

LEM Capital, L.P.
2929 Arch Street, 28th Floor
Philadelphia, PA 19104-2868
(215) 557-9600
www.lemcapital.com

Brochure date: April 9, 2012

This brochure provides information about the qualifications and business practices of LEM Capital, L.P. If you have any questions about the contents of this brochure, please contact Vincent McDevitt at vmcdevitt@lemcapital.com or at (215) 609-3365. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about LEM Capital, L.P. also is available on the SEC's website at www.adviserinfo.sec.gov.

LEM Capital, L.P. is registered as an investment adviser with the United States Securities and Exchange Commission. Registration does not imply a certain level of skill or training.

Item 2. Material Changes

The Chief Compliance Officer's email address was updated.

Item 3. Table of Contents

Item 2. Material Changes	2
Item 3. Table of Contents.....	3
Item 4. General Information about LEM	4
Item 5. Fees and Compensation	5
Item 6. Performance-Based Fees and Side-By-Side Management	7
Item 7. Types of Clients.....	7
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss	8
Item 9. Disciplinary Information	15
Item 10. Other Financial Industry Activities and Affiliations	15
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	18
Item 12. Brokerage Practices	18
Item 13. Review of Accounts.....	19
Item 14. Client Referrals and Other Compensation.....	20
Item 15. Custody	20
Item 16. Investment Discretion.....	20
Item 17. Voting Client Securities.....	20
Item 18. Financial Information	20

Item 4. General Information about LEM Capital, L.P.

- A. Description of advisory firm and principal owners.** LEM Capital, L.P., also referred to as “LEM,” is an investment management firm co-founded by Ira M. Lubert, Jay Eisner, and Herbert Miller in 2002. Messrs. Lubert, Eisner and Miller collectively have over 70 years of real estate and related investment management experience specializing in the underwriting, structuring, recapitalizing and refinancing investment transactions in the private and public real estate industry. Most of their careers have been spent in the real estate industry and they have extensive real estate experience in development, ownership, management and finance. The day-to-day operations of LEM are led by the managing partners, Messrs. Eisner and Miller.

LEM’s investment team consists of approximately 12 experienced professionals with strong backgrounds in debt markets, commercial real estate and construction loans, bridge loans, leveraged finance, private equity, mezzanine loans and lines of credit. Over the past several years, the managers and the investment team have originated and purchased numerous performing and non-performing structured finance and other high-yield debt investments. They have collectively been involved in hundreds of individual real estate transactions and have direct and current experience in sourcing, negotiating, structuring, closing and servicing debt and preferred equity investments similar to those expected to be made by the Funds.

References herein to LEM may include, as the context requires, various entities controlled by LEM or its principals and through which LEM provides investment management services, such as entities that serve as general partner to limited partnerships.

- B. Advisory services offered.** LEM provides investment management services exclusively to clients that are privately offered pooled investment vehicles (each a “Fund” or “Client” and, collectively, the “Funds” or “Clients”), each of which may purchase and originate real estate structured finance investments, primarily consisting of mezzanine loans, preferred equity and first mortgages. Funds may also consider B-Notes, joint venture equity and entity level investments in real estate operating companies. The assets underlying the Funds’ investments will typically consist of multifamily, office, retail, hospitality and industrial properties primarily in the United States. No Fund’s shares are offered hereby and each Fund is open for investment only via a “private offering,” and is intended only for investment by “accredited investors,” as those terms are defined under the Securities Act of 1933, as amended. Each Fund’s investment objective includes providing a certain level of returns net of fees and expenses as described in detail in each Fund’s offering documents. In pursuit of each Fund’s investment objective, LEM uses a disciplined investment approach that is value oriented. LEM’s advice is generally limited to debt-related and preferred equity

investments, although certain other types of investments may be utilized in various circumstances.

- C. Tailoring to individual needs.** Though LEM utilizes a similar strategy for all of the Funds, it tailors advisory services to the specific needs of the Funds to the extent that certain structured investments cannot be held by certain Funds for legal or tax purposes. From time to time, LEM may enter into agreements, commonly known as “side letters,” with certain investors, such as a State pension plans, under which LEM may agree to waive or modify the application of certain investment terms applicable to such investor, without obtaining the consent of any other investor in the Funds, other than such an investor whose rights would be materially and adversely changed by such waiver or modification. In addition, LEM may provide to investors that make a specified minimum capital commitment the right to participate in a separate pooled investment vehicle (“sidecar”) for the purpose of participating in certain co-investment opportunities with a particular Fund. The minimum capital commitment amount required to participate may vary as described in each Fund’s offering documents. During a Fund’s commitment period, if a Fund is not able to commit to a full investment required for a particular opportunity, LEM may then offer participation in the opportunity through a sidecar and to the co-investment partners on a pro-rata basis as determined by LEM.
- D. Wrap fee programs.** LEM does not participate in wrap fee programs.
- E. Assets under management.** Not including uncalled capital, LEM managed approximately \$289,553,373.00 of client assets on a discretionary basis as of December 31, 2011. Regulatory Assets Under Management are disclosed in “*Item 5.F.* of Part 1 of LEM’s Form ADV.

Item 5. Fees and Compensation

- A. How LEM is compensated for advisory services.** The specific terms for the compensation of LEM by each Fund are dictated by the Fund’s charter documents, offering documents, management and advisory agreements, and any other applicable agreements (such as side letters or waivers). Each Fund generally pays a management fee (the “Management Fee”). A Fund’s Management Fee generally will commence on the date that has its initial closing and thereafter be paid on the first day of each calendar quarter. The Management Fee is based on a percentage of assets invested in or committed to a Fund by its investors, and may vary based on the stage of investment of the Fund and the amounts committed to the Fund by its various investors. The Management Fee generally range from 1.25% to 1.50%, but may be negotiated to be lower or higher for certain clients based on the size of the investments.

LEM is also entitled to receive a distribution of the investment proceeds from the Funds, generally subject to certain conditions such as the prior return of capital to Fund investors and/or prior payment to Fund investors of a certain rate of return

on invested capital. Proceeds available for distribution will consist principally of cash generated from continuing operations of the assets owned by a Fund and the cash proceeds realized on the sale or refinancing of Fund assets. Certain of these distributions are referred to as the “Carried Interest.” A Carried Interest is charged in compliance with Rule 205-3 under the Investment Advisers Act of 1940, as amended.

- B. Deduction of fees from invested assets.** LEM’s compensation is deducted from the assets or distributions of the Fund. Fund investors are not separately billed for services. Management Fees are paid quarterly in advance. Carried Interest is paid upon the distribution of the applicable assets.
- C. Other types of fees or expenses.** As set forth in each Fund’s confidential private offering documents, each Fund pays all offering and organizational expenses incurred in the formation of each Fund and its related entities, including, but not limited to, costs associated with the investigation, sourcing, marketing, transportation, financing, origination and acquisition of investments, whether or not consummated; side letter reviews for certain potential institutional investors; holding and exiting investments; research, including the cost of subscriptions and other research tools; travel; attendance or participation in conferences; membership dues to financial industry organizations, administrative matters, such as legal, both third-party services and legal services provided through the manager, which will be charged at cost; auditing, tax and accounting fees; insurance; litigation expenses; third-party consultants’ fees; report preparation fees, including third-party printing and copying costs; costs associated with partners’ meetings and mailings and committee meetings; and other operating expenses to a Fund if described in each Fund’s confidential private offering documents.

The general partner may charge a Fund, its subpartnerships or portfolio companies for the cost of accounting, legal, limited partnership transfers, certain other services and any associated direct costs provided or incurred by the general partner or its affiliates, at cost, without any corresponding reduction of the Management Fee. The general partner also may charge the cost of its employees who are dedicated to subpartnerships or have these employees be employed directly by the subpartnerships which would be necessary in the subpartnerships ordinary course of business. The general partner and the Adviser will bear their respective ordinary operating expenses, which generally include staff compensation and overhead. Fund investors are not directly charged with fees or expenses, but in effect pay their pro rata share of any fees or expenses charged to the Fund.

Upon liquidation and dissolution of a Fund, the general partner may be required to restore certain amounts to the Fund for distribution to the partners, to the extent that the general partner has received carried interest distributions over the life of the Fund in excess of the amounts the general partner would have been entitled to receive as carried interest distributions if all distributions had been applied on an

aggregate basis covering all of a Fund's transactions. However, the general partner is not required to restore more than the carried interest distributions it actually received, less income taxes thereon. The general partner may also be obligated to restore distributions with respect to waived management fees (if any) to the extent such distributions exceed the allocations to the general partner of Fund profits with respect to the waived management fees.

- D. Payment of fees in advance.** In the event that a Fund's investment advisory agreement with LEM terminates during a period covered by Management Fees paid in advance, LEM would pro rate such Management Fee and reimburse a Fund the portion of such Management Fee covering the remainder of the period.
- E. Compensation for sales of securities.** Presently, no commissions, placement fees or other remuneration are paid by a Fund to any person in connection with the offering and/or sale of Interests, other than reimbursement to affiliates of the general partner of a portion of the cost of employees engaged in capital raising activities on behalf of a Fund.

Item 6. Performance-Based Fees and Side-By-Side Management

As described in Item 5, LEM may be paid a Carried Interest. LEM and certain of its supervised persons receive incentive compensation, which is tied explicitly to the performance of a particular Fund, and such compensation will continue to be earned based upon the performance of each Fund's portfolio as a whole, rather than that of individual transactions. The existence of the Carried Interest may create an incentive for LEM to cause a Fund to make riskier or more speculative investments than would be the case in the absence of a Carried Interest. An Adviser that manages accounts that pay a Carried Interest alongside accounts that pay only an asset-based fee may create additional conflicts of interest. In particular, an investment adviser may have an incentive to favor the account that pays a Carried Interest when allocating promising or profitable investment opportunities or trades, and may avoid allocating less promising or unprofitable investment opportunities or trades to such account.

All Funds managed by LEM are paid a Carried Interest. Should LEM decide in the future to manage asset-based accounts alongside the Funds that pay a Carried Interest, LEM will immediately address the potential conflicts that are inherent with side-by-side management.

LEM's compliance policies and procedures and code of ethics prohibit supervised persons from favoring one account over another or considering the firm's financial interest when providing investment advice to Clients, and any individual compensated based on the performance-fee aspect of a Fund is paid based on the Fund's overall performance, not the outcome of any single transaction or investment. In addition, certain co-investments by a Fund require approval by such Fund's Advisory Board, as described in the Fund's offering documents.

Item 7. Types of Clients.

LEM provides investment advice only to the Funds, which are privately offered pooled investment vehicles. Investors in the Funds may include, but are not limited to, pension plans,

endowments, corporate and business entities, foundations, trusts, and high net worth individuals. Each investor is required to meet certain suitability qualifications such as being an “accredited investor”, “qualified purchaser” or “qualified client” within the meaning set forth under the federal securities laws. Each Fund varies in size over the course of its investment program. The Funds’ offering documents generally require a minimum initial investment or commitment by each individual investor of \$1 million and each institutional investor of \$5 million. However, each Fund’s general partner has the discretion to waive or reduce the minimum initial investment or commitment and has done so for certain investors.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

- A. Methods of Analysis.** LEM employs an investment process to determine potential investment opportunities and may use various research methods including models and methods of analyses. LEM utilizes both internal and external resources as well as a wide-range referral network that may include, but not be limited to, mortgage brokers, investments banks, first mortgage lenders, industry professionals, real estate owners/operators, consultants and advisors. In the initial analysis of a potential investment, the investment team reviews information furnished by the prospective borrower or investment sponsor as well as feedback from operating partners and/or other direct local relationships to determine whether the investment meets a Fund’s underwriting and investment criteria. The investment team also will conduct an independent evaluation to ensure the quality of the asset. The subject market will be analyzed to confirm long-term growth potential, a diversified economy and significant barriers to new development. If the investment team decides to proceed to the next phase for the potential investment, a proposal will be submitted to the borrower or investment sponsor outlining key terms. Once terms have been agreed upon, every new investment requires submittal to, and approval by the Fund’s investment committee.
- B. Investment Strategies.** The Funds investment strategies generally employ a disciplined investment approach typically focusing on cash flow and property appreciation. The Funds seek to provide current income return while preserving investor capital. There can be no assurance, however, that the use of any strategy for any Fund will achieve any particular returns or avoid a loss. A Fund’s ability to achieve returns will depend on a variety of factors, many of which are beyond its or LEM’s control.
- C. Investment risks.** Investing in private equity and/or securities involves risk of loss that investors must be prepared to bear. Each Fund’s offering documents include more detailed disclosure of the risks of investing in a Fund; any prospective Fund investor should carefully read such documents before considering an investment. Among other investments and risks described more fully in each Fund’s private offering documents, each Fund’s investments entail the following risks:

1. ***No Assurance of Investment Return.*** Each Fund's task of identifying and evaluating investment opportunities, managing such investments and realizing a positive return for investors is difficult. There is no assurance that a Fund will be able to invest its capital on attractive terms or continue to generate positive returns or avoid losses for its investors over the long term.
2. ***The performance targets for the Fund listed in this Memorandum are based on assumptions and subject to risk; there is no guaranty they will be achieved.*** As described in the Funds' confidential private offering documents, the Funds try to target quarterly distributions to investors based on their capital contributions. These performance targets are based on the Management Team's expectation that a Fund will be able to make certain types of investments using investment structures and strategies as described in the Funds' confidential private offering documents and that the Funds' investments will perform in a certain manner. There can be no assurance that the performance targets for the Funds will be achieved.
3. ***Market Volatility.*** Volatile market conditions at various times have had a dramatic effect on private investments. In addition, terrorist attacks and other acts of violence or war may affect the operations and profitability of the Fund's portfolio investments. Such events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and worldwide financial markets and economy. They also could result in a continuation of the current economic uncertainty in the U.S. or abroad. Any of these occurrences could have a significant impact on the operating results and revenues of a Fund's portfolio investments, and in turn on the return of a Fund's investments.
4. ***The Funds predominantly debt and preferred equity investments in real estate, real estate-related assets and real estate operating companies.*** The Funds intend to invest in assets that are suitable only for sophisticated investors. Subordinated debt investments and preferred equity may be subject to greater credit risks than other investments and will be subject to rights of senior creditors. Mortgage investments have special risks relative to collateral value. The Funds will be subject to risk of borrower default, the risks attendant to foreclosure, such as delays and expenses due to interposed defenses or counterclaims; and the possibilities that under certain circumstances even a non-collusive, regularly conducted foreclosure sale may be challenged as a fraudulent conveyance, regardless of the parties' intent. The Funds may be precluded from pursuing both foreclosure and an action on a note as remedies simultaneously, and the Funds may be limited in its ability to collect certain funds due it from a borrower that is a debtor in a case filed under Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended (the "Bankruptcy Code").

The Funds will also be subject to risk that the borrowers may not maintain adequate insurance coverage against liability for personal injury and property

damage in the event of casualty or accident. Except in limited instances, the Funds do not anticipate having absolute control over the underlying collateral securing their investments and will have rights that are subordinated to those of senior lenders. The Funds generally will originate or acquire mortgage loans that are non-recourse to the borrower. The Funds' loans may not be secured by a mortgage, but may instead be secured by partnership interests or other collateral that may provide weaker rights than a mortgage. In any case, in the event of default by a borrower under a non-recourse loan, the Funds' source of repayment will be limited to the value of the collateral and may be subordinated to other lien holders. The value of the collateral may be less than the outstanding amount of each Fund's investments.

5. ***Protection of Collateral.*** The Funds intend to originate, purchase and manage diversified portfolios of high-yield multifamily and commercial real estate investments which will include mezzanine loans, preferred equity, subordinated financings and other structured finance transactions. Typically, investments will be structured in conjunction with a senior lender's first lien loan and thus, subject to intercreditor documentation. If the borrower/issuer defaults on its obligations to the senior lender and/or the Fund, and the senior lender and/or the Funds foreclose on collateral in which both the senior lender and/or the Funds has a security interest, the general partners will need to take action to protect the Funds' investments in the issuers or investments, including the security interest in the collateral. These actions could include funding debt service to senior lenders, buying loans from the senior lender, making additional loans to, or investments in, the issuer or borrower, and providing advances to third parties and/or restructuring its investment. Such actions may occur either within or after the commitment period. Under the Partnership Agreements, the general partners may establish reserves to fund protective advances in their discretion. If the Funds are unable to take these actions or take them quickly enough, the value of the Funds' investments may deteriorate materially, and the Funds may lose their collateral position with respect to those investments.
6. ***Secured Mezzanine Debt Instruments.*** Investing in secured mezzanine loans may result in a greater interest rate and higher fees than first priority lending, but also involves additional risk over senior secured lending arrangements. Investments in secured mezzanine transactions are subordinate in lien to more senior creditors and therefore are subject to greater risks than first priority lenders. Upon execution, a secured mezzanine loan may be fully secured by the collateral of the borrower. Yet, market fluctuations, declining prices or an economic downturn may decrease the value of the collateral thereby exposing the secured mezzanine loan to the risk of being under collateralized. If the value of the borrower's collateral decreases, the available collateral may only be sufficient to cover more senior liens. Junior lien holders may also have diminished capacity to negotiate favorable terms concerning collateral and repayment rights and may be forced to give up rights or subordinate rights to

the senior lender. In the event of a default by the borrower, the secured mezzanine holder may be required to wait to enforce their rights against the collateral. This creates the risk that the holder of a junior lien will receive unfavorable treatment with respect to distributions, rights to collateral or during bankruptcy. If an investment company enters bankruptcy, senior lenders may control the method and manner of distribution or exert substantial power with respect to the bankruptcy proceeding. The original lending agreement may also limit the junior lien holder's rights during bankruptcy for the benefit of more senior lenders. This may diminish the junior lien holder's recovery or ability to claim an interest in collateral of the company.

7. ***Fund Leverage:*** The Funds' assets may be leveraged, which may adversely affect income earned by the Funds or may result in loss of principal. The use of leverage involves a high degree of financial risk and may increase the exposure of the Funds or their investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the collateral underlying such investments. Market fluctuations may significantly decrease the availability of and increase the cost of leverage. The use of leverage will increase the amount of funds available to the Funds for investment but will also increase the risk of loss. Principal and interest payments on any indebtedness of the Funds will be payable regardless of whether the Funds have sufficient cash available. Lenders or other holders of senior positions would be entitled to a preferred cash flow prior to the Funds receiving a return. Since the Funds may engage in portfolio level financing, investments may be cross-collateralized and subject to increased risk of loss. The Funds may incur recourse debt, which may subject the assets and commitments of the Funds to additional risk of loss.
8. ***Current Market Climate for Real Estate.*** A global recession began in 2008, severely impacting the U.S. economy in general and the real estate market in particular, and leading to the failure of many large corporations, the decline in gross domestic product and dramatic reduction in U.S. jobs, particularly in the real estate market. The result has been increasing unemployment, diminished consumer confidence and reduced occupancy levels and effective rents for all property types. The fallout from the recession is continuing, and there is no way to predict how severe the ultimate decline will be and when a recovery will begin.

These events have resulted in continued stress on the financial markets, including a decrease in the availability of credit and an increase in the cost of financing. Large commercial banks, which have been a resource for favorable financing in the past, now demand higher rates, larger equity investments and more restrictive covenants in order to finance real estate.

9. ***Market Conditions May Dramatically Affect the Funds' Investments.*** Volatile market conditions at various times have had a dramatic effect on private investments. In addition, terrorist attacks and other acts of violence or war may affect the operations and profitability of the Fund's Investments. Such events could cause consumer confidence and spending to decrease or

result in increased volatility in the U.S. and worldwide financial markets and economy. They also could result in a continuation of the current economic uncertainty in the U.S. or abroad. Any of these occurrences could have a significant impact on the operating results and revenues of the underlying properties, and, in turn, on the return of the Funds' investments.

10. ***Investments may be Subject to Usury Limitations.*** Interests charged on loans owned by the Funds (which may include amounts received by the Funds from appreciation interests) may be subject to state usury laws imposing maximum interest rates and penalties for violation, including restitution of excess interest and unenforceability of debt. Any unfavorable action challenging contracts or agreements in which the Funds are a party may have an adverse impact on the returns to the Funds and may negatively impact the returns to the limited partners.
11. ***Due Diligence Processes.*** The due diligence investigation that LEM and its strategic partners perform with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such opportunity, including, among other things, the existence of fraud or other illegal or improper behavior. Moreover, such an investigation will not necessarily result in the investment being successful.
12. ***Nature of Investments.*** Investments in the Funds require a long-term commitment, with no certainty of return. The Funds may experience severe financial difficulties as a result of its portfolio investments. Some of the investments will be highly illiquid, and the Funds may be unable to realize on such investments in a timely manner. There may be little or no near-term cash flow available to the Partners. Partial or complete sales, transfers or other dispositions of investments which may result in a return of capital or the realization of gains, if any, are generally not expected to occur for a number of years after an investment is made. Since the Funds may only make a limited number of investments and since many of the investments may involve a high degree of risk, poor performance by a few of the investments could severely affect the total returns to limited partners.
13. ***Inflation Risk.*** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power erodes at the rate of inflation.
14. ***Interest-rate Risk.*** The market value of the Funds' investments may be affected by changes in interest rates. In general, the market value of a debt investment will change in inverse relation to an interest rate change where a debt investment has a fixed interest rate or only limited interest rate adjustments. Accordingly, in a period of rising interest rates, the market value of such a debt investment will decrease. Moreover, in a period of declining interest rates, debt investments without adequate call protection may benefit less than other fixed income securities due to accelerated prepayments. Interest rate changes may also affect the Funds' returns on new investments

that it makes. If there is a period of declining rates prior to the end of the Commitment Period, the amounts becoming available to the Funds for investment due to repayment of its investments may be re-invested at lower rates than the Funds have been able to obtain in prior investments or than the rates on the repaid investments. Also, increases in the interest rates on debt, if any, incurred by the Funds in originating or acquiring investments may not be reflected in increased rates of return on the investments funded or acquired through such debt, thereby adversely affecting the Funds' returns on such investment. Accordingly, interest rate changes may adversely affect the total return on the Funds' investment portfolios.

- 15. *Diversification Limits:*** The Funds have no established limits or constraints with respect to geographic regions or product types. Lack of diversification across the portfolio may increase a Fund's exposure to adverse market conditions in a given region, property or product type.
- 16. *Expedited Transactions:*** Investment analyses and decisions by the Manager may be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to the Manager at the time of an investment decision may be limited, and the Manager may not have access to detailed knowledge of all circumstances that may adversely affect an investment. In addition, the Manager may rely upon independent consultants in connection with its evaluation of proposed investments; however, no assurance can be given that these consultants will accurately evaluate such investments, and a Fund may incur liability as a result of such consultants' actions.
- 17. *Unable to Identify Attractive Investments.*** No assurance can be given that the Funds will be able to originate investments that satisfy its rate of return objectives or that such investments will perform as expected. The Funds will face competition for investments from both private and public investors, some of which have greater financial and other resources than the Fund and more extensive experience than the Fund. Interim investments may offer returns lower than those targeted for long-term investment by the Funds. The Funds intend to make draws on Commitments as funds are needed during the commitment period; however, investments consistent with the Funds' strategy may not be available at certain instances.
- 18. *Interest Subject to Restrictions on Transfer and Withdrawal.*** Interests are not transferable except with the consent of the general partner. Limited Partners may not withdraw capital from the Funds. There will be no public market for the partnership interests. Each Limited Partner will be required to represent that it is acquiring its interest for investment purposes and not with a view to resale or distribution. Each Limited Partner must be prepared to bear the economic risk of an investment for an indefinite period, since interests

cannot be resold unless they are subsequently registered under the Securities Act, or an exemption from such registration is available, and provisions of the Funds' Partnership Agreements relating to restrictions on transfer of interests are complied with.

- 19. *Funds' Lack of Control Over Investments.*** As an investor primarily in debt securities, the Fund will not have control over the issuers of such securities and may have to rely on independent third party management or strategic partners to operate the issuer in a manner that results in full and timely payment of interest and principal, protects any collateral and otherwise complies with the agreements under which such securities were issued.
- 20. *Defaulting Limited Partner.*** In the event that a Limited Partner fails to fund any of its Commitment when required, among other remedies available to the Fund, the Fund may accelerate such Limited Partner's unfunded commitment, such Limited Partner's interest in the Fund may be forfeited or subject to dilution, the Fund may withhold distributions from such Limited Partner and such Limited Partner may be prohibited from participating in future investments.
- 21. *Hedging.*** In connection with the financing of certain assets, a Fund may employ hedging techniques designed to protect against adverse movements in currency and/or interest rates. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks. Thus, while a Fund may benefit from the use of hedging mechanisms, unanticipated changes in interest rates, securities prices or currency exchange rates may result in poorer overall performance for a Fund than if it had not entered into such hedging transactions.
- 22. *Information About Investments:*** The general partner intends to keep limited partners apprised of the status of the Fund's investments and its portfolio companies on a periodic basis. In reviewing these reports, limited partners should be aware that the general partner and the Fund may be subject to confidentiality agreements with portfolio companies that limit the amount of information that the general partner may disclose about its investments or the portfolio companies.
- 23. *Regulatory Risks.*** Each Fund relies on various exemptions from federal and state statutes and rules, such as ERISA, the Investment Company Act of 1940 ("1940 Act") and the Securities Act of 1933 (the "Securities Act"), to operate without having to register under such statutes and rules. Loss of any such exemption, or a change in these statutes and rules or certain others, such as the Advisers Act, anti-money laundering rules, and the U.S. Internal Revenue Code, could impact a Fund's ability to continue to operate as it currently does. A Fund's exemption from certain investor protection laws means that a

Fund's investors do not have the benefit of protections afforded by such laws, including ERISA, the 1940 Act and the Securities Act.

24. *Limited Partners Will Have Limited Recourse Against the General Partner:* The Partnership Agreement limits the circumstances under which the general partner or its affiliates will be held liable to the Fund. As a result, limited partners may have a more limited right of action in certain cases than they would have in the absence of such limitations. In addition, the Partnership Agreement provides that the Fund will indemnify the general partner and its affiliates, partners and employees for certain claims, losses, damages, and expenses arising out of their activities on behalf of the Fund. Such indemnification obligations could materially adversely affect the returns to limited partners.

25. *Conflicts of Interest.* Fund investments are subject to various conflicts of interest, including those between co-investors in specific projects, between various investors in a Fund, and between LEM and a Fund. These conflicts are more fully discussed in each Fund's confidential private offering documents.

Item 9. Disciplinary Information

Neither LEM nor any supervised person has been involved in the past ten years in any legal or disciplinary event that LEM believes is material to an investor or client or prospective investor or client in their evaluation of LEM's advisory business or management.

Item 10. Other Financial Industry Activities and Affiliations

- A. Broker-dealer registration.** Neither LEM nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Commodity industry registration.** Neither LEM nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- C. Material Relationships.** LEM has relationships and arrangements that are material to LEM's advisory business with the following types of related persons:
 - 1. Broker-dealers, municipal securities dealers, or government securities dealers or brokers.** None.
 - 2. Investment companies or other pooled investment vehicles.** In addition to managing its own Funds, LEM is part of Independence Capital Partners, LLC ("ICP"). ICP provides services to its affiliated private equity management firms. ICP currently provides services to LLR Partners, L.P.; Lubert-Adler

Real Estate, L.P.; Patriot Financial Partners, L.P.; Quaker Partners, L.P.; LBC Credit Partners, L.P.; and LEM Capital, L.P. (collectively, the “ICP Member Firms”). Each ICP Member Firm is individually and separately owned by its senior investment professionals and manages investment funds focused on distinct assets classes. ICP provides the ICP Member Firms with back-office and infrastructure resources, including office space and administrative personnel. A centralized ICP team covers finance, accounting and tax, compliance, risk management and insurance, information technology, investor relations and reporting, and human resources to the Funds. To the extent that LEM’s relationship with its affiliate ICP Member Firms, their funds and their managers presents a conflict of interest, please refer to “Item 10.C.3. Other investment advisers or financial planners.”

Other investment advisers or financial planners. Mr. Lubert has ownership interests in the following ICP Member Firms: LEM Capital, L.P., LLR Partners, L.P., Quaker Partners, L.P., Lubert-Adler Real Estate Partners, L.P., LBC Credit Partners, and Patriot Financial Partners, L.P. Each such firm manages real estate, private equity or venture capital funds, some of which have investment mandates that are similar to, but not overlapping with, the investment mandates of the Funds. In addition, Mr. Lubert has several investments in operating businesses, has other preexisting contractual commitments and may become involved as a principal in future pooled investment funds that do not conflict with the Funds. All of these activities will limit the amount of time Mr. Lubert will be able to devote to the Funds.

In the past, the principals of the above mentioned funds and LEM have shared information and collaborated regarding investment opportunities and, on occasion, co-invested in particular investments. LEM expects to continue to collaborate with these firms so long as LEM believes the collaboration is benefiting its investment process and Fund investors.

The management team for a LEM Fund will continue to devote time to the management of the other existing LEM Funds, which may create conflicts in the allocation of management resources. In general, Messrs. Eisner and Miller will spend substantially all of their business time on the management and operation of a Fund until a specified time noted in the Funds’ confidential private offering documents. Thereafter, they will devote such business time to the management of each Fund as is necessary to perform their duties.

Investment opportunities may arise that are appropriate for more than one Fund and/or one or more other ICP Funds. In particular both the Funds and Lubert-Adler Funds intend to invest in multifamily real estate investment assets. In these situations, the fund management team which first sourced or originated the opportunity may invest in the opportunity without offering it to other ICP Funds. Opportunities first sourced or originated by Mr. Lubert or Mr. Adler will be offered to the Lubert-Adler Funds. If the Lubert-Adler

Funds do not invest in such an opportunity or if additional funding is required for such an opportunity, the opportunity or a portion thereof may be offered to other ICP Funds, ICP Firms, or third parties.

In addition, while the management team believes such occasions will be rare, there may be occasions in which the management team determines in its reasonable discretion that it would be advantageous to co-invest in an opportunity with an ICP Member Firm. If such an occasion arises, with Advisory Board approval, a Fund may co-invest with the ICP Member Firm in the opportunity only on a pari passu basis (that is, in the same security with equal rights of payment or level of seniority). These co-investment opportunities may be subject to the approval of the co-investing ICP Member Firm's executive board in accordance with its governing documents. A Fund expects that the relative amounts co-invested by the Fund and an ICP Member Firm will be determined in the reasonable discretion of the management team for the Fund and the management teams of the other applicable ICP Member Firm in view of the relative available capital, investment objectives, financing capacity and diversification limits of the fund (among other things).

Investors should take time to review the conflicts as more fully described in each Fund's confidential private offering documents prior to making an investment decision to invest in a Fund.

- 3. Futures commission merchants, commodity pool operators, or commodity trading advisors.** None.
- 4. Banking or thrift institutions.** None.
- 5. Accountant or accounting firm.** ICP provides the Funds with various accounting and back office services including human resource services to LEM and the other ICP Firms.
- 6. Lawyers or law firms.** None.
- 7. Insurance companies or agencies.** None.
- 8. Pension consultants.** None.
- 9. Real estate brokers or dealers.** None.
- 10. Sponsors or syndicators of limited partnerships.** As a manager and sponsor of pooled investment vehicles, LEM also enters from time to time into relationships with other sponsors and syndicators of pooled investment vehicles.

D. LEM does not recommend or select other investment advisers for Clients.

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

- A. Code of Ethics.** LEM's code of ethics is based upon the premise that all LEM personnel have a fiduciary responsibility to render professional, continuous and unbiased investment advisory service. The code of ethics requires all personnel to (1) comply with all applicable laws and regulations; (2) observe all fiduciary duties and put Client interests ahead of those of LEM; (3) observe LEM's personal trading policies so as to avoid "front-running" and other conflicts of interests between LEM and its Clients; (4) ensure that all personnel have read the code of ethics, agreed to adhere to the code of ethics, and are aware that a record of all violations of the code of ethics will be maintained by LEM and that personnel who violate the code of ethics are subject to sanctions by LEM, including termination. A copy of the code of ethics is available upon request to Clients or prospective Clients.
- B.** For information on LEM's practice with respect to recommendations to clients of securities in which LEM or a related person has a material financial interest, see above under "10.C.3. Other investment advisers or financial planners."
- C.** For information on investments by LEM or related persons in securities recommended to Clients, see above under "10.C.3. Other investment advisers or financial planners" and "11.A. Code of Ethics."
- D.** For information on how LEM treats simultaneous purchases by Clients and LEM or related persons, see above under "10.C.3. Other investment advisers or financial planners" and "11.A. Code of Ethics."

Item 12. Brokerage Practices

- A.** LEM is granted discretion over the selection and amount of securities and other investments to be bought or sold without obtaining prior consent or approval from a Fund. LEM's investment authority with respect to any particular Fund is subject to the investment objectives, guidelines and/or conditions set forth in the Fund's PPM. In addition, because the Funds invest in privately negotiated real estate transactions, the brokerage terms of such transactions are largely influenced by the counterparty and the availability of brokers capable of successfully executing such transactions. LEM seeks to have transactions executed in the best interest of the participating Client or Clients, taking into account various factors such as the size, competence, and availability of brokers in addition to cost.

 - 1. Research and Other Soft Dollar Benefits.** LEM does not accept soft dollar benefits.
 - 2. Brokerage for Client Referrals.** LEM does not direct brokerage in exchange for Client referrals.

3. Directed Brokerage. LEM is granted discretion over the selection of brokers for securities transactions of the Funds. LEM's investment authority with respect to any particular Fund is subject to the investment objectives, guidelines and/or conditions set forth in the Fund's PPM.

B. Aggregation of Client purchases or sales. See above under "10.C.3. Other investment advisers or financial planners."

Item 13. Review of Accounts

A. Monitoring of accounts. LEM monitors each investment on a constant basis through an asset management program designed to track an investment's financial and operating performance. The asset management team will also augment monitoring by continuing to provide industry related research for each investment. Each Fund's manager believes that the key to an investment exit lies in the ongoing knowledge of the asset's performance and the market where it resides.

Investment oversight is continuous providing current information about each investment. Each Fund manager will maintain active communications with the constituents of each investment. Further, each Fund requires a detailed financial reports and operating information from each investment on a regular basis and conducts routine reviews and quantitative analyses. All investments will be assigned to an asset manager who will be responsible for maintaining communication with the borrower or investment sponsor and their respective management teams. Formal asset review meetings will be held quarterly and on an as-needed basis in order to the investment's performance. When feasible, a Fund may structure investments with financial penalties aimed at compelling covenant compliance. Moreover, a Fund may enhance oversight when an investment underperforms its underwritten plan.

B. Reviews. LEM continuously monitors each Fund's performance and underlying investments in context of their investment objectives on a routine bases. In addition to routine investment oversight through daily communications among the investment teams, formal portfolio review meetings are held quarterly or on an as-needed basis with the members of senior management. Asset valuations, including permanent writedowns, are reviewed by the Valuation Committee on a quarterly basis pursuant to GAAP accounting procedures.

C. Reports to Clients. LEM schedules an annual Advisory Board meeting and annual Investor meeting. LEM also provides (i) annual audited financial statements; (ii) quarterly unaudited financial statements; (iii) semi-annual reports containing an operation summary of the Funds' investments; and (iv) such other information as is necessary for the preparation of tax returns. In addition, as long as unfunded Commitments or unreturned capital contributions exceed 20% of a Fund's Commitments, there will be an annual meeting of Partners to review the status of the Fund.

Item 14. Client Referrals and Other Compensation

- A. Third party compensation.** No person who is not a client of LEM provides an economic benefit to LEM for providing investment advice or other advisory services to clients.
- B.** LEM does not provide compensation with respect to referrals of Clients at this time.

Item 15. Custody

Each Fund's account is subject to audit by a registered independent accountant at least annually, distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all investors within 120 days of the end of its fiscal year, and upon liquidation distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all investors promptly after the completion of such audit. Such audits will include any funds and securities that, as required by applicable law, are placed in custody with a qualified custodian.

Item 16. Investment Discretion

Under each Fund's investment advisory agreements and charter documents, LEM has investment discretion to manage the Funds' assets in accordance with the disclosure in the related private offering documents.

Item 17. Voting Client Securities

LEM investment strategy and portfolio composition do not include investments in publicly traded securities that attach voting rights, such as common stock. Therefore, LEM does not vote proxies.

Item 18. Financial Information

LEM does not require or solicit prepayment of fees six months or more in advance. LEM is not subject to any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients.