

Broe Real Estate Opportunity Fund Manager, LLC

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This Brochure provides information about the qualifications and business practices of Broe Real Estate Opportunity Fund Manager, LLC. If you have any questions about the contents of this Brochure, please contact us at (303) 393-0333 and/or ghebert@broe.com. 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.

Broe Real Estate Opportunity Fund Manager, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide clients with information to use to determine to hire or retain an adviser.

## **Item 2 – Material Changes**

On an annual basis, this item will be used to provide clients with a summary of all material changes made to the Brochure since the last annual update. The Firm will ensure that clients receive a summary of any material changes to this and subsequent Brochures within 120 days of its business' fiscal year-end. Further, Broe Real Estate Opportunity Fund Manager, LLC will provide clients with a new Brochure as necessary based on changes or new information, at any time, without charge. As this is the Firm's initial filing, there are no changes to be disclosed under this item at this time.

Broe Real Estate Opportunity Fund Manager, LLC's Brochure may be requested at any time by contacting Gary Hebert, President, by phone at (303) 393-0333 or via email at [ghebert@broe.com](mailto:ghebert@broe.com).

Additional information about Broe Real Estate Opportunity Fund Manager, LLC is also available via the SEC's Web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's Web site also provides information about any persons affiliated with Broe Real Estate Opportunity Fund Manager, LLC who are registered, or are required to be registered, as investment adviser representatives of Broe Real Estate Opportunity Fund Manager, LLC.

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\*The SEC requires all investment advisers to organize their disclosure documents according to the specific categories listed above, some of which may not pertain to Broe’s business. When a required category is not relevant to our business, we list the category and state that it does not apply.

## **Item 4 – Advisory Business**

Broe Real Estate Opportunity Fund Manager, LLC (“Broe Fund Manager” or “Firm”) was formed in 2012 and is 100% owned by Broe Fund Member 1, LLC (“Broe Member 1”) which in turn is 100% owned by Broe Holdings LLC. Broe Fund Manager was formed to serve as the investment adviser to real estate funds that may be sponsored in the future by certain principals of Broe Management Company, LLC or other entities related to the Firm.

### **Investment Strategy**

As the Firm may manage multiple funds, each fund may differ in strategy and objectives. Generally, though, the Firm anticipates investing in a diversified portfolio of assets primarily acquired through the purchase of non-performing commercial real estate loans, which may include whole loans or interests in participations or syndicated loans (but not CMBS securities), REO owned by financial institutions, borrower recapitalizations, and direct purchases of distressed commercial real estate opportunities in the United States. It is expected that many of these assets will be acquired from regional and community banks, insurance companies, credit unions, foreign banks, and other “unwilling”, distressed or highly motivated sellers. The Firm plans to invest in loans and distressed assets primarily located in the United States.

The substantial investment experience of the personnel of the Firm and its related entities combined with its opportunistic approach to sourcing investments, disciplined investment philosophy and experienced, aggressive asset management should represent an attractive investment opportunity for investors. The past three decades of operations of the Broe Management Company, LLC (“Sponsor”) and the investment team demonstrate a proven ability to generate attractive risk adjusted returns by investing in real estate loans and assets throughout the United States.

The Firm is expected to invest in distressed debt and lender owned REO by acquiring non-performing loans and lender owned REO at an attractive basis in the underlying real estate well below the true value of the underlying asset and below the basis of comparable real estate assets in its market. Value of the asset will then be improved through aggressive asset management and enhanced recovery techniques. Multiple exit strategies including, but not limited to, the following will then be employed:

- Borrower discounted payoffs;
- Loan sales;
- Loan restructuring/modifications;
- Foreclosure on the asset, stabilizing and sale of the fee portion in the asset to generate the most favorable risk adjusted return to investors; and
- Pursuit of viable guarantors to collect on any outstanding deficiency on the loan.

Given the target of creating a diversified portfolio of assets for its investors, the Firm will be focused on identifying opportunistic and value-add opportunities to acquire loans and/or fee simple positions in multifamily, office, condominium, industrial, land, senior housing, and retail assets at significant discounts to true underlying value from or with borrowers.

In many instances, the borrower has the unique ability to purchase its debt from the lender or special servicers in an off-market environment. By working with and through the borrower, the Firm has the ability to access non-performing loan purchases at a reduced price to the true underlying value of the asset.

The Firm intends to diversify geographically throughout the United States and across asset classes. Through this diversification, an additional level of risk reduction may be accomplished.

## **Item 5 – Fees and Compensation**

### **Fee Structure**

As the Firm may advise multiple funds in the future, it is not possible to provide a fee structure that will be used with all such funds. The Firm does anticipate, however, utilizing a fee structure that is generally consistent with the following:

The Firm will receive an annual management fee (the “*management fee*”) payable quarterly in advance in an amount equal to: (i) during the Investment Period, 2.0% of the Fund’s aggregate Commitments, and (ii) after the end of the Investment Period, 2.0% of the aggregate funded Limited Partner Capital Commitments. The first installment of the management fee will be due on the Initial Closing Date in an amount prorated for the period until the end of the next semi-annual period. Each Limited Partner will make capital contributions to the Fund in respect of the portion of the management fee that corresponds to its Commitment.

The management fee will be deducted directly from the fund and each investor’s share of the fund on a pro rata basis dependent on the amount invested. Such deduction is anticipated to be in advance on a quarterly basis. The Firm anticipates that the funds it will manage will have an investment period and that investors will not be able to withdraw from the funds without prior written consent of the general partner. In the event an investor was permitted to withdraw from a fund prior to its termination, it is anticipated that there would be no provision for refunding any prepaid management fees.

The Firm anticipates that any funds for which it acts as the adviser will include an incentive allocation or carried interest component in its fee structure. A typical structure could be structured as follows:

The investors will receive distributions of net proceeds in the following order of priority:

- i) First, to provide the investors with an 8% cumulative preferred return on the portion of such investors’ unreturned funded Commitments in such investment vehicle;
- ii) Second, to return to the investors its unreturned funded Commitments in such investment vehicle; and

- iii) Thereafter, (i) 80% to the investors and (ii) 100% to the General Partner above the 8% preferred return to the Limited Partners until the General Partner has received, on a cumulative basis, 20% of all distributions.

The Firm anticipates that any funds it advises, and ultimately the investors in such funds, will bear all organizational and offering expenses of the General Partner, its Affiliates and agents, including, but not limited to, travel, printing, legal, filing and accounting fees and other expenses, up to a certain amount. This amount will vary depending upon numerous factors including, but not limited to, the size of the offering, the scope of the offering and the amount of due diligence and legal work anticipated. The Firm may choose to utilize the services of one or more placement agents. Any fees associated with these agents will be paid out of the assets of the fund.

The Firm's fees are exclusive of real estate brokerage commissions, transaction fees, customary real estate carrying costs (including without limitation taxes, insurance, tenant improvement allowances and other ownership and maintenance costs pertaining to assets of the Fund). Such charges, fees and commissions are exclusive of and in addition to the Firm's management and incentive fees, and the Firm shall not receive any portion of these commissions, fees, and costs.

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

The Firm anticipates that any funds for which it acts as the adviser will include an incentive allocation or carried interest component in its fee structure. This fee is discussed in detail under Item 5 above.

#### **Item 7 – Types of clients**

Broe Fund Manager was formed to serve as the investment adviser to real estate funds that may be sponsored in the future by certain principals of Broe Management Company, LLC or other entities related to the Firm. Investors in these funds will be individuals and institutions who are “qualified purchasers” within the meaning of the U.S. Investment Company Act of 1940, as amended (the “*Investment Company Act*”). It is anticipated that these investors will include high net worth individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, municipalities, private investment funds and other U.S. and international institutions.

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

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

It is anticipated that the Funds managed by the Firm will involve investment in and the management of real estate as well as the investment of equity and debt in commercial real estate. The Firm's methodology has been developed throughout over forty years of investment experience by certain principals of the Sponsor.

##### **Origination/selection**

The Firm will apply a disciplined process to building its portfolio. The Firm will not – without the prior consent of the Advisory Board of the Fund – invest more than (a) 20% of the investors' aggregate

Commitments in any single asset referring to a loan on one property or a property itself (excluding follow-on investments) or (b) 70% of the investors' aggregate Commitments in any single investment referring to a portfolio of assets, REO, or combination from one seller in one transaction (including follow-on investments and Loans). The following outlines the Firm's approach to the six critical steps in the investment process. "Single asset" refers to a loan on one property or a property itself; a "single investment" means one portfolio of assets or REO from one seller.

### **Market Analysis**

The Firm will actively screen financial institutions, evaluating among other things the institution's capital adequacy metrics, strategic direction, leadership changes, high level contact points, loan concentrations, and borrower concentrations to source opportunities. The Firm will also utilize its extensive contact network to source borrowers that have loans due or in default on single assets or portfolios where the Firm can purchase the debt and obtain the asset in an off-market environment. Once opportunities are identified, the Firm will assess those that are most suitable and have the most favorable risk-adjusted return for the Funds.

### **Due Diligence**

Broe Fund Manager will employ an extensive analytical and due diligence process, drawing on the team's broad sector experience and business judgment, and input from outside advisers. The Principals have been able to invest successfully in undervalued and under-managed assets because they have experience assessing challenging opportunities and evaluating risk, and determining the actual or potential underlying value of assets.

The Firm will thoroughly analyze each asset to determine the intrinsic value of the asset, will tour every asset, will engage professionals as appropriate for further due diligence (legal, environmental, brokers, construction consultants) and will prepare a comprehensive business plan for each asset prior to acquisition.

The Firm's due diligence exercise draws not only on input from outside professionals, but on interpretation of the results. Specialist input is frequently secured in areas such as legal; accounting, tax and regulatory; technical and environmental; market and credit analysis; and insurance. Results of due diligence are provided in an internal investment memorandum, with any material acquisition or implementation issues highlighted, with a plan for resolution.

### **Underwriting**

Investment decisions are based on a detailed underwriting process of the individual assets. The Firm will employ valuation guidelines to ensure pricing is below or at least competitive with the basis of competing properties and is below replacement cost in the marketplace.

The formal investment review process begins with the preparation of a short screening memorandum prepared by the senior team member proposing the transaction, which will set out the investment thesis, strategic fit of the investment within the overall Fund strategy, present an initial valuation and return analysis, discussion of major issues; discuss the exit strategy and outlook. The screening memorandum

will provide an identification and preliminary assessment of project risks and opportunities, together with a preliminary view on expected pricing and expected returns. Finally, the screening memorandum will describe the transaction process and will identify key issues and risks. Screening memoranda are distributed to all the investment committee and a decision whether or not to proceed is made. If not already in place, a transaction team within the Firm will be assembled to oversee the further due diligence and ultimate acquisition of the asset or investment.

Once screened, the team confirms the proposed investment meets the return criteria of a Fund, defines the transaction structure, provides an overview of the market environment, lays out a preliminary financing and operational strategy, identifies the investment risks and risk mitigation options, provides a thorough financial and valuation analysis, and affirms the overall budget. When these steps have been completed, the transaction team will prepare an internal investment memorandum for submission to the investment committee of the Fund for approval to proceed.

### **Acquisition**

Assets that are selected through the preceding review steps will likely be acquired and held in limited liability companies owned by the Funds. Financing of assets at the time of acquisition may be taken in the name of the Fund or through the limited liability company ultimately owning the asset.

### **Management of Investments**

Management of an investment includes a disciplined, active, hands-on, cash flow oriented approach to managing assets. Using the operational plan developed during the due diligence process, the investment team will work closely with the Firm during the life of the investment to refine and implement that plan.

The Firm and the investment team will meet at least bi-weekly to review each asset in the Fund's portfolio and to discuss potential investments and market developments. During these meetings, the responsible asset manager of each investment will provide an update on performance, key milestones achieved or upcoming, and issues to be resolved. Internal management reporting takes place on a monthly basis.

### **Disposition**

Throughout the life of an investment, the Firm will be actively monitoring appropriate exit strategies. While the original investment underwriting provides guidance for the intended management and disposition of an asset or portfolio, the Firm will continually review the current market environment to determine the ideal exit time and strategy in order to maximize the risk adjusted return to the Funds.

### **Risk of Loss**

An investment in the Funds managed by the Firm will be speculative and will involve a significant degree of risk. Such an investment should only be made by persons able to bear the risk of and withstand the total loss of its investment. There can be no assurance that the Funds will meet or achieve their investment objectives or otherwise be able to successfully carry out their investment program, or that an investor will receive a return of capital. The following discussion of investment considerations and risk



factors does not purport to be a complete description of the investment considerations and risks involved in investing with Broe Fund Manager. Prospective investors should read the entire Private Placement Memorandum, the Partnership Agreement and the Subscription Agreement of any Fund they are considering investing in and should consult with their own legal, tax and financial advisers before deciding whether to invest in any of the Funds. Prospective investors should consider, among other matters, the following factors in determining whether an investment is a suitable investment to undertake:

## **Market and Investment Risks**

### ***Newly-Formed Entity; Market Risks***

The Funds will be newly-formed entities with no operating or financial history on which prospective investors may base an evaluation of likely performance. The Funds will generally determine the appropriate capital structure of each asset in which the funds invests based upon financial projections for that asset. Projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results based upon assumptions made at the time the projections are developed. There can be no assurance that the projected results will be obtained, and 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. While the Firm intends to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurance of success, and it is uncertain as to when capital contributions will be returned, if at all, or when profits, if any, will be realized or distributed by the Funds.

### ***Past Results Not Indicative of Future Performance***

To the extent that the Principals are responsible for the investment results of previous investments in which they were involved, those results are, in any event, past results and are not necessarily indicative of future results of the funds' investments. Prospective investors should not evaluate the likely performance of any Fund based on the results of investments in which the Firm or the Principals were previously involved. There can be no assurance that any of the Funds' investments will perform as well as investments in which one or more of the Principals were involved in the past. Likewise, past investments may have been made by individuals who are not currently Principals or associated with the Firm.

### ***Limited Number of Investments***

The funds will participate in a limited number of investments and, as a consequence, the aggregate return to the Investors may be substantially affected by the performance of a single investment. Furthermore, to the extent that the capital raised is less than the targeted amount, a fund may invest in fewer assets, thus becoming even less diversified. An investment in a fund is suitable only for an investor that does not need liquidity in the investment, can accept volatility in the investment and can sustain the total loss of an investment in the fund.

### ***Investment in Distressed Debt***

A fund's holdings will include investments in debt securities. Investment in distressed debt involves investing in underlying borrowers or assets that are experiencing substantial financial difficulties,

including borrowers involved in bankruptcy or other reorganization and liquidation proceedings. Financial and operating risks confronting such distressed debt can be significant. The real estate assets securing such debt may not be a suitable acquisition for a Fund due to environmental contamination or other factors directly affecting the property's value. Further, guarantees given at the time of the loan origination may only be collectible to a fraction of the original guaranteed amount or be uncollectible. The properties may also include borrowers or tenants that are experiencing or are expected to experience financial difficulties, which may never be overcome. In addition, the timing of any profit realization is uncertain.

### ***Property Risks***

The properties may be distressed or have operating losses or significant variations in operating results and may be engaged in a rapidly changing business or be sensitive to changing market conditions with products subject to a substantial risk of obsolescence. In addition, they may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, or they may otherwise have a weak financial condition. Such properties may face intense competition, including competition from properties with greater financial resources, more extensive development, higher quality tenant improvements or other factors.

### ***Regulatory Issues and Investment Environment***

Certain properties may have tenants or businesses that are involved in industries subject to extensive federal, state, provincial and local regulations. In addition, legal and regulatory changes could occur during the term of the investment in a given property that may adversely affect such property. Recent developments in the U.S. financial markets, including increased regulations, have illustrated that the current environment is one of uncertainty. The continuation or worsening of any such events, or other similar or dissimilar events, could have an adverse impact on the availability of credit to borrowers and tenants generally and may lead to an overall weakening of the U.S. and global economies. In light of such recent market turmoil, a Fund or its investments may be adversely affected.

### ***Investment in Existing Assets of a Fund***

Broe Fund Manager may make investments in then existing assets of a Fund that are experiencing financial difficulties, including obtaining new debt for such assets. These financial difficulties may never be overcome despite the additional investment by the Firm. As such, these investments could subject a Fund to certain additional potential liabilities that may exceed the value of a Fund's original investment therein.

### ***Impact of Terrorist Attacks, War, Rising Energy Prices, the National Deficit, the Decline in the Dollar and Acts of God or Other Events***

The terrorist attacks of September 11, 2001, the government's military response to the terrorist attacks, the wars in Iraq and Afghanistan and the effects suffered within the capital markets in the United States all contributed significantly to the economic downturn in the United States after September 11, 2001. Further, recently rising energy costs and the increase in the national deficit may have an adverse effect upon the economy in general. Any similar terrorist acts, wars or military conflicts, further adverse

economic market events or other events or other major catastrophes, may be an adverse effect on the general economy and the market demand for the property.

### ***General Risks of Investments in Real Estate***

The Firm's investments will be subject to varying degrees of risk generally incidental to the ownership of real property. The underlying value of a Fund's investments and a Fund's share of the collective income and related ability to make distributions to its Partners are dependent upon the ability of the management to operate and manage such investments in a manner sufficient to maintain or increase revenues and to generate sufficient income in excess of operating expenses. Income from the investments made by a Fund may be adversely affected by changes in national economic conditions; changes in local market conditions; changes in interest rates and in the availability, cost and terms of financing; the impact of present or future environmental legislation and compliance with environmental laws; the ongoing need for capital improvements, particularly in older structures; changes in real estate tax rates and other operating expenses; adverse changes in governmental rules and fiscal policies; civil unrest; acts of God, including earthquakes, hurricanes and other natural disasters (which may result in uninsured losses); adverse changes in zoning laws; and other factors which are beyond the control of the General Partner, the Firm and the Principals. In addition, because real estate investments are relatively illiquid, the ability to adjust the portfolio of properties promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including debt service (if any), real estate taxes, and operating and maintenance costs.

### ***Construction and Development Risks***

Broe Fund Manager may engage in the construction and development of real properties. In addition to the risks of investing in real property, construction and development of real property necessarily entails certain other risks, including, but not limited to, increased construction costs over amounts projected, which may be caused by, among other things: (i) delays in construction caused by (a) strikes, lockouts, work stoppages and other forms of labor difficulties, (b) unavailability of workers or materials, (c) changes in, or unforeseen, governmental regulations which would hinder completion of the project undertaken by a Fund, or (d) adverse weather conditions, (ii) unforeseen labor or material cost increases over amounts projected, (iii) changes in, or unforeseen governmental regulation requiring increased expenses in manpower, materials or plans and (iv) unforeseen structural, geological, engineering, environmental, archeological or architectural problems creating greater than projected labor, material or design related expenses.

Many of a Fund's investments may involve significant renovation of real properties. The renovation of real properties also involves the construction and development risks described above, as well certain other risks, such as the disruption of building operations during renovation, and market or site damage or deterioration during or after renovation. As with construction and development generally, unanticipated delays or expenses in connection with the renovation of real properties could have an adverse effect on the results of operations and financial condition of the property, and in turn, the Fund.

### ***Delay in Locating Suitable Investments***

A Fund could suffer from delays in locating suitable investments, particularly as a result of the volatile real estate market. Delays a Fund encounters in the selection, acquisition, renovation, leasing and eventual sale of properties would adversely affect its ability to make distributions to Investors. If a Fund is unable to obtain suitable properties, it will hold the net proceeds of the Offering in an interest-bearing account or invest the proceeds in short-term, investment-grade investments. If a Fund cannot invest proceeds from an offering within a reasonable amount of time, it will return the uninvested proceeds to investors, which may constitute a return of investor capital and could reduce the value of Investors' investments.

### ***Changes in Financial Stability of Borrowers, Guarantors and Tenants***

The financial stability of the borrowers, guarantors and tenants of the investments will affect the financial performance of the investments. The financial stability of borrowers and guarantors will affect not only the returns to a Fund, but also the possibility of recovery of the investments. Tenant defaults could result in a significant reduction in rental revenues, extend the time frame for returns on investment or require a Fund to seek additional financing to meet operating obligations. Borrower or guarantor defaults may result in notes and guarantees given in connection with the debt to be non-recoverable or only worth a fraction of the original stated principal. The costs and time involved in enforcing rights under a lease with a tenant, including eviction, and re-leasing costs may be significant. Furthermore, investments that are subject to work-out agreements or under bankruptcy protections may, in certain circumstances, be subject to additional potential liabilities or outside of the usual scope of the Firm's control over such asset. The financial stability of borrowers and tenants may change over time. Any adverse change in the financial condition of borrowers, guarantors or tenants may negatively affect the value of the loans and the investments and returns to investors.

### ***Capital Expenditures***

Real property often requires a continuing high level of capital expenditures to maintain its competitive position in its marketplace. Therefore, it is possible that a Fund will be required to make significant capital expenditures at times when a property is generating modest cash flow.

### ***Leverage***

The acquisition of properties by a Fund may employ the use of third party debt, and such debt will be secured by mortgages on the underlying properties, as well as, potentially, pledges of equity interests in the ownership entities. While leveraged investments offer the opportunity for increased capital appreciation, such investments also involve a high degree of risk. Declines in revenues, increases in expenses, operating problems, increases in interest rates and other general business and economic factors may have a more pronounced effect on the profitability of a property. If a Fund property cannot generate adequate cash to meet its debt service, the Fund may suffer a partial or total loss of capital invested in that property.

To the extent that leverage is employed, it is likely that properties will be financed, in whole or in part, with variable rate debt. As interest rates rise, interest expenses will increase and the operating results of a Fund's properties may be adversely affected. In certain instances, a Fund may enter into interest rate

protection agreements to limit the interest rate exposure, but no assurance can be given that such agreements will be entered into or can be entered into on favorable terms.

At some point in the future, certain of a Fund's properties may need to be refinanced. There is no assurance that a Fund will be able to obtain such financing on favorable terms or that such financing will be available.

### ***Cross-Collateralization***

Although it is unlikely, borrowings against assets of a Fund may be cross-collateralized across multiple Fund properties. As such, certain of a Fund's properties could be exposed to the risk of poor performance by other Fund properties.

### ***Limited Due Diligence***

Due to timing constraints of an investment and/or other restrictions, Broe Fund Manager's due diligence of potential investments may fail to uncover all liabilities and costs related to a particular Property, which could adversely affect cash flow and expose it to potentially large, unanticipated costs.

Customarily, prior to the consummation of the acquisition of an asset, the Firm will assess the underlying loan, security, property value, location, and other factors and characteristics that are material to making the acquisition decision. In making the assessment and otherwise conducting customary due diligence, the Firm will rely on resources available to it and, in some cases, an investigation by third parties. The Firm may, but does not anticipate that it will, obtain independent appraisals for the investments in which it invests. However, at times a decision may be required for an investment on an expedited basis, and the Firm may be required to make an investment decision without its customary due diligence. There can be no assurance that the Firm's due diligence process will uncover all relevant facts or the entire contingent or undisclosed liabilities a Fund may incur as a consequence of the acquisition of an investment. The extent of losses that may be incurred as a result of such matters cannot be predicted, but potentially could result in a significant adverse affect on the value of the investments.

### ***Uninsured and Underinsured Losses***

Each of the Funds intends to obtain and maintain comprehensive insurance on all real properties in which the Funds invests. However, there are certain types of losses, generally of a catastrophic nature, such as hurricanes, earthquakes and floods that may be uninsurable or not economically insurable. Broe Fund Manager will use its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to obtaining and maintaining appropriate insurance on its investments at a reasonable cost and on suitable terms. This may result in insurance coverage that in the event of a substantial loss would not be sufficient to pay the full current market value or current replacement cost of a Fund's lost investment. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it difficult to use insurance proceeds to replace a property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received by a Fund might not be adequate to restore its economic position with respect to such property.

### ***Government Regulation***

Some of the assets in which the Fund will invest may be subject to federal, state, local and foreign regulation. Failure to comply with present or future regulations could result in substantial liability to these assets, suspension or cessation of their operations, restrictions on their ability to expand at their present locations or require such assets to make significant capital expenditures or incur other significant expenses.

### ***Environmental Regulations***

Under various federal, state, local and foreign environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator know of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous or toxic substances, or the failure to remediate such property properly, may adversely affect the owner's ability to borrow using such real property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at the disposal or treatment facility, whether or not such facility ever was owned or operated by such person. Certain environmental laws and common law principles could be used to impose liability for release of asbestos-containing materials ("ACMs") into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with exposure to released ACMs. In connection with its investments, a Fund could potentially be liable for such costs.

### ***Americans with Disabilities Act***

Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. Unanticipated costs of compliance and/or non-compliance with the ADA (as well as corresponding state laws) could reduce the projected revenue and profitability of a Fund's investments and a Fund's results of operations and financial condition.

### ***No Assurance of Investment Return***

The Firm cannot provide assurance that it will be able to choose, make and realize investments in any particular asset or portfolio of assets. There can be no assurance that a Fund will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the type of assets and transactions described herein. There can be no assurance that any Limited Partner will receive any distribution from a Fund. Accordingly, an investment in a Fund should only be considered by persons who can afford a loss of their entire investment.

### ***Firm Entitled to Compensation***

Broe Fund Manager and its Affiliates are entitled to asset management fees as well as reimbursement for all expenses of a Fund reasonably incurred by the Firm up to a specified cap. The Firm is entitled to this fee and reimbursements regardless of whether a Fund makes a profit.

### ***Illiquid and Long-Term Investments; Limited Cash Flow***

An investment in a Fund requires a long-term commitment, with no certainty of return. Due to a Fund's investment strategy, there most likely will be little or no near-term cash flow available to investors. A Fund's investments will be highly illiquid, and there can be no assurance that a Fund will be able to realize on such investments in a timely manner, if at all. It is uncertain as to when profits, if any, will be realized. Although certain investments by a Fund may generate current income available for distribution to investors, the return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition of such investment. While an investment may be sold at any time, this will typically occur two to five years after the investment is made. Before that time, there often will be no current return on Fund investments. Furthermore, the expenses of operating a Fund may exceed its current income, thereby requiring that the difference be paid from the Fund's capital.

### ***Character of Income for Tax Purposes***

While the Funds intend to generate returns primarily through long-term capital gains, a Fund may generate ordinary income. Based on a Fund's status as a partnership for federal income tax purposes, each investor will be required to recognize its allocable share of the taxable income and gain of the Fund. There can be no assurance that a Fund will have sufficient cash flow to permit it to make distributions in the amount necessary to pay all tax liabilities resulting from the investors' ownership of Interests.

### ***General Economic and Market Conditions***

General economic and market conditions may affect a Fund's activities and success. Interest rates, availability of credit, inflation rates, economic uncertainty, general levels of economic activity, the price of securities, the participation by other investors in the financial markets, changes in foreign and domestic laws and national and international political circumstances may affect the level and volatility of securities prices and the liquidity of a Fund's investments. Unexpected volatility or illiquidity could impair a Fund's profitability or result in losses. None of these factors are within the control of the General Partner or Broe Fund Manager.

### ***Non-Controlling Investments***

A Fund may hold non-controlling interests in assets and properties and, therefore, will have a limited ability to protect its position in certain properties. A Fund may also co-invest with third parties through participation agreements or syndication agreements for loans, and as a result may (i) acquire only a minority interest in the loan in which it invests, (ii) rely on third parties to manage the loan or operations of the assets, or (iii) acquire only a subordinate loan position with respect to an assets in which it invests, and therefore, may not be able to exercise control over the management of the investment. Further, there is a possibility in any investment with a third party that the third-party co-investor or co-venturer may have financial difficulties resulting in a negative impact to the investment, may have economic or business interests or goals that are inconsistent with that of a Fund, or may take action contrary to the investment objectives of a Fund. In many cases, the ability of a Fund to manage such investments will subject to the rights of the senior lender and contractual inter-creditor provisions of the agreements, including the ability to foreclose on collateral securing the investment. However, as a condition to

investment in a property, it is expected that appropriate rights generally will be sought where possible to protect a Fund's interests.

## **PROPERTY RISKS**

### ***Need for Follow-On Investments***

Following its initial investment in a given property, a Fund may decide to provide additional funds to such property or may have the opportunity to increase its investment in a successful asset. There is no assurance that a Fund will make follow-on investments or that a Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments may have a substantial negative impact on a property in need of such an investment or may result in a lost opportunity for the Fund to increase its participation in a successful enterprise.

### ***Highly-Leveraged Assets***

A Fund may invest in assets and properties whose capital structures may be highly leveraged. The incurrence of indebtedness may subject a Fund's investee properties to restrictive financial and operating covenants, impairing their ability to finance future operations and capital needs and limiting their flexibility to respond to changing business and economic conditions and business opportunities. A leveraged property's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used. The leveraged capital structure of such properties will increase their exposure to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the financial condition of the company or its industry.

### ***Risks upon Disposition of Investments***

In connection with the disposition of an investment in a Fund, a Fund may be required to make representations about the business and financial affairs of the Fund, typical of those made in connection with the sale of any business, or may be responsible for the contents of disclosure documents under applicable securities laws. A Fund may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents turn out to be incorrect, inaccurate, or misleading. These arrangements may result in contingent liabilities of a Fund, which might ultimately have to be funded by the investors to the extent of their unfunded capital commitments or to the extent that the investors have received prior distributions from a Fund.



### ***Delays and Costs of Foreclosure***

If the borrower defaults with regard to any acquired debt, a Fund will have to enforce the terms of the note and the mortgage or deed of trust, as applicable and to foreclose against the property pledged as security for the note. A foreclosure against the property and lawsuits on the note and any personal guaranty can involve a substantial amount of time and costs. Further, there is no guarantee that, even if successful in bringing a foreclosure against the property, investors will recover the amount of their investment in the property.

During the foreclosure period, investors may not receive any payments from a Fund, will have to pay legal and other costs associated with the foreclosure and other enforcement actions, may have to pay the costs associated with the appointment and retention of a receiver, pay taxes and insurance premiums and deductibles, any pay any mechanic's liens or other senior liens and encumbrances. In addition, investors also may be forced to undertake development or improvements of the property into finished tenant spaces to protect the investment.

### **Partnership Risks**

#### ***Availability of Suitable Investment Opportunities***

It is possible that the Funds will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring real estate transactions is highly competitive and involves a high degree of uncertainty. However, Investors will be required to pay annually the Management Fee based on the entire amount of their Commitments during the Investment Period.

#### ***Competition***

The Funds may be competing with other funds for investment opportunities, as well as with individuals, corporations, and others engaged in investment activities, many of which have been in business for a significant period of time and have greater management and financial resources than the Firm. This may make it more difficult for a Fund to obtain a sufficient number of investments on satisfactory terms. Funds with a similar focus might also emerge at any time. There can be no assurance that a Fund will be able to locate and consummate investments that satisfy a Fund's objectives or realize upon their values or that the Fund will be able to invest fully a Fund's committed capital.

#### ***Debt Service Obligations; Continuing Obligation to Pay Operating Expenses***

No assurances can be given that future cash flow will be sufficient to make the debt service payments on any borrowed funds and to cover operating expenses. If the revenue from the investments is insufficient to pay debt service and operating expenses, the Firm would be required to seek additional funds. However, while additional funds may be available to a Fund through loans to from the Investors and/or the Firm pursuant to the Fund Operating Agreement, the repayment of such loans would take priority over, and could delay the Fund's ability to make, distributions to other Investors. There can be no assurance that additional funds would be available if needed, or, if such funds were available, that they would be available on terms acceptable to the Fund. If a Fund is unable to pay the debt service, a lender

could foreclose on the investments and the investors would likely lose their entire investment and suffer adverse tax consequences.

### ***Interest Rate Fluctuations***

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond a Fund's control. Interest rate fluctuations present a variety of risks to a Fund's operations. Its primary interest rate exposures will relate to the financing cost of any debt. If a Fund does not secure a fixed interest rate on any debt, interest rate fluctuations resulting in interest expense exceeding interest income may adversely affect operations, the value of the investment in the properties, and the ability to sell the properties.

### ***Risk of Loss of Investment if Default on Commitment***

If an Investor fails to pay any installment of its Commitment to a Fund when due, the Investor may be required to pay interest and forfeit all or a portion of its capital account, such amount to be reallocated among the other Investors, and may be required to forfeit all or a portion of any future profits (but not losses) that otherwise would have been allocable to such Investor. The General Partner may waive any such remedies and/or pursue other remedies, as set forth in the Partnership Agreement. Expenses of collection of the unpaid amount, including attorneys' fees, will be paid by the defaulting Investor. If any Investor defaults on its capital commitment, it may be difficult for a Fund to make up the shortfall from other sources. Any default by one or more Investors could have an adverse effect on a Fund, the Fund's assets and the interests of the other Investors.

### ***Net Proceeds Not Shared in Proportion to Contributed Capital***

The capital contributions of the General Partner will represent only a small portion of a Fund's capital. Investors will invest greater amounts and may receive a proportionately smaller amount of any net proceeds of a Fund than the General Partner. Because the percentage of profits allocated to the General Partner may exceed the capital contribution percentage of the General Partner, the General Partner may have an incentive to make investments that are riskier or more speculative than would be the case in the absence of such compensation arrangement.

### ***Indemnification***

A Fund will be required to indemnify the General Partner and the Firm and certain of their respective affiliated persons and entities for liabilities incurred in connection with the affairs of a Fund. Such liabilities may be material and have an adverse effect on the returns to the investors. The indemnification obligation of a Fund would be payable from the assets of a Fund, including the unpaid Commitments of the investors. If the assets of a Fund are insufficient, the General Partner may recall distributions previously made to the Investors, subject to certain limitations set forth in the Partnership Agreement. Any liability the General Partner or the Firm and certain of their respective Affiliates may have to a Fund and the investors is limited in a significant manner by the Partnership Agreement.

### ***Reliance on Principals***

The investors will not participate in the management of a Fund or make any decision with regard to investments made by a Fund. Broe Fund Manager will make decisions with respect to the management of each Fund, which is, in turn, controlled by the Principals. The success of a Fund is dependent upon the Principals to identify, consummate and manage suitable investments. Additionally, to the extent that neither the General Partner nor the Firm has primary responsibility for the operations of a Fund on a day-to-day basis, the performance of a Fund will be dependent on the management team selected by the Fund. None of the Principals is contractually bound to the General Partner or the Firm, and the loss of the service of one or more of the Principals could have an adverse impact on a Fund's ability to realize its investment objectives. Investors will have no opportunity to control the day-to-day investment and disposition decisions of a Fund.

### ***Expedited Transactions***

Investment analyses and decisions by Broe Fund Manager may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to the Firm at the time an investment decision is made may be limited, and the Firm may not have access to detailed information regarding the asset. Therefore, no assurance can be given that the Firm will have knowledge of all circumstances that may adversely affect a Fund investment.

### ***Diverse Limited Partner Group***

The investors may have conflicting investment, tax and other interests with respect to their investments in a Fund. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by a Fund, the structuring or the acquisition of investments and the timing of disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by the General Partner, including with respect to the nature or structuring of investments that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring a Fund's investments, the General Partner will consider the tax, legal and other objectives of the Fund as an entity and not the objectives of any individual investor or group of investors.

### ***Dilution from Additional Closings***

Investors that are admitted or increase their Commitment at any subsequent closing will participate in existing Fund investments, diluting the interest of existing investors therein. Although such investors will contribute their pro rata share of all previously drawn Commitments (plus an interest equivalent thereon), there can be no assurance that this payment will reflect the fair value of a Fund's existing investments.

### ***No Market for Interests; Restrictions on Transferability; No Withdrawal Rights***

Interests will not be readily marketable, are not redeemable and are not transferable except with the consent of the General Partner, which may be withheld at the sole discretion of the General Partner. In general, investors may not withdraw from a Fund. There will be no public market for the Interests, and none is expected to develop. Most of a Fund's investments will be difficult to value. The Interests have

not been registered under the Securities Act or the securities laws of any state or other jurisdiction, and cannot be resold unless they are subsequently registered under the Securities Act and applicable securities laws or an exemption from registration is available. Investors must be prepared to bear the risks of owning their Interests for an extended period of time.

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

The General Partner, the Firm and its Principals and Affiliates, including entities controlled by any of the foregoing (each a “**Management Person**”) may have interests that conflict with those of a Fund. Management Persons engage in a wide variety of activities, some of which may be carried out on behalf of competitors of certain of a Fund’s investments. Management Persons may provide financial, investment, management or other services to other parties involved in real estate investment or to competitors of the Fund’s investments. Clients of or lenders to Management Persons may include financial institutions that also provide financing to a Fund. Management Persons or their representatives may serve as officers, directors, advisors or agents of other parties (including competitors to Fund portfolio companies) and may act as partners or advisors to other present or future real estate funds. Management Persons may make investments for their own accounts in present or future real estate investments that do not fit a Fund’s investment criteria or in investments that were passed upon by a Fund after review, in each case without any obligation to offer investment opportunities to or share income derived from these investments with a Fund. Such activities may result in actual or potential conflicts of interest in the General Partner’s or the Firm’s management of a Fund.

In addition, substantially all of the terms of a Fund and the investment offered will have been determined by the General Partner and the Principals of the Firm, including, without limitation, (i) distribution priorities, (ii) the General Partner’s carried interest, and (iii) the payment of fees and expenses, including, without limitation, the Management Fee payable to the Firm. Such terms are not negotiated with a Fund, but are arranged by the General Partner, whose interests may conflict with those of the investors, particularly with respect to the carried interest payable to the General Partner and amounts of compensation payable to the Firm.

### ***Recourse to a Fund’s Assets***

A Fund’s assets, including any investments made by the Fund and any capital held by the Fund, are available to satisfy all liabilities and other obligations of the Fund. If a Fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to a Fund’s assets generally and not be limited to any particular asset, such as the investment giving rise to the liability.

## **Legal Risks**

### ***Liability of Limited Partners***

The Funds are anticipated to be organized as Delaware limited partnerships. An Investor will not be personally liable for the debts of a Fund, except as provided in the Partnership Agreement and except that, in the event that a Fund is otherwise unable to meet its obligations, each Investor may, under Delaware law, be obligated to repay amounts previously received by such Investor to the extent that such amounts are deemed to have been wrongfully distributed to such Investor.

The Revised Uniform Limited Partnership Act (“**RULPA**”) provides that, if a limited partner of a Delaware limited partnership knowingly receives a distribution from a partnership in violation of such statute, such limited partner is liable to the partnership for the amount of the distribution. The liability of a limited partner continues for three years after the date of the distribution. A distribution would violate RULPA to the extent that, at the time of the distribution by a Fund, after giving effect to the distribution, the liabilities of a Fund, other than liabilities to Limited Partners on account of their interests and liabilities for which the recourse of creditors is limited to specified property of the Fund, exceed the fair value of the assets of the Fund (except that the fair value of property that is subject to a liability for which the recourse of creditors is limited is included in the assets of a Fund only to the extent that the fair value of the property exceeds the liability). See also “Risks upon Disposition of Investments” above.

### ***Fiduciary Obligations***

Corporate law dictates that board members have a fiduciary responsibility to all shareholders of the company, and not just the shareholders that the individual director represents. As a Fund may be deemed to control portfolio companies, and, as directors of portfolio companies may be nominated and elected by a Fund, the Fund may be deemed a fiduciary with respect to such portfolio companies and their shareholders as a whole, and, therefore, the Fund’s ability to act solely in its own interest with respect to such portfolio companies may be limited.

### ***Federal Tax Considerations***

An investment in a Fund may involve complex federal income tax considerations that will differ for each investor. See *Certain Federal Income Tax Considerations*.

### ***Regulatory Oversight***

A Fund does not intend to register as an investment company under the Investment Company Act or under the laws of any other country or jurisdiction and, accordingly, the provisions of the Investment Company Act and the protections afforded thereunder will not be applicable to a Fund. The Firm, however, is registered as an investment adviser under the Investment Advisers Act and, accordingly, the provisions of the Investment Advisers Act and the protections afforded thereunder will be applicable to an investment in Interests.

### ***Changes in Applicable Law and Regulations***

A Fund must comply with various legal requirements, including requirements imposed by the federal and state securities laws and tax laws. Should any of those laws change over the term of a Fund, the legal requirements to which a Fund and the investors may be subject could differ materially from current requirements. New and existing regulations, changing regulatory schemes and the burdens of regulatory compliance all may have a material negative impact on the performance of portfolio companies that operate in the real estate industry. The General Partner cannot predict whether new legislation or regulation governing the real estate industry will be enacted by legislative bodies or governmental agencies, nor can it predict what effect such legislation or regulation might have. There can be no assurance that new legislation or regulation, including changes to existing laws and regulations, will not have a material negative impact on a Fund’s investment performance.

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

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of the Firm or the integrity of its management. Neither Broe Fund Manager nor any of its supervised persons have reportable material legal or disciplinary events.

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

This Item is used to discuss the Firm's other financial industry activities as well as any relationships between the Firm or its related persons that are material to its investment advisory business. Broe Fund Manager has no information to disclose that is applicable to this Item.

### **Item 11 – Code of Ethics**

Broe Fund Manager has adopted a Code of Ethics to ensure that securities transactions by its employees are consistent with the Firm's fiduciary duty to its clients and to ensure compliance with legal requirements and the Firm's standards of business conduct. The Firm requires transaction confirmation and quarterly reporting from its supervised persons. A written copy of the Firm's Code of Ethics is available upon request.

### **Item 12 – Brokerage Practices**

This Item is used to disclose an investment adviser's securities brokerage practices. As Broe Fund Manager does not deal with publicly traded securities, the Firm does not have any information to disclose under this Item.

### **Item 13 – Review of Accounts**

Management of an investment includes a disciplined, active, hands-on, cash flow oriented approach to managing assets. Using the operational plan developed during the due diligence process, the investment team will work closely with the Firm during the life of the investment to refine and implement that plan.

The Firm and the investment team will meet at least bi-weekly to review each asset in the Fund's portfolio and to discuss potential investments and market developments. During these meetings, the responsible asset manager of each investment will provide an update on performance, key milestones achieved or upcoming, and issues to be resolved. Internal management reporting takes place on a monthly basis. In the event of unusual economic changes in the market place, the Firm may review the assets on a more frequent basis.

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

This Item is utilized to disclose information regarding referral fees involving an investment advisory firm. As Broe Fund Manager does not compensate any person or firm for referrals, the Firm does not have any information to disclose under this Item.

## **Item 15 – Custody**

While it is Broe Fund Manager's practice not to accept or maintain physical possession of any of its clients' assets, the Firm is deemed to have custody of their assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, because it has the authority to access clients' funds and deduct fees and expenses from clients' accounts.

In order to comply with Rule 206(4)-2, the Firm will utilize the services of a bank or qualified custodian (as defined under Rule 206(4)-2) to hold all financial assets of its clients. The Firm will also ensure that a qualified custodian maintains these assets in accounts that contain only clients' funds and securities. In accordance with Rule 206(4)-2, Broe Fund Manager will also (1) engage an outside auditor at the end of each fiscal year to audit any private fund it advises and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all investors in the funds within 120 days after the end of the fiscal year. The Firm, as applicable, also receives monthly and quarterly account statements on behalf of private fund clients, which it compares with its own records.

## **Item 16 – Investment Discretion**

Broe Fund Manager provides investment advice directly to the funds it advises pursuant to a written investment management agreement with each fund, subject to the discretion and control of the general partner of the Fund. The Firm does not provide advice directly to the investors in the Funds. Powers of attorney and any restrictions on the Firm's authority are set forth in the organizational documents and subscription documents of each fund.

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

Broe Fund Manager does not anticipate utilizing publicly traded securities in its funds and thus does not vote client proxies.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide clients with certain financial information or disclosures about their financial condition. Broe Fund Manager does not have any financial commitments that impair its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.