations) as described in Section 751(c) of the Code.

### **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") and corresponding provisions of the Code, impose certain requirements on (i) pension, profit sharing and other employee benefit plans subject to Title I of ERISA, (ii) individual retirement accounts and annuities, Keogh plans and other tax-exempt plans subject to Section 4975 of the Code, (iii) entities whose underlying assets include "plan assets" by reason of any such plan's or arrangement's investments therein (collectively, "**Plans**") and (iv) on those persons who are fiduciaries or "parties in interest" (or "disqualified persons") with respect to such Plans. AlphaFlow has the right, in its sole discretion, to permit or restrict investments in the Certificates by "benefit plan investors" as that term is defined by ERISA. AlphaFlow presently intends to restrict investments in the Certificates by benefit plan investors. As a result, it is not expected that the assets of AlphaFlow will be treated as "plan assets" of such benefit plan investors for purposes of the fiduciary responsibility standards and prohibited transaction restrictions of ERISA and the parallel prohibited transaction provisions of the Code.

### **RESTRICTIONS ON TRANSFERS**

The Certificates are not being registered under the Securities Act of 1933. The Certificates may not be sold or transferred unless they are registered under the Securities Act and the

applicable securities laws of any appropriate jurisdiction, or unless exemptions from such registration requirements are available. Accordingly, the Certificates will not be listed on any securities exchange, nor does AlphaFlow have plans to establish any kind of trading platform to assist Investors who wish to sell their Certificates. There is no public market for the Certificates and none is expected to develop. Accordingly, Investors may be required to hold Certificates until their repayment.

As a condition to this offering, various restrictions have been placed upon the ability of Investors to resell or otherwise dispose of any Certificates purchased hereunder, including the following:

1. No Investor may resell or otherwise transfer any Certificates except to a person or entity that meets the eligibility standards described herein. (See “Investor Qualifications”)

2. Prior to reselling or transferring any Certificates to any person or entity in a manner that otherwise complies with the restrictions noted herein, the Investor must offer the Certificates to AlphaFlow in writing for purchase, including in such written offer the price and terms upon which the Investor proposes to sell or transfer the Certificates. If AlphaFlow does not purchase the securities within thirty (30) days from the date upon which it receives written notice of the Investor’s offer, then the Investor may resell or transfer the securities to another person or entity at any time during the ninety (90) days following the expiration of the thirty-day period, provided that the transfer or resale otherwise complies with the requirements and restrictions on transfer noted herein and the sale is on equal or better terms than those offered to AlphaFlow.

3. The Certificates have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the “*Act*” or the “*Securities Act*”), in reliance upon the exemptions provided for under Section 4(a)(2) and Rule 506 of Regulation D promulgated thereunder. Certificates may not be sold or otherwise transferred without registration under the Securities Act or pursuant to an exemption therefrom. In addition, no sales or transfers of a Certificate may be made for at least one (1) year after the sale by AlphaFlow of that Certificate. Any such sale or transfer will be subject to AlphaFlow’s right of first offer described in the preceding paragraph and the other transfer restrictions and procedures described in this section.

4. A transfer fee equal to five hundred dollars (\$500) (the “*Transfer Fee*”) will be charged for every transfer request made by an Investor to AlphaFlow for administrative, legal and other relevant costs.

5. No sale or transfer will be effective unless the buyer or transferee has executed and delivered to AlphaFlow all documents required by AlphaFlow for investing in the Certificates and paid the Transfer Fee to AlphaFlow. The Investor shall be responsible for all applicable transfer taxes.

The Certificates will be registered electronically with AlphaFlow and AlphaFlow does not anticipate issuing physical Certificates or related instruments. The form of Certificate that will be available online will contain one or more legends stating that the Certificates have not been registered under the Securities Act and describing the applicable limitations on resale.

## **ADDITIONAL INFORMATION AND UNDERTAKINGS**

AlphaFlow undertakes to make available to each potential investor every opportunity to obtain any additional information from AlphaFlow necessary to verify the accuracy of the information contained in this PPM. AlphaFlow will provide such information to the extent that it possesses such information or can acquire it without unreasonable effort or expense. This additional information includes documents or instruments relating to the operation and business of AlphaFlow that are material to this offering and the transactions contemplated and described in this PPM. Should you have any questions, please do not hesitate to contact AlphaFlow as follows:

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