

# Form ADV Part 2A: Firm Brochure

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## Hall Structured Finance, Inc.

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### Firm Contact

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This brochure provides information about the qualifications and business practices of Hall Structured Finance, Inc. (“HSF”). If you have any questions about the contents of this brochure, please contact us at (972) 377-1128. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about HSF is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

HSF is an investment adviser that is newly registered with the SEC. As such, this is the initial version of HSF’s brochure (the “Brochure”). There is no prior version of this Brochure and no material changes to be noted.

HSF will amend its Brochure at least annually. A summary of the material changes will appear on this page or as a separate document accompanying the Brochure.

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#### **Item 4 – Advisory Business**

HSF was established in 1996 and was registered with the SEC in 2012 as a registered investment adviser. HSF is a self-advised investment fund which principally operates as a private commercial real estate investor, providing financing on projects located throughout the United States. In addition, HSF manages its own portfolio of private and public securities. HSF has issued debt to investors (“Debt Investors”) in private placement offerings. Debt Investors are generally high net-worth individuals.

HSF is majority owned by the Craig Hall Living Trust. Craig Hall and Kathryn Lou Walt Hall serve as trustees of the Craig Hall Living Trust.

HSF does not presently provide investment advice to any party other than itself and, as such, does not tailor its advisory services or investment objectives or strategies to the requests or needs of any other party, including its Debt Investors, nor does it accept underlying investment restrictions from individual Debt Investors.

As of September 30, 2012, HSF had \$194.3 million in client assets (i.e., its own assets) under management. Currently, 100% of such assets are managed on a discretionary basis.

#### **Item 5 – Fees and Compensation**

HSF does not charge any fees associated with its management of the private and public securities portfolio nor does it charge fees in association with the asset managing and supervising of its loan portfolio.

HSF has issued \$10,000,000 in subordinated 10% debentures (“Debentures”) that are currently outstanding. Additionally, profits which are derived from the business of HSF, after payment of interest and principal on the Debentures, may also be viewed as compensation for the management of HSF.

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

HSF does not charge performance-based fees or side-by-side fees. See Item 5 above.

#### **Item 7 – Types of Clients**

HSF has only itself as a client. It does not currently accept any other clients in any advisory capacity.

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

HSF is a self-advised fund which principally operates as a private commercial real estate investor, providing financing on projects located through the United States. In addition, HSF manages its own portfolio of private and public securities.

HSF's analysis methods, sources of information and investment strategies are consistent with the analysis methods, sources of information and investment strategies commonly used by private commercial real estate investors that provide financing to real estate projects in the United States (e.g., estimating future cash flows for the properties based on a review of relevant documents and prior operating histories, if any).

Investments both in debt and in equity/fee ownership of real estate will be subject to the same risks as direct ownership and operation of commercial real estate and/or risks incident to the making of mortgage loans secured by real estate. Investments will face risks associated with both the domestic and international economic climate, local real estate conditions, changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building), energy and supply shortages, various uninsured or uninsurable risks, natural disasters, interest rates and other factors beyond HSF's control.

Investments in real property are also subject to the risks of changes in patterns of employment and transportation, adverse demographic trends and changes in adjacent land utilization. There is also the risk of changes in the investment climate for real property, including changes to governmental policies, such as changes in zoning, building, land use, fire, safety and health laws and regulations, changes to real estate tax rates and changes to other carrying and operating expenses. Further, investments in real property are subject to risks to the related physical assets, including structural and non-structural problems with the real property and the improvements thereon.

Our investments involve risk of loss that we should be prepared to bear, *including the risk of loss of the entire investment*.

#### ***Material Risk of Significant Investment Strategies***

**Higher Risk Financings.** HSF makes financings ("Financings") that are higher risk than those typically made by conventional lenders, such as banks and insurance companies, and there can be no assurance that HSF will be profitable. The Financings typically provide for higher interest rates and debt service burdens, higher fees paid by the borrowers, higher loan-to-value ratios, lower debt service coverage ratios, out of favor property types and complex structures or lending arrangements that may not be the standard in the lending industry. The Financings may have been or in the future may be made under circumstances where other lenders would not lend money due to the risk of default of the borrower, the speculative nature of the project, underwriting restrictions or otherwise. HSF anticipates that it will make new Financings to borrowers who may not be able to obtain their desired financing from other lenders. The borrowers may not be able to pay HSF all amounts due under the terms of the Financings and HSF may not be able to recover its investment in any Financing where it has taken back a property securing such Financing either through foreclosure, deed in lieu of foreclosure or through other means.

**Junior Secured Loans are Higher Risk.** HSF may make new Financings that are not secured by first mortgage liens. These types of Financings can be riskier than Financings that are secured by first mortgage liens, and there is an increased risk that HSF will not be paid principal and interest on such Financings.

**Consequences of Financing Default and Foreclosure; Restructuring and Limitation of Remedies.** The Financings are subject to the risk of default and bankruptcy by the borrowers. Defaults may give rise to a situation in which HSF determines it is in its best interests to consent to modifying the terms of Financing to be less beneficial to HSF than the existing terms of the Financing, such as agreeing to lower the interest rate, extend the maturity date, and/or lower the principal balance. In addition, if HSF obtained any bank loans which are secured by the Financing, the lender(s) of such bank loans may not be willing to consent to the modification of the Financing or modify the terms of the bank loans to accommodate the modification of the Financing. In addition, a default on a Financing may cause a default under one or more of HSF's bank loans, and as a result the lender(s) of the bank loans could declare all amounts under such bank loans immediately due and payable, foreclose on HSF's interest in the Financing, or insist that HSF enter into renegotiations of the bank loans that are unfavorable to HSF, such as requiring principal pay-downs or increasing the interest rate charged to HSF. A borrower who goes into default on a Financing or is otherwise unable to satisfy its obligations under a Financing may file for bankruptcy, despite the efforts of HSF to minimize such risks through its selection, underwriting and structuring process for making Financings and sometimes requiring that the borrowers be bankruptcy remote special purpose entities. In the event of a borrower's default or bankruptcy, HSF's ability to get the Financing repaid, foreclose on the project, or become the owner of the borrower could be delayed for a significant period of time. During a bankruptcy by a borrower under a Financing, HSF may not receive payments on its Financings. Defaults under the Financings and bankruptcies by the borrowers may reduce or eliminate the amount of cash available to HSF. In addition, certain of the existing Financings are nonrecourse to the borrowers and some or all of the new Financings may also be nonrecourse. This means that in the event Hall Phoenix/Inwood Ltd. ("HPI"), an affiliate of HSF, is unable to perform under its agreement with HSF to purchase a property from HSF's outstanding portfolio acquired by HSF pursuant to a defaulted Financing and then, in turn, HSF cannot sell such property at a price sufficient to recover the amount of the Financing, the borrower and its principals may not be personally liable for any deficiency between the amount recovered in the sale of the project and the amount owed on the Financing (unless they violate a nonrecourse covenant). Therefore, HSF will be relying on the value of the projects and HSF's ability to sell the projects if HPI is unable to purchase the properties, not on recourse liability potential against the borrowers, to recover the principal amount of and accrued interest on a defaulted Financing. Furthermore, the value of a project and the ability to sell a project may be affected adversely by market and other conditions outside the control of HSF. There can be no assurance that HSF will not incur losses on the resale of projects acquired by foreclosure or deed in lieu of foreclosure.

**Substantial Assets of HSF are a Note Receivable from HPI and an Ownership Interest in HPI.** As of September 30, 2012, approximately 62% of HSF's gross shareholders' equity is represented by HSF's limited partnership interest in HPI of approximately 49%. HSF has a note receivable due from HPI with an outstanding principal balance of \$55,584,556 as of September 30, 2012 (the "HPI Note"). HPI is an affiliate of HSF and has substantial secured and unsecured indebtedness other than the HPI Note.

**Outstanding Loans to Non-Affiliates Concentrated in Hotels.** All of the amounts outstanding under HSF's outstanding loans are comprised of loans secured by hotel properties. The hotel industry is subject to fluctuations and volatility that could be substantial and has recently experienced a significant downturn. If the hotels that underlie the outstanding loans experience

adverse operational issues or otherwise have a decrease in revenue, the outstanding loans may not be able to be repaid by the borrowers, and HSF would pursue its available remedies, one of which may be to take ownership of the underperforming hotels.

**Financings May Not be Secured by First Mortgage Liens; Preferred Equity.** HSF has existing Financings that are not secured by first mortgage liens. Financings not secured by first mortgages may involve greater risks of loss than do loans that are secured by a first priority lien. Future Financings may not necessarily be secured by first mortgage liens on projects, some of the new Financings may not be secured by a first mortgage lien. Where HSF does not have a first mortgage lien, the remedies available to HSF in the event of a default on a Financing may be limited, and will be subordinate to the rights of the senior lender as prescribed by law and the applicable Financing documents, including any intercreditor agreements which may include restrictions imposed by the senior lender on the remedies HSF may pursue in the event of a default under the Financing. For Financings secured by an ownership interest in a business entity, such as a limited liability company, that directly or indirectly holds an ownership interest in all or a portion of the underlying project, HSF's sole remedy in the event of a default under such Financing may be to seek to foreclose on the ownership interest of the borrower, subject to all of its debts and liabilities, and to become an owner of such business entity. For Financings structured as preferred equity, HSF's sole remedy in the event of a breach under the applicable documents may be to seek to become the sole owner of the borrower and/or manager or general partner of the borrower through contractual remedies to the extent available to HSF. In such cases, HSF may not be able to obtain a direct interest in the project. Additionally, if HSF makes any debtor-in-possession Financings, such Financings involve unique risks related to the bankruptcy process, which is complicated and may expose HSF to higher risks than other types of Financings. To the extent any projects are subject to financing that is senior to the Financings, if the borrowers, or HSF to the extent permitted, are unable to pay the amounts due under such senior loans, the projects could be foreclosed upon by a senior lender, which could eliminate the value of the Financings and negatively impact the borrowers' businesses and their ability to repay all amounts owed to HSF under the terms of the Financings.

**Uncertainty as to Extent of Diversification Among Borrowers and Projects.** HSF has no obligation to ensure diversification amongst the borrowers or projects. The outstanding loans exhibit greater concentration as to property type, the borrowers, project size and geographical locations, including secondary and tertiary markets, than would be generally found among conventional lenders, including banks and insurance companies. It is possible that HSF will make only a limited number of new Financings to a limited number of borrowers for projects that are concentrated in one or only a few geographic locations within the United States, thereby limiting the diversification of the Financings and placing a substantial portion of the funds invested in the same geographical location with the same property and borrower-related risks. In such a case, the decline in a particular real estate market could substantially and adversely impact one or more projects, which could negatively impact the borrowers' businesses and their ability to repay all amounts owed to HSF under the terms of the Financings.

**Variable Interest Rates.** Certain outstanding loans have variable interest rates, and new Financings may in some cases have variable interest rates. As a result, the interest payments to HSF on such Financings may vary over time, and may result in HSF being entitled to receive more or less aggregate interest payments (though not less than the amount provided under the

interest rate floor amounts) than anticipated. Also, if HSF makes a Financing for a project that is encumbered by a senior loan with a variable interest rate from another lender, then the borrower may not be able to make the required senior loan payments if the interest rate rises, which could leave the borrower with little or no money to pay HSF on its Financing.

**Availability of Mortgage Funds.** Repayment of the Financings will likely depend on the borrowers' ability to sell or refinance the projects securing the Financings. The availability of commercial mortgage financing to borrowers has become severely constrained, and many lenders have substantially reduced their commercial mortgage lending. This lack of mortgage capital has led to an increase in the credit spread charged by lenders which, depending on the underlying loan index, could lead to increased interest rates to borrowers. In addition, lenders are reducing the extent of leverage available to borrowers and are tightening underwriting standards. These changes in underwriting standards, reductions in available leverage, increases in interest rates and overall tightening of the supply of mortgage funds may prevent a sale or refinancing of one or more projects and cause the borrowers to fail to repay the Financings.

**Decline in Real Estate Sales.** Property sales have declined materially in recent years. There may not be a material increase in transaction volume in the near future, and further declines in real estate sales could occur. In addition to falling prices and declining commercial real estate fundamentals arising from the current recession, the lack of an active sales market may give borrowers few alternatives to repay Financings, causing borrowers to default, file for bankruptcy or transfer ownership in projects to HSF. The lack of an active market for commercial properties, especially hotels, could also impair HSF's ability to sell its collateral in the event it acquires projects, either through foreclosure or deed in lieu of foreclosure.

**Competition with Other Lenders.** Other entities, including banks, savings and loan associations, insurance companies, real estate investment trusts, pension funds, mortgage bankers, limited partnerships, corporations and other private lenders engaged in making loans and otherwise having investment objectives similar in whole or in part to those of HSF, will be competing with HSF for financing opportunities. An increase in the amount of funds available for loans may increase competition and thereby reduce the yield to lenders. Accordingly, although HSF believes that it is lending in a niche market in which there currently is limited competition, there can be no assurance that HSF will be successful in making its intended Financings.

### ***Hotel Industry Risks***

**Operating Risks.** HSF's outstanding loans are currently concentrated in hotels, which are subject to operating risks common to the hotel industry. These risks include, among other things: (i) competition for guests from other hotels, a number of which may have greater marketing and financial resources and experience than the operator(s) of the hotels underlying HSF's outstanding loans; (ii) increases in operating costs due to inflation and other factors, which increases may not have been offset in past years, and may not be offset in future years, by increased room rates; (iii) dependence on business travel and tourism, which are industries that may fluctuate and be seasonal; (iv) increases in energy costs and other expenses of travel, which may deter travelers; (v) adverse effects of general and local economic conditions; and (vi) the construction of more hotel rooms in a particular area than needed to meet demand. These factors

could adversely affect the ability of borrowers to generate revenues from the hotels. In addition, in connection with the acquisition or foreclosure of hotels, it may not be possible to transfer certain operating licenses, such as food and beverage licenses, or to obtain new licenses in a timely manner in the event such licenses cannot be transferred, either by borrowers, HSF or otherwise. The failure to have alcoholic beverages licenses or other operating licenses could adversely affect the ability of the hotels to generate revenue.

**Risks Relating to Franchise Rights.** In the event any of the hotels underlying the outstanding loans lose any licenses, franchises or permits related to their operations, such hotels may not be able to continue operations or may only be able to operate in a limited capacity or as an independent hotel. There can be no assurance that the hotels will operate under a nationally or regionally recognized franchise or any franchise. In addition, the failure to comply with franchisor requirements and restrictions or a default under any franchise agreement may cause the affected hotels to experience significant operating deficiencies and monetary losses. Further, franchise agreements sometimes require the franchisor's approval for any sale or transfer of the hotel and, in such cases if such required approval is not obtained, it may be difficult or impossible for the hotels underlying the outstanding loans to be sold or transferred without breaching one or more franchise agreements.

**Operating Costs and Capital Expenditures.** Hotel operations involve operating expenses that are subject to fluctuations due to a variety of factors, including wage and benefit costs, repair and maintenance expenses, gas and electricity costs, insurance costs and other miscellaneous expenses. A significant fluctuation in any one of these expenses could adversely affect the financial performance of the hotels and, thus, the ability of borrowers to make required payments on the outstanding loans. Additionally, hotels generally have an ongoing need for renovations and other capital improvements, particularly in older structures, including periodic replacement or refurbishment of furniture, fixtures and equipment. Renovation of hotels involves certain risks, including the possibility of environmental problems, construction costs overruns and delays, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from other hotels. If capital expenditures exceed expectations, the additional cost could have an adverse effect on the respective borrower's business, which could impact their ability to pay HSF all amounts due under the outstanding loans.

**Volatility of Hotel Industry.** The hotel industry is a volatile industry and is subject to greater risk than that typically associated with an investment in other types of real estate. The hotels underlying the outstanding loans are subject to these heightened risks.

**Seasonality.** The hotel industry is seasonal in nature. Some seasons may be more profitable for certain hotels than for others. Seasonal variations can be expected to cause fluctuations in the revenue generated by the hotels.

### ***Real Estate and Financing Risks***

**Use of Borrowed Money to Fund Financings; Recourse Financing.** HSF anticipates making Financings using bank loans. Each bank loan is anticipated to be paid off at the end of the term of the applicable Financing. HSF has historically obtained bank loans either directly or indirectly

through a wholly-owned subsidiary at approximately 75% to 85% of the gross amount of Financings secured by first mortgage liens, with payment of such bank loans guaranteed by HSF. HSF anticipates that it will obtain new bank loans at approximately 50% to 75% of the gross amount of any new Financings secured by first mortgage liens, with payment of such bank loans being recourse to HSF. HSF has typically obtained bank loans on a project-by-project basis, and HSF has collaterally assigned its first lien mortgages and any second lien mortgages to the respective lenders of such bank loans. There can be no assurance that HSF will be able to obtain new bank loans. A default on any of the Financings securing the bank loans may cause a default under the terms of such bank loans, which, if not cured, could cause defaults on other bank loans secured by other Financings. Further, there can be no assurance that the maturity dates of any bank loans will match the maturity dates of the Financings securing such bank loans. Bank loans could come due prior to the Financing securing such bank loans. Failure to pay the bank loans in full upon maturity could result in HSF's default under the bank loans.

**HSF Financial Covenants.** HSF has various requirements and covenants in connection with existing bank loans that require HSF to, among other things, maintain certain financial covenants including (i) a minimum gross net worth of not less than \$100,000,000 (inclusive of the outstanding amount under the HPI Note), (ii) not less than \$2,500,000 in cash and marketable securities not encumbered by margin debt, (iii) certain debt service coverage ratios, each of which is specific to a particular property, and (iv) total debts that do not exceed 75% of HSF's total assets. If these obligations are not satisfied, HSF may breach its covenants in the bank loans.

**Projects May be Subject to Senior Loans and Other Debt.** Financings may be secured by projects which are subject to other financings that are senior to the Financings. In such cases, if the borrowers are unable to pay the amounts due under such other senior loans, the projects could be foreclosed upon, which could negatively impact the borrowers' businesses and their ability to repay all amounts owed to HSF under the terms of the Financings.

**Availability of Financing and Market Conditions.** The projects securing the Financings may require additional capital in order to avoid foreclosure, to refinance, or for other reasons, and the borrowers may need to borrow such funds from sources other than HSF. Prevailing capital market conditions at the time financing is sought may make such financing difficult or costly to obtain. The current number of lenders and amount of money generally available to finance real estate has been limited. Based on historical interest rates, current interest rates are low and, as a result, interest rates available for future real estate loans and refinancings may be higher than the current interest rates for such loans, which may have a material and adverse impact on the projects and the borrowers. The failure to obtain such loans or to refinance on favorable terms could negatively impact the borrowers' businesses and their ability to repay all amounts owed to HSF under the terms of the Financings.

**General Risk of Investments in Real Estate.** The economic success of HSF will depend upon, among other things, the ability of the borrowers to pay all amounts due on the Financings or the ability of HSF to recover an amount equal to the Financings in the event of defaults under the Financings, all of which will largely depend upon the results of operations of the projects. The projects will be subject to those risks typically associated with investments in real estate. Fluctuations in construction costs, occupancy rates, rent schedules and operating expenses,

among other factors, can adversely affect operating results and render the sale or refinancing of a project difficult or unattractive. No assurance can be given that any real estate investment, including the projects, can be sold or refinanced at amounts that will provide for the repayment of the Financing. The failure of the borrowers to sell or refinance the projects or, in the event of a default under a Financing, the failure of HSF to recover amounts which provide for the repayment of the Financings, would adversely affect the performance of HSF's portfolio. Factors that could affect the value of such real estate investments and that are generally beyond the control of HSF and the borrowers include the validity and enforceability of leases, vacancy rates, financial resources of tenants, rent levels and sales levels in the local areas of such investments; adverse changes in local population trends, market conditions, neighborhood values, local economic and social conditions, supply and demand for property, competition, interest rates and real estate tax rates; governmental rules, regulations and fiscal policies, including the effects of inflation and enactment of unfavorable real estate, rent control, environmental or zoning laws, hazardous material laws, uninsured losses and other risks. The projects are subject to additional risks, including the lack of environmental indemnity for the project owner(s), changes in land use or other regulations affecting the projects, the risk of uninsured losses, limited or no representations and warranties from the seller of a project, competition, and acts of nature such as earthquakes, floods and tornados.

**Construction Risks.** HSF may originate construction loans allowing borrowers to use proceeds of the Financings to develop, redevelop, and construct office, hotel, and multifamily properties, as well as other types of property. Construction and development projects are subject to various risks and uncertainties, some of which will be outside of the control of HSF and the borrowers, including conditions of supply and demand, weather conditions, natural disasters, delays in construction schedules, cost overruns, changes in government regulations, increases in real estate taxes, insurance costs, changes in interest rates, design flaws and the availability of materials and labor. There can be no assurance that the borrowers will have sufficient funds to make-up any shortfalls, or that they will be able to borrow such funds. If applicable warranties do not cover all of the expenses associated with any construction defects that may arise, the borrowers could be liable for the expenses associated with correcting the construction defect. In addition, constructed projects are sometimes subject to construction defect claims that only reveal themselves over time, and the borrowers could be liable for the expenses associated with correcting such construction defects, which could adversely affect the borrowers' businesses and their ability to repay all amounts owed to HSF under the Financings.

**Investments in Land.** HSF may originate Financings secured by undeveloped land. Borrowers under these Financings will be subject to the risks normally associated with such assets. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of HSF, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on HSF. Projects acquired to be developed may receive little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion, which could adversely affect the borrowers' ability to repay all amount owed to HSF under the terms of the Financings.

**Illiquidity of HSF's Assets.** HSF holds numerous illiquid assets. HSF's portfolio is composed of illiquid assets of HSF insofar as HSF's ability to accelerate payments is limited to certain circumstances. In addition, HSF has a limited ability to vary its portfolio in response to changes in economic or other conditions. The market of potential purchasers of HSF's portfolio is unknown and will likely change under different market circumstances.

**Potential Lack of Historical Results and Audited Financial Statements for the Projects.** The projects will be funded in whole or in part by the Financings. If the projects experience financial difficulties, then the borrowers may not be able to pay HSF all amounts due under the terms of the Financings. Projects funded by the Financings may have limited historical operating results on which future operating results may be projected. Furthermore, the Financings typically do not require the borrower to provide audited financial statements or audited results of operations for the projects and rather may only require the borrower to provide unaudited financial information. Consequently, there may be uncertainty regarding the accuracy of the financial information being provided by the borrower. In addition, certain projects may not have any operating history to review.

**Proceeds from Projects to Pay the Financings.** HSF anticipates that the borrowers will rely on the financial success of the projects to repay the Financings, and this will impact HSF's ability to recover sufficient amounts from borrowers and projects in the event of a default under a Financing. To the extent the borrowers' results of operations are negatively impacted by economic conditions or otherwise, the borrowers may not have sufficient funds to repay all amounts owed to HSF under the terms of the Financings.

**Possible Delays in Sale; Refinancing of the Projects.** If projects funded under the Financings experience financial difficulties, then the borrowers may not be able to pay HSF all amounts due under the terms of the Financings. HSF will not control the length of time that a borrower holds a project before initiating a disposition event, such as a sale. Borrowers may not be able to sell the projects at the time they project. If a project is not sold as anticipated, the borrower will likely seek to refinance the Financing and any other loan encumbering the project. Fluctuations in the supply of money for such loans may affect the availability and cost of loans, and HSF is unable to predict the effects of such fluctuations on the ability of a borrower to refinance a project, either with HSF or through other lenders. Prevailing market conditions at the time the borrowers seek to refinance may make such financing difficult or costly to obtain. Such conditions may also adversely affect the cash flow and profitability of the borrowers, all of which could negatively impact the borrowers' businesses and their ability to repay all amounts owed to HSF under the terms of the Financings.

### ***Risks Relating to the Operation of HSF***

**Dependence on Key Personnel.** The success of HSF is substantially dependent on the management team and its ability to identify and consummate suitable Financings, to improve the operating performance of existing Financings and, if necessary, to dispose of investments of HSF at a profit. Should one or more of these individuals become incapacitated or in some other way cease to participate in HSF, HSF's performance could be adversely affected. There can be no assurance that any of these individuals will continue to be affiliated with HSF.

## **Item 9 – Disciplinary Information**

Neither our firm nor members of our management have ever been the subject of any legal or disciplinary event that would be material to a client's or a prospective client's evaluation of HSF's business or the integrity of its management.

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

We do not engage in activities or have any affiliations required to be disclosed under this item.

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

HSF has adopted a Code of Ethics (the "Code of Ethics") pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended ("Advisers Act"), which applies to all of our supervised persons. A copy of our Code of Ethics is available upon request by contacting Mark Blocher at (972) 377-1128.

Our Code of Ethics is predicated upon the belief that the individuals and entities that invest in us shall be treated with honesty and good faith, and that we shall put the interests of our investors ahead of HSF's employees and principals, particularly where our interests may conflict that those of our investors. To that end, our Code of Ethics, among other things, requires supervised persons to comply with all applicable federal and state laws and regulations, and further imposes certain trading restrictions on persons who are likely to know about our trading activity.

## **Item 12 – Brokerage Practices**

HSF has ability to select brokers or dealers to execute trades on behalf of HSF. In selecting broker-dealers, HSF considers the following factors:

- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any);
- the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution;
- the financial strength, integrity and stability of the broker;
- the broker's risk in positioning a block of securities; and
- the competitiveness of commission rates in comparison with other brokers satisfying the our other selection criteria.

HSF does not engage in directed brokerage.

HSF is presently a self-advised fund with no other clients. As such, there is no need to aggregate purchase or sale of traded securities for multiple client accounts.

### **Item 13 – Review of Accounts**

HSF's accounts and investments will be monitored on a current basis, and a complete list of the accounts and investments will be more formally reviewed as necessary. Such reviews will be conducted by members of HSF's investment committee. HSF is audited on a yearly basis by an independent registered public accounting firm.

Certain events may require a review other than a periodic review. Such events include a material change in the business or financial condition of an HSF borrower or a related property.

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

We do not compensate others for client referrals. We do, however, compensate persons in connection with referring investors to debt securities we may issue.

### **Item 15 – Custody**

HSF has custody of its funds and securities through its ability to access and control these assets and withdraw them from accounts of qualified custodians. HSF satisfies its custody obligations by ensuring that its audited financial statements are distributed to investors as required by the Advisers Act.

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

HSF has discretionary authority to manage its investments.

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

As a self-managed fund, HSF has the authority to vote securities it holds.

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

Registered investment advisers are required to provide certain disclosures about their financial condition. We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients, and have not been the subject of a bankruptcy proceeding.