

**Item 1 Cover Page**

**BlackSand Capital Management I, LLC**

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July 30, 2012

**This brochure provides information about the qualifications and business practices of BlackSand Capital Management I, LLC and BlackSand Capital, LLC. If you have any questions about the contents of this brochure, please contact us at 808-738-8407 or [Holly@blacksandcapital.com](mailto:Holly@blacksandcapital.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.**

**Additional information about BlackSand Capital Management I, LLC and BlackSand Capital, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**BlackSand Capital Management I, LLC and BlackSand Capital, LLC are registered with the SEC as investment advisers; however, this registration does not imply a certain level of skill or training.**

**Item 2   Material Changes**

This is the first brochure of BlackSand Capital Management I, LLC and BlackSand Capital, LLC. As such, there are no material changes.

In the future, BlackSand Capital Management I, LLC and BlackSand Capital, LLC will use this Item 2 to discuss material changes that are made to the brochure as part of its annual update.

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#### **Item 4 Advisory Business**

BlackSand Capital Management I, LLC (“BSCM” or the “Filing Adviser”) is a privately held Hawaii limited liability company which commenced operations in December 2010 and serves as the general partner and investment adviser for private equity real estate funds. BSCM currently advises the private funds solely regarding investments in Hawaii real estate and real estate related assets, provides asset management services relating to the investments and provides financial and accounting information relating to those investments. Investments generally are made through special purpose entities controlled or managed by the private funds or BSCM.

BlackSand Capital, LLC (“BlackSand Capital” or the “Relying Adviser”) also is a privately held Hawaii limited liability company which commenced operations in May 2010 and sponsors and establishes private equity real estate funds. BlackSand Capital is the managing member of BlackSand Capital Manager I, LLC, which is the managing member of BSCM. Bert A. Kobayashi, Jr. and Ian W. MacNaughton (the “Founders”) are principal owners of BlackSand Capital.

The Filing Adviser is under the control of and under common control with the Relying Adviser. The Filing Adviser and the Relying Adviser conduct a single advisory business and are registered with the SEC as part of a single registration. All investment advisory activities of the Filing Adviser and the Relying Adviser are subject to the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and the rules thereunder, and any persons acting on behalf of the Filing Adviser or the Relying Adviser are subject to the supervision and control of the Filing Adviser and adhere to the Filing Adviser’s compliance manual and policies and procedures with respect to any such investment advisory activities.

BlackSand Capital sponsored and established, and BSCM serves as the general partner of, BlackSand Capital Opportunity Fund I, L.P. (“BlackSand Fund”). BlackSand Capital also sponsored and established, and BSCM also serves as the general partner of, BlackSand Capital Opportunity Co-Investment Fund I, L.P. (“Co-Investment Fund I”) and BlackSand Capital Co-Investment Fund II, L.P. (“Co-Investment Fund II,” and, collectively with Co-Investment Fund I, the “Co-Investment Funds”). The Co-Investment Funds are limited to making co-investments with BlackSand Fund, which to date has invested in a shopping center and a hotel. Co-Investment Fund I co-invested in the shopping center with BlackSand Fund. Co-Investment Fund II has not made any co-investments as of the date hereof. BlackSand Fund and the Co-Investment Funds are sometimes referred to herein collectively as the “Funds” or the “Clients” or individually as a “Fund.”

BSCM provides discretionary investment services to BlackSand Fund and both non-discretionary and discretionary investment services to the Co-Investment Funds. Investors in the Co-Investment Funds have “opt-out” or prior approval rights with respect to investments. Once the investor’s capital is invested through one of the Co-Investment Funds, however, BSCM has full management and investment discretion with respect to the investment.

Investment advice is provided directly to the Funds according to BlackSand Fund’s and the Co-Investment Funds’ particular investment objectives and not individually to the investors

in the Funds. Each of BlackSand Fund and the Co-Investment Funds is subject to certain investment restrictions and guidelines which are set forth in the related limited partnership agreement and/or offering memorandum.

BSCM does not participate in wrap fee programs and does not manage wrap fee accounts.

As of April 30, 2012, BSCM was managing approximately \$145.8 million of Client assets (including commitments) on a discretionary basis.

## **Item 5 Fees and Compensation**

In consideration of the portfolio management and related services provided by BSCM as the general partner to the Funds, the Funds pay to BSCM an annual management fee (the “Management Fee”) and a percentage of cash distributions in excess of the limited partners’ return of capital and preferred return distributions.

During the investment period, the annual Management Fee for BlackSand Fund is 2.0% of commitments and, thereafter, it is 2.0% of “actively invested capital.” “Actively invested capital” means the aggregate amount of capital contributed by the investors in BlackSand Fund for the purpose of funding investments (and related expenses) that have not been disposed of or written off. In addition, as the general partner of BlackSand Fund, BSCM is entitled to receive 60% of distributions made in excess of the limited partners’ return of capital and preferred return distributions until it has received 20% of the distributions made in excess of the limited partners’ return of capital. Thereafter, BSCM is entitled to receive 20% of the distributions made to the partners. The right of the general partner to receive such distributions is referred to as the general partner’s “Carried Interest.”

The Management Fee for BlackSand Fund is payable in advance on a quarterly basis, and Carried Interest distributions, if any, are allocated no less frequently than semi-annually.

As general partner, BSCM may enter into one or more side letters or similar written agreements with one or more limited partners. Each such agreement may establish rights under, or alter or supplement the terms (including the economic terms) of, a Fund’s partnership agreement, but may not impose any additional obligations or liabilities on any other limited partner not party to such agreement. Any such terms may be more favorable than those offered to any other limited partners. BSCM may, in its discretion, agree to waive or reduce its Management Fee or Carried Interest. See Item 11—*Code of Ethics* for more information regarding side letters.

Management Fees and Carried Interest for the Co-Investment Funds are negotiable, paid semi-annually and are generally less than the Management Fee and Carried Interest for BlackSand Fund, since the investors make their own decisions regarding whether to invest in the co-investment opportunity and such funds are limited to co-investments with BlackSand Fund made available in the discretion of BSCM, as the general partner of BlackSand Fund.

As a result of limitations on withdrawals from the Funds, the Management Fee will in almost all cases have been earned at the time of withdrawal. In the unusual situation in which (i)

an investor withdraws from a Fund, (ii) a Fund terminates its operations, or (iii) BSCM is removed as the general partner of the Fund, in each case prior to the end of a period for which any fee has been pre-paid, the pre-paid fee for the period in question will be prorated for the number of days that (i) the investor held an interest in the Fund, (ii) the Fund was in operation, or (iii) BSCM was the general partner of the Fund, in each case for such calendar quarter, and any unearned portion of the Management Fee will be refunded directly from BSCM to the applicable Fund and the investor(s).

In addition to the compensation paid to BSCM, the Funds also pay all expenses relating to their businesses, including, but not limited to, organization and offering expenses, investment expenses (*e.g.*, expenses related to the investment of assets, such as real estate broker's commissions and expenses incurred in connection with transactions not consummated), costs, fees and expenses of the auditors, accountants, administrators, consultants and legal advisors of the Funds, bank fees, real estate development and management-related fees (including construction management fees, property management fees, paying agent fees and leasing services fees), indemnification and interest expenses, litigation expenses, other extraordinary expenses and the costs and expenses of the BlackSand Advisory Committee and the annual meeting. The Funds also may incur expenses for services to gather information required for certain regulatory filings made by BSCM related to the Funds. See also Item 10—*Other Financial Industry Activities and Affiliations* and Item 12—*Brokerage Practices*.

The Funds do not bear expenses for BSCM. BSCM bears its own operating, general, administrative and overhead costs and expenses.

Neither BSCM nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

## **Item 6 Performance-Based Fees and Side-by-Side Management**

As noted under Item 5, BSCM, as general partner to the Funds, receives a Carried Interest allocation through which BSCM is paid a share of the cash distributions in excess of the return of capital and preferred return distributions made to the investors in the Funds. For purposes of the Advisers Act this is considered a performance-based fee. BSCM manages only BlackSand Fund and the Co-Investment Funds, all of which are subject to a performance-based fee and to an investment allocation policy described below whereby investment opportunities are allocated first to BlackSand Fund and, to the extent there is excess capacity in the investment opportunity, are offered to the Co-Investment Funds.

In accordance with its investment allocation policies, BSCM allocates investment opportunities first to BlackSand Fund. To the extent an investment opportunity may not, because of available capital, risk limits, size or other reasons, be allocated to BlackSand Fund, BSCM may offer the investment opportunity to strategic investors, joint venture partners, consultants, lenders and/or one or more limited partners through one of the Co-Investment Funds or other entities that are controlled by the general partner or its affiliate. To address any potential or perceived conflicts of interest with respect to the allocation of investment opportunities, co-investments by any of the limited partners of BlackSand Fund (including co-investments made through Co-Investment Fund I and Co-Investment Fund II) require the unanimous approval of

BlackSand Fund's Advisory Committee. Thus, any incentive to favor BlackSand Fund because of any disparity in the performance fees aligns with the investment allocation policy.

Further, BlackSand Fund, BSCM, and certain affiliates of BSCM and its founders (the "Founder Related Parties") have agreed to comply with an investment opportunity sourcing policy (the "Sourcing Policy") which provides assurance that Hawaii real estate investment opportunities that are suitable for investment by BlackSand Fund that are sourced by the Founder Related Party will be presented to BlackSand Fund. The determination that an investment opportunity sourced by a Founder Related Party does not meet the investment criteria of BlackSand Fund shall require the unanimous consent of BlackSand Fund's Advisory Committee. Additionally, all co-investment transactions by a Founder Related Party with BlackSand Fund pursuant to the Sourcing Policy shall be subject to review and unanimous consent of BlackSand Fund's Advisory Committee and subject to compliance with any restrictions on co-investments binding on the Funds or BSCM.

## **Item 7 Types of Clients**

BSCM provides investment advice only to the Funds. The Funds, and not the investors in the Funds, are BSCM's clients for purposes of the Advisers Act.

Investors in the Funds are high net worth individuals, family offices, institutional investors, pension and profit-sharing plans, trusts, and other entities which are both "accredited investors," as defined in Regulation D, and "qualified clients," as defined in Rule 205-3 of the Investment Advisers Act of 1940, as amended.

The minimum commitment for a limited partner in BlackSand Fund is \$1.0 million, which minimum BSCM, as the general partner, in its sole discretion, may waive. There is no specified minimum commitment for the Co-Investment Funds, but current investors in the Co-Investment Funds have committed or intend to invest in excess of \$20 million.

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

### **Investment Analysis and Strategies**

BSCM targets opportunistic real estate and real estate related investments in the State of Hawaii where BSCM sees attractive risk profiles. BSCM considers both marketed and non-marketed assets as potential investments but seeks to capitalize on the lack of competition in making privately-negotiated transactions. BlackSand Fund is not prohibited from investing in any particular asset class or type related to Hawaii real estate, and this allows BSCM the flexibility to adapt BlackSand Fund's strategy to changing market conditions. Without limiting the foregoing, BSCM intends to focus BlackSand Fund's investment activities primarily on transactions in the following categories:

- Direct Real Estate – Retail, office, industrial, multifamily, industrial, hospitality, mixed-use and residential assets at significant discounts to replacement cost in desirable locations throughout Hawaii;

- Distressed Debt – Performing and nonperforming commercial loans, B-notes, and mezzanine debt which allow BlackSand Fund to control undervalued real estate and assume operational responsibility through foreclosure, assignment, or joint venture, including possibly the originating of preferred equity positions, high-interest mezzanine, bridge, and other loans secured by real estate assets;
- Real Estate Development – Including the leveraging of the development expertise of the Founders and their affiliated companies, Kobayashi Group and The MacNaughton Group, to pursue compelling ground-up development and redevelopment opportunities;
- Land Acquisition – Acquiring residential and resort lands at attractive bases and at significant discounts to in-place cost and market land values; and
- Operating Real Estate Companies – Including investments in or provision of loans or capital infusions to operating companies that own, operate, or control real estate assets. BlackSand Fund also may make investments through joint ventures, partnerships, and other co-ownership arrangements with institutional investors, real estate developers, and other third parties.

BlackSand Fund’s investment strategy does not involve the purchase and sale of publicly traded securities, and BSCM does not currently provide investment advice with respect to publicly traded securities. To date, BlackSand Fund and Co-Investment Fund I have only invested in a shopping center and hotel through special purpose entities which are controlled or managed by BSCM or BlackSand Fund.

BSCM will seek to preserve and return investment capital and to realize growth in the value of the Fund’s investments by timing asset sales to maximize their value.

BSCM expects to employ moderate leverage as a significant part of its investment strategy, but plans to limit leverage (other than short-term borrowings in anticipation of drawdowns) to 75% of total assets (*i.e.*, the cost basis of Fund investments), calculated at the time the debt is incurred. By prudently utilizing favorably priced debt, BlackSand Fund will be able to make more investments than otherwise possible, resulting in a more diversified portfolio. Each BlackSand Fund investment may be used as collateral in respect of leverage incurred with respect to any other BlackSand Fund investment, provided that BSCM generally will cause BlackSand Fund to “cross-collateralize” its investments only if it determines such collateralization to be necessary to obtain financing on favorable terms. Also, BlackSand Fund may make short-term borrowings in anticipation of drawdowns. BlackSand Fund has pledged partners’ commitments to secure a line of credit facility. Borrowings under the line of credit facility will be accounted for in determining the amount of unfunded commitments available to invest in future transactions.

### **Asset Management**

As part of the due diligence and investment process, BSCM generally devises an asset management strategy for each individual investment, with a plan to create value by utilizing repositioning, change in use, redevelopment, and/or marketing and leasing strategies. BSCM

executes the business plan for a particular asset as soon as appropriate after acquisition. Day-to-day asset management functions are performed by BSCM, although property management services may be outsourced to a third-party service provider.

Additionally, BSCM takes advantage of the combined development and operating platforms of Kobayashi Group and The MacNaughton Group, drawing on their design, entitlements, construction, development, management, and leasing expertise in the local market.

Throughout the holding period of a Fund investment, BSCM will monitor and evaluate overall economic, real estate, and capital market conditions, as well as opportunities for additional value creation and demand for the asset in the marketplace. In combination with an asset management plan, BSCM develops a well-defined exit strategy for each investment and reevaluates the strategy during the holding period. BSCM seeks to create value and achieve projected returns by acquiring assets at an attractive cost basis and/or by increasing net operating income via repositioning or other sales and leasing strategies. BSCM determines when to dispose of the investment after consideration of relevant factors, including prevailing market conditions, value and financial performance of the asset, and overall portfolio objectives.

Investments by the Co-Investment Funds managed by BSCM follow the same investment strategy, although the Co-Investment Funds are limited to co-investments with BlackSand Fund.

BSCM's investment strategy does not involve frequent trading of securities, and BSCM does not recommend primarily a particular type of security.

### **Material Risks of Investment Strategies**

Investments in the Funds involve substantial risk of loss that investors in the Funds should be prepared to bear. Investments in the Funds are suitable for investment only by sophisticated persons who fully understand and are capable of assuming the risks of an investment in the Funds.

The following is a summary of some of the material risks associated with BSCM's investment strategies. This summary does not attempt to describe all of the risks associated with an investment in the Funds or all risks associated with the strategies thereof. Although no summary can fully describe all of the risks associated with an investment in the Funds, the confidential offering memorandum or limited partnership agreement for each of BlackSand Fund and the Co-Investment Funds contains a more complete description of the risks associated with an investment in the Funds.

***Risk of Partial or Complete Loss.*** An investment in the Funds is speculative. The value of interests in the Funds ("Interests") fluctuate based upon a multitude of factors, including the financial condition and prospects of a Fund's investments (which will not be broadly diversified), market conditions, and local, regional, national and global economic conditions, only certain of which are described below. Therefore, investors may lose all or a portion of their principal invested in the Funds if the Funds' investment strategies are not successful. The Funds have no source of funds from which to pay distributions to limited partners other than current income from, and gain on capital transactions involving, its investments. Since the Funds may only make a limited number of investments and many of the investments may involve a high

degree of risk, poor performance by a few investments could severely affect the total returns to limited partners.

***Economic Risks.*** The United States economy recently experienced a financial downturn, with some financial and economic analysts predicting that the world economy may be entering into a prolonged economic downturn characterized by high unemployment, limited availability of credit and decreased consumer and business spending. This downturn has had, and may continue to have, an unprecedented negative impact on the global credit markets. Credit has tightened significantly. If this situation continues or worsens, then BSCM might not be able to obtain leverage to purchase or refinance properties for the Funds. Further, even if BSCM is able to obtain financing, it may be on terms that are not favorable, with increased financing costs and restrictive covenants, including restricting the Funds' ability to make distributions.

Further, the economic downturn has adversely affected, and is expected to continue to adversely affect, the businesses of many tenants. As a result, the valuation of real-estate related assets has been volatile and is likely to continue to be volatile in the future. Further, bankruptcies of and defaults by tenants may increase, and the Funds' investments may experience higher vacancy rates and delays in re-leasing vacant space than initially projected, which could negatively impact performance results. Overall, these factors have resulted in uncertainty in the real estate markets.

***Real Estate Risks Generally.*** The Funds are subject to all the risks inherent in investing in real estate, either directly or indirectly through the acquisition of debt secured by real estate or interests in real estate operating companies, which risks may be increased if investments are leveraged. These risks may include, without limitation, the burdens of ownership of real property, general and local economic and social conditions, neighborhood values, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), the financial resources of tenants, vacancies, rent strikes, energy and supply shortages, natural disasters, acts of God, terrorist attacks, war, changes in tax, zoning, building, environmental and other applicable laws, federal and local rent control laws, real property tax rates, changes in interest rates and the availability of debt financing which may render the sale of properties difficult or unattractive. Such risks also include fluctuations in occupancy rates, rent schedules and operating expenses, which could adversely affect the value of the properties. In addition, financial and real estate markets have recently experienced a variety of difficulties and changed economic conditions. There can be no assurance of profitable operations for any real property, gain on sale of any real property or the repayment of any debt investment made by the Funds. Accordingly, the Funds' investment objectives may not be realized. The cost of operating a property may exceed the rental income thereof, and the Funds may have to advance funds to protect an equity investment or forego the receipt of interest income on debt investments, or may be required to dispose of investments on disadvantageous terms if necessary to raise needed funds. Moreover, while BSCM generally intends to purchase or to cause to be purchased insurance to cover casualty losses and general liability, such insurance may not be available or may be available only at prohibitive costs to cover losses from ongoing operations, catastrophic losses and other risks such as earthquake, flood or environmental contamination.

***Real Estate Risks – Hawaii.*** The Funds invest solely in real estate and real estate related investments within the geographical limits of the State of Hawaii. Accordingly, the Funds are

exposed to greater economic risks than if the Funds owned a more geographically dispersed portfolio. The Funds are susceptible to adverse developments in the Hawaii economic and regulatory environment (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation and other factors) as well as natural disasters that occur in these areas (such as volcanic activity, earthquakes, floods, wildfires and other events). Any adverse developments in the economy or real estate market in Hawaii, including any decrease in demand for office space resulting from the Hawaii regulatory or business environment or any decrease in demand for hotel space resulting from a decline in the tourism industry, could adversely impact the financial condition of a Fund's investments. Further, Hawaii historically has taken a longer time to recover from economic downturns than the mainland United States and may not recover from the current global financial crisis as quickly as other U.S. states or the mainland generally.

***Highly Competitive Market for Investment Opportunities.*** The activity of identifying, completing and realizing attractive real estate investments is highly competitive and involves a high degree of uncertainty. BSCM competes for investments on behalf of BlackSand Fund with other real estate investment vehicles, as well as individuals, publicly traded real estate investment trusts ("REITs"), financial institutions (such as mortgage banks and pension funds), hedge funds and other institutional investors. Further, over the past several years, many real estate funds and publicly traded REITs have been formed (and many such existing funds have grown in size) for the purpose of investing in real estate assets, including distressed real estate assets. Additional real estate funds and REITs with similar investment objectives may be formed in the future by other unrelated parties and further consolidations may occur (resulting in larger funds and vehicles). There can be no assurance that BSCM will be able to locate, complete and exit investments which satisfy BlackSand Fund's rate of return objectives or realize their values. Further, BlackSand Fund may or may not be able to invest fully its committed capital.

Without limiting the generality of the prior paragraph, due to, among other factors, the limited size of the Hawaii real estate market, the number of attractive investment opportunities in the State is limited. Certain local investors, as well as a number of investors outside the State, are very active in the Hawaii real estate market and may present significant competition with respect to investments in residential and commercial space. As a result, BSCM competes with a number of developers, owners and operators of office and multi-family real estate, many of which own properties similar to the properties held by the Funds. Further, the Hawaii office market is highly concentrated with a few property owners controlling much of the asset class in certain areas. In addition, there are relatively few available parcels of undeveloped entitled land. Such factors (among others) may significantly affect BSCM's ability to acquire desired properties on behalf of BlackSand Fund.

***Development Activities.*** The Funds may invest, directly or indirectly, in undeveloped land and certain development properties. Undeveloped land and development properties may involve more risk than properties on which development has been completed. Undeveloped land and development properties do not generate operating revenue while costs are incurred to develop the properties and may also generate certain expenses, including property taxes and insurance. Development activities include the risks that development projects may be abandoned after expending resources, construction costs of a project may exceed original estimates,

occupancy and rental rates at a newly completed property may be lower than anticipated and construction and leasing of a property may not be completed on schedule. Development activities are also subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy, and other required governmental permits and authorizations. Contingencies in development activities beyond the control of BSCM and its affiliates could occur.

Additionally, the development process in Hawaii can be burdensome. Developers may encounter opposition from local community groups and often must apply for various entitlement and construction permits before obtaining permission to develop “raw” unentitled land. Construction costs in Hawaii are often significantly higher than in other U.S. states since building materials are typically shipped from the mainland. Various factors, including those beyond BSCM’s control (e.g., unfavorable weather conditions, labor disputes or delays, or construction or building material shortages), could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent the completion of development activities once undertaken, thereby having a material adverse impact on the profit potential of a Fund.

***Risks of Acquiring Real Estate Loans.*** Real estate loans acquired by the Funds may be at the time of their acquisition, or may become after acquisition, nonperforming for a wide variety of reasons. Such nonperforming real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. Even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement “takeout” financing will not be available. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that BSCM may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Funds. The foreclosure process in Hawaii and other states can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims, and defenses against the holder of a real estate loan including, without limitation, lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In Hawaii, foreclosure actions often take more than a year to conclude and, in certain instances, several years to conclude. During the foreclosure proceedings, a borrower may have the ability to file for bankruptcy, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

***Defects Relating to Properties.*** Investment properties acquired by the Funds may have design, construction, environmental or other defects or problems that may require additional capital expenditures, special repair or maintenance expenses or damages or other obligations to third parties despite the due diligence investigations prior to the acquisition. The engineering and other reports that BSCM may rely upon as part of its investigations of these properties may be subject to inaccuracies or deficiencies, as defects may be difficult to ascertain with certainty due to the limitations inherent in the scope of the inspections and the techniques used therein.

***Leverage.*** BSCM intends to utilize leverage as part of its investment strategy and process, and most or all of the Funds investments are expected to be leveraged. The Funds may incur short and long-term financing secured by individual assets, a pool of assets or other collateral, as deemed appropriate by BSCM, subject to certain limitations. Each investment may be used as collateral in respect of leverage incurred with respect to any other investment; provided, that BSCM generally will cause the Funds to “cross-collateralize” investments only if it determines such collateralization to be necessary to obtain financing on favorable terms. Such borrowing reduces the need for equity capital, but it also increases the exposure to losses. Principal and interest payments on such indebtedness will generally be required regardless of income from the Funds’ properties. If mortgage or other loan payments are not paid when due, the Funds may sustain a loss on an investment as a result of foreclosure.

***Non-Controlling Investments; Investments in Partnerships, Joint Ventures or Other Entities.*** The Funds may hold a non-controlling interest in certain investments and, therefore, may have a limited ability to protect its position in such investments. The Funds may acquire interests in, or form partnerships, joint ventures or other entities that own or invest in, directly or indirectly, income-producing properties with third party developers. Such investments will involve risks not present in direct property investments, including, for example, the possibility that one or more of the Funds’ co-venturers or partners might not have the financial or development capacity to fulfill their obligations to the Funds, may become bankrupt, or may at any time have economic or business interests or goals which are inconsistent with those of the Funds, or the possibility that such co-venturers or partners may be in a position to take action contrary to the Funds’ objectives. It may also be difficult for the Funds to liquidate an interest in a partnership, joint venture, or other entity.

***Illiquid and Long-Term Investments.*** Although the Funds’ investments may generate some current income, the return of capital and the realization of gains, if any, from an investment will generally occur only upon the partial or complete disposition or refinancing of such investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after such investment is made.

***Impact of Government Regulation.*** Government authorities at all levels are actively involved in the promulgation and enforcement of regulations relating to land use and zoning restrictions, environmental protection and safety and other matters affecting the ownership, use and operation of real property. Regulations may be promulgated which could have the effect of restricting or curtailing certain usages of existing structures, or requiring that such structures be renovated or altered in some manner. The institution and enforcement of such regulations could have the effect of increasing the expenses and lowering the income or rate of return on, as well as adversely affecting the value of, any of the Funds’ investments.

***Significant Costs Associated with Complying with Laws, Regulations and Covenants.*** Certain of the Funds’ assets will be subject to various covenants, local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict the use of the Funds’ properties and may require BSCM to obtain approval from local officials or community standards organizations at any time with respect to the Funds’ properties, including prior to acquiring a property or when undertaking

renovations. Among other things, these restrictions may relate to fire and safety, seismic, asbestos-cleanup or hazardous material abatement requirements. There can be no assurance that existing regulatory policies will not adversely affect the Funds' investments or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that increase such delays or result in additional costs. The Funds' investment strategy may be affected by BSCM's ability to obtain permits, licenses and zoning relief, and the failure to obtain such permits, licenses and zoning relief could have a material adverse effect on the Funds' performance.

In addition, federal and state laws and regulations, including laws such as the American Disabilities Act (the "ADA"), impose further restrictions. Under the ADA, public accommodations must meet federal requirements related to access and use by disabled persons. Some of the properties acquired by the Funds may not be in compliance with the ADA or other regulatory requirements. The Funds may be required to incur additional costs to bring such property into compliance and/or be subject to governmental fines. Existing laws and regulations, as well as laws and regulations enacted in the future, may significantly increase costs with respect to the Funds' investments and, accordingly, diminish returns to investors.

***Environmental Risks.*** As is the case with any holder of real estate investments, the Funds could face substantial risk of loss from claims based on environmental problems associated with the Funds' investments. Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Certain federal and state laws and regulations impose liability, often regardless of fault, on various parties (jointly and severally), including owners and operators, associated with real estate affected by a release of a regulated environmental contaminant. Such liability may also be imposed without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property are generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to remediate properly contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on the Funds' return from such investment. Environmental claims with respect to a specific investment may exceed the value of such investment, and, under certain circumstances, subject the other assets of the Funds to such liabilities.

## **Item 9 Disciplinary Information**

Neither BSCM, BlackSand Capital nor any of their affiliates have been the subject of any legal or disciplinary events related to their investment advisory business.

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

As described above in Item 4—*Advisory Business*, BSCM (previously defined as the "Filing Adviser") has an affiliated investment adviser, BlackSand Capital (previously defined as the "Relying Adviser"). Each of the Filing Adviser and the Relying Adviser provides advisory

services to the Clients. All investment advisory activities of the Relying Adviser are subject to the supervision and control of the Filing Adviser.

Neither the Filing Adviser nor the Relying Adviser nor any of their management persons or affiliates are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, a futures commission merchant, a commodity pool operator, a commodity trading advisor or an associated person of the foregoing entities.

In connection with an investment, the Funds engage related parties (including affiliates of BSCM) or third parties, to provide the services of property managers, asset managers, development and/or construction managers, paying agents or other services as necessary at market rates and terms, the costs of which are borne by the Funds. The engagement of a related party or certain affiliates of BSCM and its principals and members of their immediate family to provide such services to BlackSand Fund requires the prior unanimous consent of BlackSand Fund's Advisory Committee as to the material terms of such engagement, and in certain instances the consent of the limited partners of the Co-Investment Funds. Payment of any such fees will not cause a reduction of the Management Fee.

Without limiting the foregoing, on behalf of the Funds BSCM engages Kobayashi Group, The MacNaughton Group and their affiliates, and certain affiliates of BSCM, to provide development and construction management services, acquisition, design and retail consulting services, legal services, and property management, real estate brokerage and leasing services. Any such engagement requires that the BlackSand Fund Advisory Committee unanimously consents to the material terms of any such engagement and, where appropriate, as determined by the Advisory Committee, obtains at least three bids or a third party opinion that such terms are at market.

Kobayashi Group and The MacNaughton Group (collectively, "MK") are under common control with BSCM. Because BSCM and MK are under common control, retention of MK to provide development management, consulting, leasing and other real-estate related services to the Funds creates a conflict of interest. BSCM believes that the nature and quality of the services provided by MK to the Funds are superior to or at least as good as, and competitively priced against, comparable services provided by unrelated third party service providers. BSCM regularly reviews the market for such services to ensure, in BSCM's judgment that the Funds continue to receive comparable services at competitive prices. Further, the engagement of MK and its affiliates by the Funds required the consent of the BlackSand Fund Advisory Committee as to the material terms of such engagement.

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

### **Code of Ethics**

***Code of Ethics and Personal Trading.*** As a fiduciary and an SEC-registered adviser, BSCM strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust, and BSCM has adopted a Code of Ethics (the

“Code”) to help meet these standards. As previously noted, BlackSand Capital also adheres to this Code. The Code incorporates the following principles, among others:

- Employees must place the interests of Clients first at all times;
- Act with integrity, competence, diligence and in an ethical manner with the public, clients, prospective investors, employers, employees, colleagues in the investment profession and other participants in the global capital markets;
- All personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee’s position of trust and responsibility must be avoided;
- Employees must not take any inappropriate advantage of their positions; and
- Information concerning the identity of securities and financial circumstances of Clients (and Fund investors, as applicable) must be kept confidential (except in furtherance of Client investment objectives and goals).

Specifically, the Code sets forth standards of ethical and business conduct expected of BSCM and BlackSand Capital officers, partners, directors (or other persons occupying a similar status or performing similar functions) and employees and any other person who provides investment advice on behalf of BSCM or BlackSand Capital (“Supervised Persons”) and addresses conflicts that may arise from personal trading by such persons. The Code, among other things, requires compliance with the federal securities laws, reflects BSCM and BlackSand’s fiduciary responsibilities and those of their Supervised Persons, prohibits certain personal securities transactions for certain of such persons and requires pre-clearance of other securities transactions. Additionally, the Code defines material and nonpublic information and the restrictions on trading on any material and nonpublic knowledge and sets forth the responsibilities of all Supervised Persons relative to insider trading. The Code also includes policies and procedures regarding serving as officers, trustees and/or directors of outside organizations and participating in outside business activities.

Each of the BSCM and BlackSand Supervised Persons must acknowledge their understanding of, and agree to comply with, the Code initially upon employment and certify on an annual basis that they have read and understand the Code and have complied with it. All Supervised Persons with access to non-public information are required to disclose their personal securities holdings and transactions to the Chief Compliance Officer on a periodic basis.

Subject to the Code as described above, BSCM, BlackSand Capital and their Supervised Persons may engage in personal securities transactions (including transactions in securities currently held in Client accounts or that may be appropriate for investment in such accounts) for their own account or for the accounts of family members and friends. These activities may involve co-investments with BlackSand Fund, the purchase and sale of securities that are similar to or the same as, but in different concentrations or effected at different times and prices than, those purchased or sold for Client accounts. These activities may also involve the purchase and sale of securities that are different from those purchased for Client accounts. To the extent

BSCM or BlackSand Capital or their Supervised Persons make co-investments with BlackSand Fund or otherwise trade in securities the Funds hold, the co-investments or trades are permitted only upon the review and approval of BSCM and, where applicable, the BlackSand Fund Advisory Committee.

Although the investment strategy of each of the Funds does not include the purchase and sale of publicly traded securities, the Code also provides that employees are prohibited from effecting transactions on behalf of any Client in publicly traded securities issued by companies for which BSCM or BlackSand Capital possesses material non-public information.

BSCM and BlackSand Capital will provide, at no cost, a copy of the Code to Clients and prospective clients, as well as to investors in the Clients, upon request.

In connection with the BlackSand Fund offering, BSCM committed to invest not less than 2% of the total commitments to BlackSand Fund or \$2 million, whichever is greater. BSCM has committed to invest \$7.575 million in BlackSand Fund. BSCM's commitment includes commitments made by its directors, officers, partners, principals and employees.

***Principal and Cross Trades.*** As described in this brochure, BSCM has complete investment discretion with respect to securities held by BlackSand Fund and generally has complete investment discretion with respect to the invested capital of the Co-Investment Funds once the investor decides to invest in a particular investment opportunity. Accordingly, BSCM may enter into transactions constituting principal transactions, within the meaning of Section 206(3) of the Advisers Act, with Clients. In such transactions, BSCM would act as principal for its own account with respect to the sale of a security to or purchase of a security from the Client. BSCM may cause Clients to engage in any principal trade only when disclosure in writing has been made to the affected Client and, with respect to BlackSand Fund, BlackSand Fund Advisory Committee regarding the capacity in which BSCM is acting, and the affected Client and the BlackSand Advisory Committee, as applicable, have consented in writing to that particular trade and the trade is otherwise in compliance with applicable law.

In addition, BSCM may effect "cross" transactions between Client accounts, if permitted by applicable law. In a "cross" transaction, one Client account will purchase securities held by another Client account. BSCM will effect these transactions only when it deems the transaction to be in the best interests of both Client accounts and at a price and under circumstances that BSCM has determined by reference to independent market indicators, which it believes to constitute "best execution" for both accounts.

BSCM has adopted policies and procedures governing such "principal trades" and "cross trades." Because of the potential conflicts of interest involved, BSCM as a matter of policy disfavors such trades and would seek to enter into such a trade only if it believed that such a trade was in the best interests of affected Clients. Any principal trades or cross trades involving BlackSand Fund would be subject to review and approval by the BlackSand Advisory Committee.

***Other Related Conflicts and Practices—Side Letters.*** BSCM sometimes enters into side letters or other agreements with certain limited partners that allow for different terms of

investment in BlackSand Fund (including economic terms) than the terms applicable to other BlackSand Fund limited partners. As a result of such side letters, certain BlackSand Fund limited partners may receive additional benefits that other limited partners will not receive.

Any such agreement may establish rights under, or alter or supplement the terms (including the economic terms) of, BlackSand Fund's partnership agreement but may not impose any additional obligations or liabilities on any other limited partner not party to such agreement. Similarly, BSCM also may make such side letters or similar written agreements with investors in the Co-Investment Funds.

## **Item 12 Brokerage Practices**

### **Selection of Broker-Dealers**

Currently, BSCM does not engage any securities broker-dealers in connection with investment transactions. BSCM only engages real estate brokers in connection with investments in real estate.

BSCM does not receive research or other products and services from a broker-dealer or a third party in connection with Client securities transactions.

### **Directed Brokerage**

BSCM does not permit the investors in the Funds to direct brokerage services for the transactions of the Funds.

### **Aggregation of Purchase or Sale Orders**

BSCM may aggregate investments by two or more private funds in an investment opportunity. For example, as described under Items 4 and 6, the Fund may invest together with various co-investment entities, including the Co-Investment Funds, managed by BSCM. Co-investment capital is obtained when there is excess capacity in a targeted BlackSand Fund investment, and BlackSand Fund is not able to invest the full amount of the equity required due to the size of the investment, the diversification requirements, and/or other factors.

## **Item 13 Review of Accounts**

Client accounts are reviewed on a weekly basis by the Managing Directors, the Chief Compliance Officer, the Executive Vice President, the Vice President and the Associate of BSCM. Further, BSCM reviews, as applicable, the respective portfolio holdings of each of the Funds at the time a contribution or distribution is made and on a quarterly basis to determine that the investments held by the Funds remain consistent with the pertinent offering documents and investment advisory agreement.

BSCM provides each investor in the Funds with a summary written report regarding BlackSand Fund or the Co-Investment Funds, as applicable, as soon as practicable after the end of each calendar quarter. The quarterly reports to investors include a list of BlackSand Fund or

the Co-Investment Funds' respective investments to date and a summary of investment activity, as applicable.

As soon as practicable after the calendar year end, BSCM also furnishes to each investor a year-end report, which includes the audited financial statements of BlackSand Fund or Co-Investment Funds, as applicable, and statements of the investor's invested capital and remaining commitment. Applicable tax information is provided in a separate mailing.

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

Third parties who are not Clients do not provide an economic benefit to BSCM for providing investment advice or other advisory services to the Clients. BSCM does not enter into compensation arrangements with third party solicitors for client referrals.

#### **Item 15 Custody**

BSCM is deemed to have custody of the Funds' assets because BSCM acts as the general partner and investment adviser to the Funds, with authority to dispose of funds and securities in their accounts. Cash assets are generally held in custody by unaffiliated banks. Investors in the Funds do not receive statements from such custodians.

The Funds are subject to an annual audit, and the audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and are distributed within 120 days of the Funds' fiscal year end.

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

BSCM has full discretionary authority to conduct the investment activities of BlackSand Fund. BSCM does not have discretionary authority with respect to investments made by the Co-Investment Funds. Once the investors have invested funds in the Co-Investment Funds, however, BSCM has full management authority over such investments and full discretionary authority to sell the investments, without further approval of the investors in the Co-Investment Funds. BSCM assumed discretionary authority in accordance with the provisions of the limited partnership agreement when the agreement was executed, in the case of BlackSand Fund and in the case of the Co-Investment Funds, when the limited partners contribute funds to the Co-Investment Funds, as applicable.

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

Because BSCM generally does not cause the Funds and does not expect to cause the Funds to invest in publicly traded securities, the question of how to vote client securities seldom arises, if ever. BSCM, however, has voting authority and responsibility with respect to securities held by the Funds. In addition to proxy solicitations in connection with equity securities of traditional operating companies, proxy voting is also deemed to include any consent requested in matters such as bankruptcy or insolvency, covenant waivers in connection with debt, approvals regarding the restructuring of debt and other rights and remedies with respect to securities.

In voting proxies on behalf of its Clients, BSCM is guided by general fiduciary principles. BSCM votes proxies in the manner it believes is consistent with efforts to achieve a Client's stated investment objectives, including maximizing the value of the Client's portfolio.

BSCM's general policy is to vote in accordance with its fiduciary duty to its Clients. BSCM will review all Client proxies in accordance with the general fiduciary principles noted above. BSCM at times may determine that refraining from voting a proxy is in the Client's best interest, such as when BSCM's analysis of a particular proxy indicates that the cost of voting the proxy may exceed the expected benefit to the Client.

Neither the Clients nor any investor in the Clients may direct BSCM's vote with respect to any matter in which the Client has the right to vote.

BSCM follows procedures designed to identify conflicts or potential conflicts that could arise between their own interests and those of their Clients. If it is determined that any such conflict or potential conflict is not material, BSCM may vote proxies notwithstanding the existence of the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, one or more methods may be used to resolve the conflict, including (i) with respect to BlackSand, disclosing the conflict to the BlackSand Advisory Committee and obtaining its consent before voting, (ii) disclosing the conflict to the Client and obtaining its consent before voting, (iii) engaging a third party to recommend a vote with respect to the proxy, or (iv) such other method as is deemed appropriate under the circumstances.

Clients and investors in BlackSand Fund or the Co-Investment Funds, as applicable, may request a copy of BSCM's Proxy Voting Policy and Procedures, as well as applicable proxy voting records, by contacting Holly Park at BSCM.

## **Item 18 Financial Information**

BSCM has never filed for bankruptcy and is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its Clients.