

# Thayer Advisory Group LLC

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This brochure provides information about the qualifications and business practices of Thayer Advisory Group LLC. If you have any questions about the contents of this brochure, please contact us at (410) 268-0515. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about Thayer Advisory Group LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This brochure refers to Thayer Advisory Group LLC as a “registered investment adviser” and as being “registered” with the SEC. Registration with the SEC as an investment adviser does not imply that Thayer Advisory Group LLC possesses a certain level of skill or training.

## **Item 2 – Material Changes**

Because this brochure accompanies Thayer Advisory Group LLC (“TAG”)’s initial filing of Form ADV for registration under the Investment Advisers Act of 1940 (the “Advisers Act”), there are no material changes to disclose.

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#### **Item 4 – Advisory Business**

TAG is a Delaware limited liability company formed, in response to the Dodd-Frank Wall Street Reform and Consumer Protection Act's requiring registration of certain investment advisers, to continue the real estate advisory business historically conducted by Thayer Lodging Group, Inc. ("Thayer Lodging") and is wholly owned by Thayer Lodging. TAG provides investment advisory services to private real estate investment funds organized by Thayer Lodging (the "Thayer Funds" and individually each a "Thayer Fund") and to a corporate client that has certain co-investment rights with one of the Thayer Funds. The principal owners of Thayer Lodging are Leland C. and Mary Pillsbury. TAG's clients principally invest in real estate properties and projects in the hospitality industry, but from time to time certain of these investments may be in the form of securities rather than real estate assets.

TAG provides investment advisory services directly to the Thayer Funds' general partners, which are special purpose entities formed by TAG to serve as general partners of the Thayer Funds and are affiliates of TAG. TAG's services include evaluating proposed real estate investments, making recommendations about proposed investments, performing regular valuations of clients' portfolio investments, preparing reports for clients, and advising on disposition of clients' investments.

The investment objectives and guidelines of the Thayer Funds and any investment limitations are provided for in each fund's formation documents. In providing investment advice to the Thayer Funds and their general partners, TAG pursues these objectives. As such, TAG's advisory services are individually tailored to the needs and investment objectives of each client. TAG enters into a written asset management agreement with each client. In certain instances, prospective investments with certain attributes, as specified in the applicable fund agreement, must be submitted to a Thayer Fund's limited partner committee for review as part of the general partner's approval process. Individual investors in the Thayer Funds are not considered to be clients of TAG, and investment advice is not given based on the individual investment objectives of Thayer Fund investors.

TAG also provides investment advisory services to a corporate client, which is offered the opportunity to co-invest directly in certain portfolio investments recommended to one of the Thayer Funds. This client has discretion to accept or decline a co-investment opportunity, but once a co-investment is made, TAG has discretion with respect to the investment.

As of December 31, 2011, TAG had \$990 million in regulatory assets under management (including commitments), all of which is managed on a discretionary basis. Although the general partners of the Thayer Funds retain ultimate decision-making authority under the applicable fund formation documents, TAG reports all of its assets under management as being managed on a discretionary basis due to the relationship of TAG and the general partner entities and the fact that the principals of TAG and the general partners are the same persons. These

entities will look to and rely on TAG's registration and are not themselves registering as investment advisers.

## **Item 5 – Fees and Compensation**

TAG receives an asset management fee from the general partner of each Thayer Fund and from its corporate client. Each general partner pays the asset management fee from the management fee that the Thayer Fund pays the general partner under the terms of the fund formation documents. This fee is negotiated with and approved by investors in the Thayer Funds at the time of fund formation. Because TAG has registered as an investment adviser with the SEC under the Advisers Act, and this brochure is delivered only to Qualified Purchasers as defined in section 2(a)(51)(A) of the Investment Company Act of 1940 (the “Investment Company Act”), a fee schedule is not provided.

The Thayer Funds do not pay any other fees to TAG in connection with its advisory services. The Thayer Funds and investors in the Thayer Funds may pay other fees to affiliates of TAG, including but not limited to carried interest to the general partners of the Thayer Funds. The properties and projects in which the Thayer Funds invest may contract with related persons of TAG for property-specific services, such as management, development, construction, leasing and other property management services, for which those related persons receive fees. These fees are disclosed to and approved by the Thayer Funds prior to or upon entering into such related party arrangements.

Unless otherwise provided in the applicable fund formation documents or asset management agreement, the Thayer Funds are responsible for all expenses incurred by or on their behalf, including but not limited to legal, auditing, consulting, financing, appraisals, accounting and reporting fees and expenses; out-of-pocket expenses of transactions not consummated; other expenses associated with the acquisition, holding and disposition of investments, including extraordinary expenses (such as litigation, if any); out-of-pocket expenses related to oversight of capital projects; and any taxes, fees or other governmental charges levied against the fund or any asset of the fund.

Neither TAG nor any supervised person accepts compensation for the sale of securities or investment products.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

TAG and its supervised persons do not directly accept performance-based fees. However, in the case of Lodging Opportunities Fund LP, TAG earns an asset management fee based on the revenues of the underlying hotel properties held by the Fund's subsidiary entities.

Additionally, the Thayer Funds pay carried interest to their general partners, which are affiliates of TAG. TAG's corporate client also pays carried interest to an affiliate of TAG. Carried interest is based on cash realized. This performance-based compensation is determined under the provisions of the applicable fund formation documents and thus is negotiated with and approved by the investors in the Thayer Funds at the time of fund formation.

That the general partners receive compensation based on performance of the Thayer Funds may create an incentive for TAG to recommend investments that are riskier or more speculative than would be the case absent this performance-based compensation, notwithstanding that the principals of TAG may make significant investments in the Thayer Funds through the general partners. Investors in the Thayer Funds are informed of the general partners' performance-based compensation in the Thayer Funds' private placement memoranda and other offering documents,

## **Item 7 – Types of Clients**

TAG provides investment advisory services to the Thayer Funds, which are pooled investment vehicles. The Thayer Funds currently advised by TAG are: (i) Lodging Opportunities Fund LP, (ii) Thayer Hotel Investors III LP, (iii) Thayer Hotel Investors IV LP, (iv) Thayer Hotel Investors V LLC, (v) Thayer Hotel Investors V LP, (vi) Thayer Hotel Investors V-A LP, (vii) Thayer Wardman Park Investor LLC, and (viii) TNH Andover Residence Inn LP. TAG also provides investment advisory services to a corporate client.

Each of TAG's clients is a Qualified Purchaser under the Investment Company Act and an Accredited Investor under Regulation D of the Securities Act of 1933 (the "Securities Act"). The Thayer Funds' offering documents set forth the qualification requirements for clients, the applicable investment minimums, and whether such minimums are waivable in the discretion of the general partner entities.



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

### *Method of Analysis and Investment Strategies*

TAG provides advisory services through an investment strategy by which the Thayer Funds acquire real estate assets, actively manage those assets after acquisition, and, ultimately, seek to liquidate those assets. TAG emphasizes the acquisition of full-service and select limited-service hotels in locations with significant barriers to entry, high replacement costs, and strong demand from multiple market segments. Once acquired, TAG seeks to enhance operational performance and returns by creating and executing a business plan for each property, which often includes brand and management changes, market positioning, revenue and expense management, technology advances and innovations, strategic capital expenditures, and enhancement of operating efficiencies. TAG occasionally recommends that the Thayer Funds acquire controlling and non-controlling interests in shares of real estate investment trusts.

TAG evaluates a prospective real estate investment by scrutinizing its business performance and prospects, market strengths and weaknesses, and management personnel. TAG conducts thorough due diligence and intensive research into the target property and its market. TAG considers a broad range of criteria, including (i) market fundamentals, (ii) property attributes, (iii) financial considerations, and (iv) real estate considerations. TAG studies market dynamics, focusing on supply growth and barriers to entry. TAG reviews the physical structure of each hotel property for value-creation opportunities, including under-utilized space. TAG reviews all available historical financial data, engineering studies, environmental studies, title and survey information, insurance information, and real estate tax information to provide a Thayer Fund with a thorough analysis of each prospective investment. TAG's diligence efforts also focus on exit strategies, including identifying how and when a fund might exit an investment, as well as potential buyers.

### *Risk of Loss*

The Thayer Funds are designed for and offered strictly to experienced and sophisticated persons who are able to bear the risk of substantial impairment or total loss of their investment in the Thayer Funds. Accordingly and in addition to this over-arching consideration, TAG's investment strategy and methods of analysis involve the following material risks among others:

Legal and Financial Risk: The investment strategy, which frequently involves the acquisition of distressed or underperforming assets in a leveraged capital structure, presents a high degree of legal and financial risk. There can be no assurance that TAG's investment objectives will be realized or that the Thayer Funds or investors in the Thayer Funds will have their capital returned. Shortfalls in cash flow or capital may impair the ability of the Thayer Funds to meet their debt obligations.

Each Thayer Fund's general partner will determine the appropriate capital structure for each asset in which the fund invests, based on financial projections for that asset. The ability to obtain financing quickly and on reasonable terms is important to the success of the strategy. Changes in the real estate and hotel acquisition business may substantially increase the risks that a Thayer Fund will not be able to obtain that financing.

Projected performance results are based primarily on judgments. In all cases, projections are only estimates of future results based on assumptions made at the time the projections are developed. There can be no assurance that the projected results will be attained. Actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse impact on the accuracy of projections.

Management of Acquired Assets: After a property has been acquired by a Thayer Fund, it will primarily be the responsibility of third-party managers to operate that property on a day-to-day basis. There can be no assurance that the property's existing management team, or any new one, will be able to operate the property in accordance with TAG's strategy.

Investment in Operating Companies: TAG's experience in investments in operating companies is limited. Any operating company in which a Thayer Fund invests will face substantial operating risks, including competition, the effects of economic downturn, government regulation, and effectiveness of the company's products or services. As with other acquired assets, the day-to-day operations of an operating company will be the responsibility of the company's management team. In addition, a Thayer Fund may hold a minority interest in certain operating companies and therefore may have a limited ability to influence management or protect its position in such companies.

Investment in Distressed Debt: The Thayer Funds may invest in hotels with distressed debt, and, in such cases, may acquire loans with respect to those properties. These loans will involve a high degree of legal and financial risk. Among other legal risks, a Thayer Fund may be subject to lender liability claims for actions taken with respect to a borrower's business or where it exercises control over the borrower. In addition, the legal processes by which the fund might assert its rights may be complex, inefficient and possibly ineffective. Interest charged on loans owned by the fund may be subject to state usury laws imposing maximum interest rates and penalties for violation, including restitution of excess interest and unenforceability of debt. Loans made by the fund also might be subject to significant financial risks, including insufficient collateral and decreases in interest rates generally, which could cause the values of the fund's existing loans to decrease.

Illiquidity of Investments: Generally, there will be no readily available market for a substantial amount of the portfolio investments of the Thayer Funds. Furthermore, a Thayer Fund may be contractually prohibited from disposing of certain assets for a specified period of time. Such contractual restrictions, as well as general market illiquidity, could prevent a Thayer Fund from

effecting dispositions at desired times or require the acceptance of in-kind consideration, adversely affecting the fund's performance.

Environmental Liability: Under various federal, state, and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under, or in its property. Environmental laws often impose this liability without regard to whether the owner or operator knew of, or was responsible for, the release of hazardous substances. The presence of hazardous substances or the failure to remediate hazardous substances properly, may affect adversely the owner's ability to sell or use real estate or to borrow outside funds using real estate as collateral. In addition, some environmental laws create a lien on contaminated property in favor of the government for costs it incurs in connection with the contamination. In addition to clean-up actions brought by federal, state, local agencies, and private parties, the presence of hazardous substances on a property may lead to claims of personal injury, property damage, or other claims by private plaintiffs.

Proprietary Deal Flow: TAG's investment strategy depends in significant part on its proprietary deal flow. TAG's management team has developed an extensive network of hotel industry relationships that allows the Thayer Funds to acquire investments through "off-market" opportunities rather than competitive auction processes. This deal flow could be affected by personnel changes in TAG's management team, personnel changes by hospitality-related entities with whom TAG has developed relationships, and personnel changes by TAG competitors, among other factors. Performance could be adversely affected if TAG were unable to obtain proprietary deal flow in the future.

Conflicts of Interest: Affiliates of TAG or Thayer Lodging may be retained by TAG, the Thayer Funds, or properties or projects owned by a Thayer Fund and receive fees for providing development, construction, property management, and other services to the portfolio properties of the Thayer Funds. Principals of TAG may also invest in companies that provide services to portfolio properties of the Thayer Funds, and such services may be put in place by affiliates of TAG that have property management or similar responsibilities. Any of these fees or other business arrangements may be more favorable to the related entities than might be available from an unrelated third party.

## **Item 9 - Disciplinary Information**

On August 12, 2004, Frederic V. Malek, Thayer Capital Partners and certain of Thayer Capital Partners' affiliates entered into a consent order settling an administrative proceeding brought by the SEC. This proceeding and the resulting consent order did not relate to TAG or any of the real estate activities of Thayer Lodging. Apart from Mr. Malek's participation, there was no legal relationship between Thayer Capital Partners and its related entities and TAG or Thayer Lodging. Thayer Capital Partners no longer actively conducts any business.

The proceeding involving Mr. Malek, Thayer Capital Partners, and certain affiliates related to a consulting arrangement entered into in 1998 by a Thayer Capital Partners entity and an individual found to be an associate of the Connecticut state treasurer in connection with an investment by Connecticut pension funds in a Thayer Capital Partners private equity fund. Without admitting or denying the SEC's findings, Mr. Malek and the Thayer Capital entities consented to the entry of an order by the SEC finding that, because the Thayer Capital entities and Mr. Malek failed to disclose a consulting arrangement to the investing pension funds, the Thayer Capital entities and Mr. Malek violated certain securities laws. The Thayer Capital entities and Mr. Malek were censured, ordered to pay civil penalties of \$150,000 and \$100,000, respectively, and ordered to cease and desist from committing future violations of the relevant portions of the Securities Act and the Advisers Act.

## **Item 10 - Other Financial Industry Activities and Affiliations**

Neither TAG nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or registered representative of a broker-dealer.

Neither TAG nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or associate of any such entities.

TAG is an affiliate of Thayer Lodging which, among other activities, sponsors limited partnerships (the Thayer Funds). This relationship could result in TAG's or its affiliates' (i) receiving fees that may be more favorable than might be available from an unaffiliated third party or (ii) recommending riskier investments than would otherwise be recommended absent the performance-based compensation paid to the general partners. This relationship is also disclosed to investors in the Thayer Funds in private placement memoranda and other offering documents.

Thayer Insurance Group, a related person of TAG, is an insurance agency. Thayer Insurance Group provides insurance services to, but does not receive direct compensation from, TAG's clients. Thayer Insurance Group receives commissions from certain insurance companies for placing insurance on certain Thayer Fund hotel properties. Thayer Insurance Group does not offer its services to investors in the Thayer Funds.

TAG and its management persons do not have material relationships with related persons who are (1) broker-dealers, municipal securities dealers, or government securities dealers or brokers; (2) investment companies or other pooled investment vehicles other than the Thayer Funds; (3) investment advisers or financial planners; (4) futures commission merchants, commodity pool operators, or commodity trading advisors; (5) banking or thrift institutions; (6) accountants or accounting firms; (7) lawyers or law firms; (8) insurance companies or agencies other than Thayer Insurance Group; (9) pension consultants; (10) real estate brokers or dealers; or (11) sponsor or syndicators of limited partnerships other than the Thayer Funds.

TAG does not recommend or select other investment advisers for its clients.

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

### *Code of Ethics*

As an investment adviser registered with the SEC under the Advisers Act, TAG has adopted a Code of Ethics (the “Code”) that sets forth standards of conduct and requires compliance with federal securities laws and its fiduciary obligations as an adviser to its clients. The Code applies to all persons defined as “Access Persons” under SEC Rule 204A-1. The Code outlines policies in several areas, including: standards of conduct and compliance with laws, rules and regulations; protection of material non-public information; and personal securities trading and reporting policies and procedures. A copy of the Code is available to any client, prospective client, or investor in the Thayer Funds upon request.

Under the Code, Access Persons must comply with all laws, rules and regulations applicable to TAG’s operations and business. TAG also expects its Access Persons to know and comply with all applicable internal policies and procedures and to seek guidance from TAG’s Chief Compliance Officer (the “Compliance Officer”), supervisors, managers, or other appropriate personnel when in doubt about any contemplated course of action.

The Code requires Access Persons to maintain the confidentiality of all confidential or proprietary information regarding TAG or its clients, except when disclosure is mandated by law. Access persons must consult with the Compliance Officer if they have questions about mandatory disclosure. The Code emphasizes that, under federal securities laws, persons may not trade in securities while possessing material, non-public information concerning the issuer of those securities, nor may persons share that information with others who may trade in that issuer’s securities.

The Code bars TAG and its employees from effecting transactions with a client as principal without full disclosure to and informed consent by the client. TAG’s officers, directors, employees, and other Access Persons are also barred from using information about TAG’s investments or prospective investments, or their ability to influence those prospective investments, for personal gain or in a manner detrimental to the interests of TAG or its clients. The Code further provides that no person may recommend or attempt to cause any transaction for the account of a client in which the person also has a personal interest.

All Access Persons must report to TAG their personal securities holdings upon becoming an Access Person and again on an annual basis and must report their personal securities transactions on a quarterly basis. Access Persons must obtain pre-clearance from the Compliance Officer before purchasing securities in any initial public offering, private placement, or other limited offering. Access Persons must also obtain clearance before executing a transaction in any of the public securities on TAG’s Restricted List of public securities (the “Restricted List”).

Otherwise, no pre-clearance of personal securities transactions in publicly traded securities is required. The Compliance Officer will monitor personal securities transactions to ensure that no transactions raise the appearance of potential trading on non-public information.

All Access Persons are required to promptly report any actual, apparent, or suspected violations of the Code to the Compliance Officer or their supervisor. The Compliance Officer has distributed the Code to each person who is an Access Person. All Access Persons must certify annually that they have been provided a copy of the Code and that they have agreed to be bound by its provisions. An Access Person may be subject to discipline for violations of the Code.

### *Participation or Interest in Client Transactions*

TAG conducts business under the principle that it will always act in the best interest of its clients. TAG's Compliance Manual encourages employees to be aware of potential conflicts of interest and to consult with the Compliance Officer when such a potential conflict has been identified.

As a fiduciary, if TAG were to engage in transactions where its clients are on the opposite side or to effect transactions between clients, in most instances client consent would be required. As discussed above, the Code limits such transactions. As a fiduciary, TAG recognizes that it is under an obligation to act in the best interests of each client and not consider its own interest or another fund's interest in effecting a transaction. Before engaging in a transaction on behalf of one client that may also have a direct or indirect effect on another fund, whether beneficial or adverse, TAG will discuss the transaction with outside counsel and, where circumstances dictate, make proper disclosure of the circumstances to the clients involved, either directly or, where appropriate, to the funds' limited partner committees.

TAG does not recommend investments in which TAG or its related persons have a pre-existing, material financial interest. However, the general partner of a Thayer Fund invests alongside limited partner investors in the Thayer Fund. All of the Thayer Funds and their general partners are related persons of TAG. The relationship among TAG and the general partners of the Thayer Funds is disclosed to investors in the Thayer Funds in private placement memoranda and offering documents. The Thayer Funds have also formed limited partner committees to address and resolve situations involving actual, potential, or apparent conflicts of interest.

As a fiduciary, TAG must also allocate investment opportunities among clients in a fair and equitable manner. Thayer has a corporate client to which it offers co-investment opportunities in certain real estate investments made by the Thayer Funds.

In circumstances where TAG has an existing fund that is not fully invested and is also raising capital for a new fund, TAG's policy is that the existing fund is offered any investment opportunity within that fund's investment objectives if sufficient uninvested capital is available.

If the existing fund declines the opportunity, the new fund is offered the opportunity (and, in appropriate circumstances, TAG could commit to make the investment on behalf of the new fund with the expectation that the new fund, when organized, would complete the investment). Only after an investment has been made available to all existing funds and new funds in organization and been declined by all the funds may TAG or its principals make the investment for their own accounts.



## **Item 12 – Brokerage Practices**

As a general matter, TAG invests through private transactions that do not involve the selection, recommendation, or compensation of any securities broker-dealers. However, from time to time, TAG may make investments for the Thayer Funds in stocks of publicly traded real estate investment trusts, typically for a temporary period.

If a client executes a transaction through a broker-dealer, TAG will seek the best price and execution available. TAG has no formal arrangements with specific broker-dealers to receive research, services other than execution, or other “soft dollar benefits” in exchange for brokerage commissions from client transactions. TAG will periodically evaluate the brokerage commissions and negotiated terms paid to or made with broker-dealers by, among other things, comparing those commissions and terms with the rates and terms of comparable broker-dealers.

### **Item 13 – Review of Accounts**

TAG's managing directors and the Compliance Officer actively monitor the portfolios of the Thayer Funds. All portfolios are reviewed at least quarterly.

In the case of the Thayer Funds, such reviews include a review of adherence to their investment guidelines and strategies and a risk analysis. Any proposed deviations from a Thayer Fund's investment guidelines or strategies will be discussed with the Compliance Officer to determine if consent of the Fund and its investors is necessary. The Compliance Officer may also recommend that such proposed deviations be discussed with the appropriate investment committee. Written reports, which include current fair market valuations of the Thayer Funds' portfolios, are distributed to the Thayer Funds and their investors on a quarterly basis.

## **Item 14 – Client Referrals and Other Compensation**

TAG does not receive an economic benefit for providing investment advice or other services from anyone other than its clients. TAG has not engaged and does not intend to engage solicitors or otherwise compensate any person who is not a supervised person for client referrals. However, the Thayer Funds may engage placement agents in the sale of interests of the Thayer Funds, which, if applicable, would be disclosed in the applicable fund's private placement memorandum; in accordance with SEC guidance, Thayer Fund placement agent activities are not considered to be solicitation for investment advisory services.

## **Item 15 – Custody**

Under Rule 206(4)-2 of the Advisers Act (the “Custody Rule”), the general partners of the Thayer Funds may be deemed to have custody of the assets of the Thayer Funds. To comply with the Custody Rule, most of the Thayer Funds will have audited financial statements prepared annually, and upon liquidation, by an independent public accountant registered with and subject to inspection by the Public Company Accounting Oversight Board. The financial statements will be prepared in accordance with generally accepted accounting principles and will be distributed to all investors in the Thayer Funds within 120 days of year end or promptly upon liquidation.

Certain Thayer Funds that have limited portfolios and are not pursuing further investments may not prepare annual audited financial statements, in which case the provisions of the Custody Rule, including the requirement to engage an auditor to perform a surprise inspection and to provide for a custodian to deliver custody statements to the Thayer Funds, will be followed.

The Thayer Funds maintain custody of cash funds with a qualified custodian. If a Thayer Fund makes investments that are not covered by an exception for private securities, if applicable, it will engage a qualified custodian to hold the securities in safekeeping.

## **Item 16 – Investment Discretion**

Investment decisions for the Thayer Funds are made through their general partners, all of the advisory personnel of which are also advisory personnel of TAG. While under the applicable fund formation documents the general partners retain ultimate decision-making authority, in the normal course the general partners approve the recommendations of TAG. Accordingly, TAG reports all assets under management as managed on a discretionary basis.

## **Item 17 – Voting Client Securities**

Under Rule 206(4)-6 of the Advisers Act, registered investment advisers that exercise voting authority with respect to client securities are required to have proxy voting policies and procedures. At the present time, TAG does not anticipate acquiring publicly traded securities where it would be required to vote proxies. Should TAG receive proxy statements, it intends to vote such securities in accordance with management recommendations, unless it determines that voting in a different manner would be in the best interests of its clients. TAG has adopted proxy voting policies that reflect the foregoing.

## **Item 18 – Financial Information**

An investment adviser that maintains discretion over client assets is required to disclose any financial condition that is reasonably likely to impair the ability to meet contractual obligations. TAG is under no such impairment.