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February 13, 2012

**This Brochure provides information about the qualifications and business practices of Carmel Management III, LLC (the “Adviser,” “Fund III Adviser” “we,” “us” or “our”), which is affiliated with Carmel Management, LLC (the “Fund I/II Adviser”) and Carmel Management IV, LLC (the “Fund IV Adviser,” and together with the Adviser and the Fund I/II Adviser, the “Advisers”). If you have any questions about the contents of this Brochure, please contact us at 415-273-2900. 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. Registration with the SEC does not imply a certain level of skill or training.**

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

## **Item 2 – Material Changes**

In the future, this Item 2 will discuss specific material changes that we make to the Brochure.

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## **Item 4 – Advisory Business**

### ***Generally***

The Advisers are Delaware limited liability companies. The Fund III Adviser, organized in 2007, provides investment advisory and administrative services to Carmel Partners Investment Fund III, L.P. (the “Fund”). The principal owner of the Fund III Adviser and certain of the Fund III Adviser’s employees have also provided investment advisory and administrative services to CP Investment Fund, L.P. and CP Investment Fund II, L.P. through an affiliate, the Fund I/II Adviser, since 2003, and to Carmel Partners Investment Fund IV, L.P., since 2011, through an affiliate, Fund IV Adviser (Carmel Partners Investment Fund IV, L.P. together with Carmel Partners Investment Fund II, L.P., Carmel Partners Investment Fund, L.P. and where the context requires, Carmel Partners Investment Fund III, L.P., the “Other Carmel Funds,” and together with the Fund, the “Funds”). Unless otherwise indicated or where the context otherwise requires, all references to the “Adviser” or the “Fund” shall apply mutatis mutandis to the Fund I/II Adviser, the Fund IV Adviser and the Other Carmel Funds, as applicable.

### ***Principal Owner***

The sole owner and member of the Adviser is Ron Zeff.

### ***Advisory Services***

The Adviser provides investment advisory and administrative services to the Fund, with respect to the Fund’s real estate investments. The investment strategy of the Adviser is described in Item 8 and set forth more fully, where applicable, in the private placement memoranda of certain Funds (as supplemented or amended, the “Private Placement Memoranda”) described below and/or in the limited partnership or similar governing agreement of the Fund (the “Partnership Agreement”). The Adviser provides services to the Fund in accordance with the Partnership Agreement and the management agreement between the Adviser, the Fund and the general partner of the Fund (the “Management Agreement”). The Adviser’s sole client is the Fund. The Adviser’s investment advisory services are limited to the types of services described in this Brochure, as supplemented by the Private Placement Memoranda of certain Funds and/or the Partnership Agreement.

### ***Fund Structure***

The Fund is organized as a Delaware limited partnership. The Fund is controlled by a general partner that is a related person of the Adviser (the “General Partner”). The Fund is managed by the Adviser. The Adviser investigates, analyzes and structures potential investments for the Fund. The Adviser has the general authority to recommend investments to the General Partner and performs all of the Fund’s day-to-day investment

and asset management functions, subject to the limitations set forth in the Management Agreement and Partnership Agreement. The General Partner is ultimately responsible for the conduct of the Fund and for making investment decisions.

The General Partner may establish co-investment vehicles, parallel funds, alternative investment vehicles, real estate investment trusts (“REITs”) or other investment vehicles to address the tax, regulatory or other concerns of certain prospective limited partners. If the General Partner elects to make co-investment opportunities available to limited partners of the Fund, the terms of the co-investment fund may not be more favorable than those of the Fund.

### ***Investment Restrictions***

The Partnership Agreement contains or incorporates by reference restrictions on investing in certain securities or types of securities. Such restrictions may be waived in certain cases with the consent of the Fund’s advisory committee, comprising representatives of the limited partners who are appointed by the General Partner (the “Advisory Committee”).

### ***Management of Client Assets***

As of December 31, 2011, the Adviser managed \$3,282,200,000 of client assets on a discretionary basis and no client assets on a nondiscretionary basis.

## **Item 5 – Fees and Compensation**

### ***Adviser Compensation***

The Fund pays the Adviser an annual management fee (the “Management Fee”) in accordance with the Partnership Agreement and Management Agreement. The Management Fee is payable to the Adviser in quarterly installments in advance. The Management Fee may be paid either (a) through a capital call requiring the limited partners of the Fund to make capital contributions to the Fund or (b) by deducting the amount of the Management Fee from distributable cash otherwise payable to the limited partners of the Fund. The Management Fee is ultimately deducted from the assets of the Fund by the General Partner and paid to the Adviser pursuant to the terms of the Management Agreement. Upon termination of the Management Agreement, the Adviser shall repay to the Fund the unearned portion (computed on the basis of the number of days elapsed), if any, of any Management Fees previously paid to the Adviser.

Each quarterly installment of the Management Fee, calculated with respect to each limited partner, is reduced by an amount equal to such limited partner’s *pro rata* share of any (x) Organizational Expenses (defined in “Additional Fees and Expenses” below) that exceed the threshold set forth in the Partnership Agreement and, where

applicable, (y) all transaction fees, investment banking fees, break-up fees, acquisition and disposition fees, or other similar fees received in connection with an investment or a prospective but unconsummated investment by the Fund, as set forth in the Partnership Agreement.

The General Partner, an affiliate of the Adviser, also receives “carried interest” (a form of performance-based compensation), as is described in Item 6.

The Adviser does not ordinarily deal with any financial intermediary such as a broker-dealer and commissions are not ordinarily payable in connection with Fund investments as is described in Item 12.

### ***Additional Fees and Expenses***

The Adviser will bear the ordinary day-to-day expenses incidental to the administration of the Fund, including the salaries of the Adviser’s employees, rent and other expenses incurred in maintaining the Adviser’s place of business.

The Fund is responsible for certain other costs and expenses incurred by the Adviser and/or its affiliates in connection with the operation and activities of the Fund. These expenses include but are not limited to: (a) the fees and expenses relating to consummated portfolio investments and proposed but unconsummated investments (to the extent not reimbursed) including, evaluation, acquisition, holding, financing, leasing and disposition thereof, capital expenditures, environmental and property management expenses, engineering costs and studies, and third-party appraisal and valuation expenses; (b) sales, leasing and brokerage commissions, development fees, construction management fees, loan servicing fees, costs of tenant and capital improvements, custodial expenses, and other costs incurred in connection with portfolio investments; (c) administrative costs including, legal, accounting, auditing, banking and consulting expenses; and (d) real estate and other taxes, and any other governmental charges, fees and/or duties.

The Fund also bears all legal, accounting, filing and other organizational and offering fees and expenses, including travel and printing expenses, incurred in connection with the formation and organization of, and sale of interests in, the Fund (collectively, the “Organizational Expenses”), provided that, to the extent that these fees and expenses exceed the threshold set forth in the Partnership Agreement, such excess will be borne by the General Partner and its affiliates. The Fund does not ordinarily deal with any placement agents and consideration is not ordinarily payable in connection with directing potential investors to the Fund as is described in Item 14.

Affiliates of the Adviser and General Partner may be entitled to receive from the Fund additional fees in connection with operational services performed for the Fund or with respect to portfolio investments, including certain property management fees,

development fees, construction fees, or other similar fees received in connection with the operation of a portfolio investment. These additional fees will not exceed market rates payable for such services without the consent of the Advisory Committee.

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

Pursuant to the Partnership Agreement, the General Partner is entitled to receive “carried interest” with respect to each limited partner as a percentage of such limited partner’s investment profits, subject to satisfaction of a cumulative preferred return (performance threshold), compounded annually. The General Partner is a related person of the Adviser. Such carried interest is paid out of proceeds realized from the applicable investments of the Fund.

The existence of carried interest may incentivize the Adviser to dedicate increased resources and allocate more profitable investment opportunities to one of the Funds or a new fund whose distribution characteristics would allow the Adviser or its affiliates to receive a higher carried interest (or to be paid a carried interest sooner) based on the success of portfolio investments. Further, the Adviser may be incentivized to allocate investment opportunities to a fund that, based on investment performance, is not required to reimburse the fund for losses attributable to prior unprofitable investments. This conflict is mitigated by the fact that (a) as a general matter, the Adviser will be selecting investments for a single fund at a given time (other than the overlapping period when a predecessor fund and a successor fund are both able to make investments) and (b) the Adviser has developed compliance policies and procedures designed to address related conflicts of interests, described in Item 11 and in the applicable provisions of the Partnership Agreement.

The existence of the General Partner’s carried interest may also create an incentive for the General Partner and the Adviser to make more speculative investments on behalf of the Fund than they would otherwise make in the absence of such carried interest. To help align the interests of the General Partner and the Adviser with those of the limited partners, the General Partner and its affiliates will invest in or alongside the Fund in an amount specified in the Partnership Agreement.

#### **Item 7 – Types of Clients**

As described in Item 4 above, the Adviser’s sole client is the Fund. Limited partners in the Fund are generally required to make a minimum commitment of \$5 million, but the General Partner has the discretion to waive, and has previously waived, this minimum commitment in certain circumstances. Limited partner interests in the Fund may be purchased only by investors that are (a) “accredited investors,” as defined in Regulation D of the U.S. Securities Act of 1933, as amended, and (b) (other than with respect to certain Co-Investment Vehicles) “qualified purchasers” for purposes of section 3(c)(7) of the Investment Company Act of 1940, as amended



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

### ***Methods of Analysis and Investment Strategies***

The Fund will generally seek to make investments in real estate and real estate-related assets located primarily within the United States. The Fund pursues a value-added strategy that focuses principally on the acquisition, renovation and development of multi-family residential properties in relatively supply constrained markets. By acquiring properties at a significant discount to replacement cost, the Adviser and its affiliates seek to add value by enhancing the property's intrinsic value through capital improvements, improved operating efficiencies and/or tenant re-marketing efforts.

The Fund's investment strategy begins with market selection. The Fund typically focuses its acquisition program on markets that are characterized by: (a) projected growth in demographics that tend to rent rather than own their residences; (b) significant supply contractions; and (c) larger, more active metropolitan markets that attract institutional investment activity. The Adviser and its affiliates maintain regional offices across the United States that assist with due diligence efforts and investment market selection. The local and regional presence of the Adviser enables it to maintain a constant dialogue with apartment owners, real estate consultations, brokers, attorneys and accountants within each submarket. Moreover, the Adviser's strong local presence and seasoned acquisition staff enable it to maintain critical investment discipline and to exploit market inefficiencies created by substantial non-institutional ownership of apartments, and to pursue unique large acquisitions that are under marketed or undervalued.

The Adviser's regional acquisition teams maintain a proprietary database of multifamily investment opportunities throughout their respective markets. The regional acquisition teams analyze potential investment opportunities and develop financial projections. An acquisition review meeting is conducted weekly with all members of the General Partner's investment committee, responsible for final investment decisions (the "Investment Committee") and regional office acquisition staff, during which time potential transactions are discussed and advice is solicited to determine the Fund's investment strategy. Prospective investments that have a high potential for meeting the Fund's targeted goals are then selected for further analysis and a site visit by the Investment Committee.

Following additional due diligence efforts, the regional office responsible for the prospective investment property will generate an approval document for the Investment Committee's consideration. The approval document generally includes: (i) an overview of the investment plan, which includes a description of the property and its location, the structure of the investment entity, the sources and uses of funds, and the equity investment structure and estimated mortgage terms; (ii) a summary investment analysis; and (iii) risk factors.

### ***Certain Risks Relating to the Investment Strategies of the Fund***

Investing in securities involves risk of loss that investors should be prepared to bear. Investment in the Fund should only be undertaken by investors capable of evaluating these risks. Set forth below is a non-exhaustive list of such risks, which are summarized in greater detail in the Fund's offering materials, where applicable:

- exposure to the general risks of real estate development;
- natural fluctuations and cycles inherent to the real estate industry;
- highly competitive market for investments;
- investments in non-performing or other troubled assets;
- exposure to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment;
- regulation of the real estate industry;
- lack of diversification;
- reliance on the experience, relationships and expertise of Ron Zeff;
- illiquidity of investments;
- potential liabilities in connection with dispositions of investments;
- debt financing for transactions;
- failure or inability of the Fund to make follow-on investments; and
- compliance with REIT requirements.

### **Item 9 – Disciplinary Information**

The Adviser has no information to disclose that is applicable to this Item.

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

The Advisers each manage, control and operate real estate funds with a similar investment strategy and objective. As described in further detail in Item 11, the Advisers have adopted compliance policies and procedures relating to the conflicts of interest between each Fund and the Other Carmel Funds. Any conflicts of interest that arise in the context of the relationship between the Fund III Adviser, the Fund I/II Adviser, the

Fund IV Adviser and their respective affiliates will be addressed in accordance with the Code of Ethics (described in further detail in Item 11), each Partnership Agreement and the Advisers' compliance policies and procedures, as applicable. Additionally, an affiliate of the Advisers, Carmel Partners, Inc. ("Carmel Partners"), operates a real estate broker business for the purpose of managing real estate properties owned by each Fund. As described more fully in each Fund's Partnership Agreement and referenced in Item 6, as a general matter, any fees received by Carmel Partners or any affiliate of the Advisers for services rendered while managing the properties may not exceed market rates for such services.

Mr. Zeff has maintained a portfolio of personal and family real estate investments since before the initial closing of CP Investment Fund, L.P. The Partnership Agreement and the Code of Ethics (described in Item 11) address any potential conflicts of interest. As a general matter, during the investment period of each Fund neither Mr. Zeff nor any affiliate controlled Mr. Zeff may acquire, invest in or hold an interest in a portfolio investment without the consent of the Advisory Committee. However, prior to each Fund's investment period, Mr. Zeff and any affiliate controlled by Mr. Zeff may acquire, invest in, reinvest in, hold or dispose of investments that would otherwise satisfy the investment objectives of such applicable Fund. Mr. Zeff is subject to the Code of Ethics (described in Item 11) and the Adviser's accompanying policies relating to personal securities transactions.

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

### ***Code of Ethics***

The Adviser has adopted a code of ethics (the "Code of Ethics") pursuant to SEC Rule 204A-1 under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act") for all Supervised Persons of the Adviser describing its high standard of business conduct and fiduciary duty to the Fund under the Advisers Act. "Supervised Persons" include (a) any partner, officer, director (or other person occupying a similar status or performing similar functions), or employee of the Adviser and (b) any other person who provides investment advice on behalf of the Adviser and is subject to the Adviser's supervision and control.

The Code of Ethics was adopted in order to establish the standard of conduct expected of all of the Adviser's Supervised Persons, in light of the Adviser's duties to the Fund under the Advisers Act. Supervised Persons must act at all times in accordance with the Adviser's fiduciary duty to the Fund. Each Supervised Person should (i) at all times place the interest of the Fund before his or her own interests, (ii) act with honesty and integrity with respect to the Fund and the Fund's investors, (iii) never take inappropriate advantage of his or her position with the Adviser for his or her personal

benefit and (iv) make full and fair disclosure of all material facts, particularly where the Adviser's or Supervised Person's interests may conflict with the Fund.

The Code of Ethics contains provisions designed to prevent improper personal trading, to identify conflicts of interest and to provide a means to resolve any actual or potential conflicts in favor of the Fund. The Code of Ethics also includes provisions relating to the confidentiality of information, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and restrictions and reporting obligations relating to making political contributions, among other matters.

The Code of Ethics forbids any Supervised Person from engaging in any insider trading and from disclosing or using material non-public information in violation of applicable law. Supervised Persons are prohibited from engaging in any transactions involving securities of companies designated on the restricted list, which is maintained by the Chief Compliance Officer, in order to prevent potential legal, business or ethical conflicts, to minimize the risk of unlawful trading in any account where the Supervised Person has an interest and to guard against the misuse of material non-public information. The Code of Ethics generally restricts trading in close proximity to Fund investment activity. All of the Adviser's Supervised Persons are required by the personal securities transaction policy in the Code of Ethics to:

- provide an initial list to the Chief Compliance Officer of brokerage accounts and securities owned;
- report securities holdings and accounts to the Chief Compliance Officer annually;
- report personal investment transactions to the Chief Compliance Officer quarterly and annually; and
- pre-clear certain personal securities transactions.

Employee trading is routinely monitored by the Chief Compliance Officer pursuant to the Code of Ethics in order to reasonably prevent and address conflicts of interest among the Adviser, Supervised Persons and the Fund. Supervised Persons who become aware of any possible conflicts of interest are required to report the potential conflict to the Chief Compliance Officer.

The Chief Compliance Officer will annually distribute a copy of the Code of Ethics to all Supervised Persons. The Chief Compliance Officer will also promptly distribute all amendments to the Code of Ethics. All Supervised Persons are annually required to acknowledge in writing their receipt of the Code of Ethics.

Clients of the Adviser may request a copy of the Code of Ethics, free of charge, by contacting the Adviser's Chief Compliance Officer.

### ***Participation or Interest in Client Transactions***

The Adviser investigates and structures potential investments of the Fund, as described in Item 16. Partners and principals of the Adviser have a material financial interest in these investments through their commitments to the General Partner. The Adviser has adopted the Code of Ethics and written compliance policies to ensure compliance with the provisions of the Partnership Agreement that address potential conflicts of interest involving the Adviser and its related persons. While the Fund may make certain investments through special purpose vehicles, include REITs ("SPVs"), the Adviser views such SPVs as part of the Fund and the Adviser receives no additional benefits from advising the SPVs.

### ***Allocation of Investment and Sale Opportunities Policy***

Investment opportunities may be allocated among the Funds. During the investment period of the Fund, the General Partner and its affiliates (subject to any existing obligations) will offer to the Fund any investment opportunity that the General Partner believes in good faith is suitable and appropriate for the Fund and is consistent with the Fund's investment objectives, to the extent that the Fund still has remaining capital commitments. The Fund may also co-invest with the Other Carmel Funds in certain new investment opportunities, as described more fully in the Partnership Agreement.

To the extent that the Partnership Agreement does not address the manner in which the investment opportunity should be allocated, the Adviser will allocate the opportunity in good faith, according to the policies and procedures set forth in its written compliance policies and procedures (the "Allocation Policies"). Although it is not the Adviser's policy to allocate investment opportunities or transactions amongst the Funds, in the event that such allocations must be made, it is the Adviser's policy to make such allocations in a fair and equitable manner over time.

In general, investment decisions for the Funds are made independently of each other and are made with specific deference to the individual needs and objectives of the Fund and each of the Other Carmel Funds, as set forth in the Allocation Policies. However, when determining whether an investment opportunity is appropriate for more than one of the Funds, each of the General Partners and/or any of its applicable affiliates, will consider a variety of investment factors which may include, among other things: (a) suitability of the investment objectives and strategies for a Fund's portfolio; (b) investment guidelines and restrictions – including restrictions placed on the Fund by federal or state law; (c) available capital including funding limitations; (d) considerations of custodian fees; (e) current market conditions and capacity and or liquidity of the

opportunity; and (f) any other information determined to be relevant to the fair allocation of an investment opportunity.

## **Item 12 – Brokerage Practices**

Due to the nature of the Fund’s investments, broker-dealers are not generally used for transactions. However, when executing transactions on behalf of the Fund through a broker, dealer or underwriter, the Adviser’s objective will be to obtain “best execution” (that is, the most favorable price and execution). The Adviser may consider the scope and quality of a broker dealer’s services, including commission rate, value of research provided, responsiveness and financial condition, and other considerations described in the Adviser’s compliance policies and procedures when selecting a broker-dealer.

### ***Research and Other Soft Dollar Benefits***

The Adviser does not utilize soft dollar arrangements (that is, arrangements under which research and certain other services are acquired in connection with brokerage arrangements). The Adviser’s policy is to bear the cost of research it receives that is unrelated to the operations and activities of the Fund. The Adviser does not direct investment opportunities or other transactions to brokers in order to acquire research or other services.

### ***Aggregation of Client Trades***

The purchase or sale of securities may be aggregated for various Funds to the extent that more than one of the Funds acquires or sells securities in the same portfolio investment. Where a sale opportunity is identified for an investment held by two or more of the Funds, the opportunity will be allocated in accordance with each Partnership Agreement and the Adviser’s compliance policies and procedures.

## **Item 13 – Review of Accounts**

The investments made by the Fund are generally private, illiquid and long-term in nature. Accordingly, the Fund’s review process is not directed toward a short term decision to dispose of investments. The Adviser’s asset management and operations professionals actively monitor all investments by performing periodic sell/hold, valuation and property performance analyses. Each investment’s performance is evaluated against the potential return and risk associated with continuing to hold the asset, instead of selling the asset under then-current market conditions.

Limited partners in the Fund receive annual audited financial statements. The General Partner also provides Fund investors with periodic reports concerning the operations and performance of the Fund and material changes in the financial condition

or results of operations of each portfolio investment and such other information concerning the Fund's investments as the General Partner provides.

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

Due to the nature of the Fund's investments and operations, the Fund does not generally enter into agreements with placement agents.

#### **Item 15 – Custody**

Because a related person of the Adviser serves as general partner of the Fund, the Adviser is deemed to have custody of Fund assets. Each limited partner of the Fund receives the Fund's audited financial statements prepared in accordance with generally accepted accounting principles and distributed to each investor within 120 days of each Fund's fiscal year end.

#### **Item 16 – Investment Discretion**

The Adviser has discretion to recommend investments for the Fund to the General Partner without the consent of the Fund's limited partners, subject to the limitations set forth in the Management Agreement and Partnership Agreement. However, the management and the conduct of the activities of each Fund remain the ultimate responsibility of General Partner, which is an affiliate of the Adviser.

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

The Fund will primarily make real estate investments and it is not expected that the Adviser will be required to vote proxies with respect to the assets owned by the Fund. In the event that the Adviser is required to vote proxies on behalf of the Fund, the Adviser has implemented proxy voting procedures that are reasonably designed to help facilitate the Adviser's practice of voting proxies in the best interest of the Fund. All conflicts of interest related to proxy voting will be resolved pursuant to the Adviser's written proxy voting policies and procedures in a manner consistent with the best interests of the Fund.

The Adviser will provide to the limited partners, upon request: (a) information pertaining to proxies voted by the Adviser on behalf of the Fund and/or (b) a copy of the Adviser's proxy voting policies and procedures.

#### **Item 18 – Financial Information**

The Adviser has no financial commitments that impair its ability to meet its contractual or fiduciary commitments to the Fund. The Adviser has not been the subject of a bankruptcy proceeding.