

**FIRM BROCHURE**

**TXRE ADVISERS, LLC**

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**This brochure provides information about the qualifications and business practices of TXRE Advisers, LLC. If you have any questions about the information contained in this brochure, please contact us at (972) 201-2841. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**This brochure does not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services. Such an offer may only be made to eligible persons by means of delivery of governing documents that contain a description of the material terms relating to such investments, products or services.**

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

March 28, 2013

## **Item 2: Material Changes**

The date of our initial firm brochure was February 14, 2012. A summary of material changes that have been made to our firm brochure since the date of our initial Form ADV filing is set forth below:

- Petrus Trust Company, LTA is no longer one of our “related persons” (as such term is defined in the instructions to Form ADV).
- In Item 5 of our brochure, we added disclosures regarding certain additional types of fees that we and/or our affiliates may receive with respect to the Funds. See Item 5.

The information set forth in this brochure is qualified in its entirety by the applicable offering and/or governing documents. In the event of a conflict between the information set forth in this brochure and the information in the applicable offering and/or governing documents, such documents will control.

We encourage all clients and investors to carefully review this document in its entirety.

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## **Item 4: Advisory Business**

### **FIRM DESCRIPTION AND OVERVIEW**

TXRE Advisers, LLC, a Texas limited liability company and private investment management firm (“TXRE,” “we,” “our,” or “us”), was formed in 2011. We provide and/or perform investment advisory services with respect to securities (“Investment Advisory Services”) to private real estate investment vehicles that invest, directly or indirectly, in real estate and real estate-related investments.

We do not and will not act as general partner to any of our clients. Instead, we supervise, oversee and control any Investment Advisory Services provided by certain of our affiliates, and such affiliates rely on our investment adviser registration instead of separately registering as investment advisers with the Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). **See Item 10.** Except as the context otherwise requires, any reference to “we,” “us” or “our” in this document includes TXRE Advisers, LLC and any affiliates relying on our registration.

### **PRINCIPAL OWNERS**

The sole member of TXRE Advisers, LLC is Hillwood Development Company, LLC, whose sole member is Hillwood Development Group, L.P. Perot Investment Trust I ultimately owns over 25% of the limited partnership interests of Hillwood Development Group, L.P.

### **TYPES OF ADVISORY SERVICES**

We (a) provide and/or perform Investment Advisory Services (on a non-discretionary basis) with respect to Hillwood Brookfield Industrial Partners L.P. (the “Brookfield Fund”) and UST Hillwood Joint Venture Opportunity I, L.P. (the “UST Fund,” and, together with the Brookfield Fund, the “Funds”) and (b) monitor, supervise, oversee and control any Investment Advisory Services provided to the Funds by our affiliates. We and/or our affiliates only provide Investment Advisory Services with respect to real estate and real estate-related investments. In general, all decisions with respect to the acquisition and disposition of investments with respect to the Funds are ultimately made by the general partners of such Funds. Due to our affiliation with the general partner of the Brookfield Fund, as described in Item 10 and Item 16 below, we may be deemed to have indirect investment discretion with respect to the Brookfield Fund. We and/or our affiliates provide Investment Advisory Services in accordance with the investment objectives, policies and guidelines set forth in the applicable partnership agreements and management agreements. Except as set forth in the applicable partnership agreements and/or management agreements with each Fund, neither we nor any of our affiliates have the authority to take any action with respect thereto. **See Item 8 below.**

In addition to the Funds, we and/or our affiliates may provide and/or perform Investment Advisory Services with respect to one or more other clients in the future, including, but not limited to, other pooled investment vehicles.

### **INVESTMENT RESTRICTIONS**

We provide and/or perform Investment Advisory Services with respect to each client in accordance with the investment objectives, policies and guidelines set forth in the applicable governing and/or account documents. Clients generally may impose limitations and restrictions on the Investment Advisory Services provided by us and/or our affiliates.

### **ASSETS UNDER MANAGEMENT**

As of December 31, 2012, we (indirectly through our affiliates) had approximately \$404.5 million in regulatory assets under management. All of these assets were managed on a non-discretionary basis (as explained above).

## Item 5: Fees and Compensation

### FEE SCHEDULES

In consideration of the Investment Advisory Services, certain of our affiliates generally receive management fees, development fees, construction management fees, disposition fees, incentive distributions, termination fees and/or other types of compensation with respect to our clients. While fees are described in detail in the applicable partnership and/or management agreements, a summary of such fees is set forth below.

#### Brookfield Fund

With respect to the Brookfield Fund, HWBF Investment Manager, L.P., one of our affiliates (“HWBF”), receives an annual management fee, payable quarterly in advance, equal to:

- (a) for certain limited partners in the Brookfield Fund, a percentage of the capital contributions invested by each such limited partner; and
- (b) for certain other limited partners in the Brookfield Fund, (i) for each calendar quarter that begins prior to the expiration of the investment period, a percentage of the capital commitment of each such limited partner, and (i) for each calendar quarter that begins after the expiration of the investment period, a percentage of the aggregate amount of each such limited partner’s capital contributions invested in any portfolio investment that has not been liquidated.

Notwithstanding the foregoing, the management fee is reduced by certain fees and expenses, as described in the partnership agreement of the Brookfield Fund.

In addition, distributable proceeds in respect of a portfolio investment are distributed between each limited partner and the general partner of the Brookfield Fund as follows:

- (a) First, 100% to the limited partner until it has received aggregate distributions equal to its capital contributions;
- (b) Second, 100% to the limited partner until it has received distributions sufficient to provide it with a cumulative internal rate of return of 9%;
- (c) Third, (i) 40% to the limited partner and (ii) 60% to the general partner of the Brookfield Fund as an incentive distribution until the general partner has received aggregate incentive distributions pursuant to this item (c) with respect to such limited partner equal to 20% of the sum of all distributions made to such limited partner pursuant to item (b) and made to such limited partner and the general partner pursuant to this item (c); and
- (d) Thereafter, (i) 80% to the limited partner and (ii) 20% to the general partner of the Brookfield Fund as an incentive distribution.

If, upon liquidation of the Brookfield Fund, its general partner has received incentive distributions in respect of a limited partner in excess of the “promote amount” with respect to such investor, or such limited partner has not received aggregate distributions sufficient to provide the investor with a cumulative IRR of 9%, then the general partner will be required to return certain incentive distributions to the Brookfield Fund for distribution to such limited partner (subject to the terms and limitations set forth in the partnership agreement).

The general partner of the Brookfield Fund also may reduce or eliminate incentive distributions with respect to limited partners that are affiliated with the general partner.

In connection with each portfolio investment, the Brookfield Fund may enter into a transaction services agreement with us or any of our affiliates, pursuant to which we or any of our affiliates will provide transaction services with respect to such portfolio investment and the Brookfield Fund will pay a development fee equal to four percent (4.0%) of the development costs of such portfolio investment.

In connection with each portfolio investment, the Brookfield Fund may enter into a property management agreement with us and any of our affiliates, pursuant to which we or any of our affiliates will provide property management services with respect to such portfolio investment and the Brookfield Fund will pay a property management fee equal to: (i) three percent (3.0%) of the base rent for “small” tenant space (*i.e.*, under 50,000 square feet of net

leasable area), or such other percentage that is consistent with relevant market terms on an arm's length basis and (ii) three percent (3.0%) of the base rent for all other portfolio investments.

In connection with each portfolio investment which is to be redeveloped, renovated, refurbished or otherwise repositioned, the Brookfield Fund may either incorporate the fees and services described below into another agreement or may enter into a separate construction management transaction services agreement with us or any of our affiliates, pursuant to which we or any of our affiliates will provide construction management services with respect to such portfolio investment and the Brookfield Fund will pay a construction management fee equal to between 2% and 5% of such improvement costs.

#### UST Fund

With respect to the UST Fund, Hillwood Investment Services, LLC, one of our affiliates ("HIS"), generally receives an annual asset management fee, payable quarterly in arrears, equal to 0.75% of the aggregate cost investment of the UST Fund in all of the real estate assets owned by the UST Fund (including costs funded through capital contributions and costs funded through debt financings).

HIS generally receives a disposition fee equal to 1.5% of the gross sale proceeds received or realized by the UST Fund on the disposition of part or all of any real estate asset.

HIS generally receives a fixed personnel fee, payable monthly in arrears.

In connection with each project, if HIS or any of its affiliates is the developer of the project, HIS or its affiliate will receive a development fee equal to:

- (a) With respect to a project other than a single-family residential project, 4% of the total budgeted project costs (excluding land); and
- (b) With respect to a single-family residential project, 4% of any real estate sales (including all lot sales, pod sales and sales of any retail or commercial component of a single-family residential project).

In connection with each project, if HIS or any of its affiliates is not the developer of the project, HIS or its affiliate will receive a development oversight/construction management fee equal to 1% of the total budgeted project costs (excluding land).

With respect to each loan transaction, HIS generally receives a financing fee equal to 0.5% of the loan amount (including financing, recapitalization, and refinancings at the UST Fund level) up to \$100,000,000 (with such amount to be determined on transaction basis (*i.e.*, the amount of separate loan transactions will not be aggregated for purposes of determining the amount of the financing fee)) and 0.175% of the loan amount in excess of \$100,000,000 (with such amount to be determined on a transaction basis (*i.e.*, the amount of separate loan transactions will not be aggregated for purposes of determining the amount of the financing fee)). Notwithstanding the foregoing, the UST Fund shall not pay a financing fee for any loan from a lender that is headquartered in Germany.

With respect to each lease, HIS generally receives a leasing fee equal to:

- (a) With respect to a retail space, \$15.00 per square foot, *provided* that the lease is for a term of at least ten years; if the lease is for a term of less than ten years, the leasing fee will be reduced proportionately; and
- (b) With respect to any other space, 6.75% of the total lease revenue less any fees paid to cooperating brokers;

*provided, however*, the leasing fee will be reduced (but not below zero) by the amount of any leasing fees paid to third parties.

With respect to any credit enhancement provided by HIS or any of its affiliates, HIS generally receives a credit enhancement fee equal to 2% to 4% of the maximum liability with respect to the credit enhancement. The credit enhancement fee will be reasonably determined by HIS and the UST Fund after taking into account the amount of recourse liability assumed and the credit risk of the borrower.

In the event that the asset management agreement between the UST Fund and HIS is terminated, HIS may be entitled to receive certain "termination fees," as such fees are described in the asset management agreement.

The fees payable with respect to each Fund generally are not negotiable. Nevertheless, HIS has from time to time

agreed to defer and/or reduce certain fees and reimbursements.

## **PAYMENT OF FEES**

### **Brookfield Fund**

Management fees with respect to the Brookfield Fund are payable quarterly, in advance, on the first day of each calendar quarter. The general partner of the Brookfield Fund has the discretion to pay management fees from capital contributions drawn for such purpose, proceeds received in respect of any investments, or any other funds or other assets determined by the general partner to be available. The management fee will be prorated for any period less than a full calendar quarter based upon the number of days during such period. In the event of termination of the investment management agreement with the Brookfield Fund, the management fee and any reimbursements of expenses will be paid up to and through the date of termination.

Incentive distributions are distributed to the general partner of the Brookfield Fund quarterly or more frequently at the election of the general partner.

### **UST Fund**

Asset management fees with respect to the UST Fund are billed quarterly, in arrears, and are payable within five days following the end of each calendar quarter.

Disposition fees are calculated and billed from time to time upon the disposition of part or all of any real estate asset by the UST Fund.

Notwithstanding the foregoing, management fees and disposition fees may be deferred in our discretion.

## **OTHER FEES AND EXPENSES**

### **Brookfield Fund**

In addition to management fees, development fees, property management fees and construction management fees, we and/or our affiliates are reimbursed by the Brookfield Fund for certain fees, expenses and costs incurred by us and/or our affiliates on behalf of the Brookfield Fund, including, without limitation, (i) all fees and out-of-pocket costs and expenses incurred in connection with the formation of the Brookfield Fund, non-investment specific subsidiaries, the Brookfield Fund's general partner (and its general partner) and any alternative investment vehicles or parallel funds and the admission of limited partners to the Brookfield Fund and investors to parallel funds other than placement agent fees, including, travel, legal, accounting, filing and all other expenses incurred in connection with the offer and sale of interests in the Brookfield Fund and such parallel funds, subject to the management fee offset described in the partnership agreement; (ii) all charges and expenses of the Brookfield Fund's and its subsidiaries' operations, including maintaining bank accounts or of any banks, custodians or depositories appointed for the safekeeping of investments or other property of the Brookfield Fund or any subsidiary, all costs of bookkeeping and accounting services and all expenses associated with the preparation and distribution of financial statements and reports to any limited partner; (iii) all costs related to the Brookfield Fund's or its subsidiaries' operations (including, for the avoidance of doubt, any portfolio investment); and (iv) all other expenses incurred by the general partner of the Brookfield Fund or any affiliate in connection with organizing any subsidiary, operating the Brookfield Fund, its subsidiaries or its portfolio investments or performing the duties of the general partner under the partnership agreement, other than (a) ordinary and usual office overhead expenses, furniture, fixtures and office equipment of the general partner or any affiliate, and (b) compensation of the employees of any affiliate, unless such overhead or compensation expenses constitute services which would otherwise be provided by third parties.

### **UST Fund**

In addition to asset management fees, disposition fees and termination fees, we and/or our affiliates are reimbursed by the UST Fund for: (i) third party out-of-pocket costs and expenses incurred for or on behalf of the UST Fund or a subsidiary with respect to all investment opportunities approved by the UST Fund; (ii) the allocable actual cost of employees (*i.e.*, the actual salaries, payroll taxes, benefits, etc.) that are employed on site at any real estate asset or whose salaries and other benefits are approved in the applicable business plan or approved in writing by the UST Fund; and (iii) the cost of all legal and/or other professional services provided by us and/or our affiliates to the UST Fund or a subsidiary.

Each Fund generally is responsible for and pays any of its custodial fees and expenses. **See Item 12 below.**

**COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS**

Except as provided above with respect to disposition fees from the UST Fund, neither we nor any of our supervised persons accept compensation for the sale of securities or other investment products.

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

### **PERFORMANCE-BASED FEES**

As noted under Item 5 above, the general partner of the Brookfield Fund is entitled to receive incentive distributions with respect to each limited partner in the Brookfield Fund. Incentive distributions could motivate us, due to our affiliation with the general partner of the Brookfield Fund, to recommend investments and investment decisions that are riskier or more speculative than would be the case if these arrangements were not in effect. The method of calculating the incentive distribution may result in conflicts of interest with respect to the management and disposition of investments, including the sequence of dispositions. Certain of our individual supervised persons and/or affiliates may be compensated to some extent based upon investment profits for which they are responsible and, accordingly, may face the same potential conflict. We attempt to address these conflicts through full and fair disclosure in this brochure.

### **Item 7: Types of Clients**

We currently only provide and/or perform Investment Advisory Services with respect to the Funds. Notwithstanding the foregoing, we may provide and/or perform Investment Advisory Services with respect to other clients from time to time in the future, including, but not limited to, other pooled investment vehicles.

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

### **METHODS OF ANALYSIS AND INVESTMENT STRATEGIES**

#### Brookfield Fund

The Brookfield Fund's primary investment objective is to generate both capital appreciation and operating cash flow on a value-add basis by acquiring, improving, developing, leasing, maintaining, owning, operating and managing portfolio investments in the industrial sector in the United States. The Brookfield Fund makes investments primarily through real estate investment trusts ("REITs").

In analyzing potential investments, market research is performed through a combination of third party written materials, broker discussions and first-hand knowledge of personnel assigned to or familiar with the markets/transactions being evaluated. Once a potential investment is identified, asset specific research includes review of due diligence provided by the owners of the property/portfolio, analyses provided by any required third party consultants (*i.e.*, engineers, environmental, survey, title and others, as required), asset inspections and market tours.

Decisions regarding acquisition and/or disposition of investments are made based on consideration of expected risk-adjusted returns. When making investment decisions, we consider, among other things, suitability of the investment for the Brookfield Fund, various underwriting criteria related to the asset (*e.g.*, in place and expected rents and occupancy), expected costs to lease the asset (including tenant improvement costs, brokerage commissions and capital improvements) and the current and anticipated market "capitalization rate" expected for the asset. Ultimately the expected gross profitability of an investment is measured using equity multiples and internal rate of return. Asset management decisions (*e.g.*, lease negotiations, capital improvements, etc.) are made in the context of maintaining or increasing the value of an asset. While we recommend investments and investment decisions to the Brookfield Fund, all investment decisions must be approved by the general partner of the Brookfield Fund.

Investment risks are analyzed by the transaction team through consideration of qualitative and quantitative analyses and the use of third party consultants. All transactions are scrutinized by the operating committee and board of the general partner of the general partner of the Brookfield Fund.

#### UST Fund

The UST Fund's primary investment objective is to make, participate in and/or acquire investments in real estate located throughout the United States and investments in other assets related to real estate located throughout the United States, including without limitation: (a) investments in industrial, commercial, residential, office, hotel, hospital, medical, sports arena, mixed use, condominium, timeshare, golf course and recreation properties; (b) acquisitions of individual real properties and/or undivided interests therein; (c) investments in real estate-related development ventures and/or companies that own real property; (d) investments in vacant land to be developed or sold or in real estate projects which are under construction and/or completed and operating; and (e) investments in other real estate-related investment vehicles and transactions.

When making recommendations regarding the disposition of investments, we consider, among other things, expected risk-adjusted returns and the liquidity needs of the UST Fund. With respect to returns, we compare the expected operating costs of the asset along with the expected future profitability when the asset is sold with the profitably if sold sooner, given prevailing market conditions. In addition, we consider the net cash expected to be generated by a disposition in the context of gross profitability as well as the cash needs of the UST Fund. While we and/or our affiliates make investment recommendations to the UST Fund, all investment decisions must ultimately be approved by the general partner of the UST Fund. We do not have discretionary investment decision-making authority with respect to the UST Fund.

Investment risks are analyzed by certain members of our investment team through consideration of qualitative and quantitative analyses and the use of third party consultants.

The investment strategies summarized above are not intended to be comprehensive. In addition to the Funds, we and/or the Relying Advisers may perform and/or provide Investment Advisory Services with respect to one or more additional clients in the future. For more information regarding our investment strategies, please contact us.

## **CERTAIN RISK FACTORS**

*There can be no assurance that investors in the Funds will achieve their investment objectives or that investments in the Funds will be profitable. The Funds' investment strategies involve a substantial degree of risk, including risk of complete loss. Nothing in this brochure is intended to imply, and no one is or will be authorized to represent, that the Funds' investment strategies are low risk or risk free. These investment strategies are appropriate only for sophisticated persons who fully understand and are capable of bearing the risks of investment. The various risks outlined below are not the only risks associated with the Funds' investment strategies and processes and will not necessarily apply to each Fund.*

*General Investment Risks.* All investments risk the loss of capital. No guarantee or representation is made that our Investment Advisory Services will be successful or profitable. Real estate investments are subject to various specific risks, many of which are beyond our control, such as adverse changes in international, national or local economic and demographic conditions; local conditions (such as an oversupply of space or a reduction in demand for space); the quality and philosophy of management; competition based on rental rates; adverse changes in financial conditions of tenants, buyers and sellers of properties; quality of maintenance, insurance and management services; reduction or change in sources of debt or equity financing, including changes in interest rates; increases in real estate taxes and operating expenses, including energy prices; changes in law, regulations and governmental policies, including environmental laws, health and safety laws, zoning laws and governmental fiscal policies; potential liability under changing environmental and other laws; changes in the relative marketability of properties; cyclical over-building in property sectors; risks due to dependence on cash flow; risks and operating problems arising out of the presence of certain construction materials; structural or property latent defects; natural and unnatural disasters; acts of terrorism and vandalism; uninsurable losses; condemnations and others. As a result, a Fund may be subject to claims and expenses in respect of an asset in excess of its investment in such asset, which could lead to losses.

Many of the foregoing factors could cause fluctuations in occupancy rates, rent schedules or operating expenses, causing a negative effect on the value of properties and returns derived from real estate investments. Valuation of properties are generally a matter of an independent appraiser's opinion, and may fluctuate up or down over time. Accordingly, the capital value of a real estate investment may be significantly diminished in the event of a sudden downward turn in the market value of properties owned by the Funds or the occurrence of any of the factors set forth above.

*Adverse Economic Conditions in Geographic Markets.* The economic performance of the Funds' properties could be affected by changes in local economic conditions. The performance of each Fund is therefore linked to economic conditions in areas where the Fund acquires properties and in the real estate market generally. Therefore, to the extent that there are adverse economic conditions in an area and in the real estate market generally that impact the market, such conditions could result in a reduction of income and adversely affect the investment results of the Funds.

*Expiration or Lack of Credit Enhancements.* A lease may have credit enhancement provisions, such as guarantees or shortfall reserves provided by a third-party tenant or operator. These credit enhancement provisions may terminate at either a specific time during the lease term or once net operating income of the property exceeds a specified amount. These provisions also may have limits on the overall amount of the credit enhancement. After the termination of a credit enhancement, or if the maximum limit of a credit enhancement is reached, the Funds or underlying real estate investments may look only to the tenant to make lease payments. If a credit enhancement has expired or the maximum limit has been reached, or if a provider of a credit enhancement is unable to meet its obligations, results of operations could be directly or indirectly adversely affected if such properties are unable to generate sufficient funds from operations to meet minimum rent payments and the tenants do not otherwise have the resources to make the rent payments. In addition, some leases may not have any credit enhancements, so that the Funds may look only to the tenant to make lease payments during the entire term of the lease.

*Restrictive Covenants.* In connection with obtaining certain financing, a lender may impose certain restrictions on the Funds which may affect their ability to incur debt and, thus, adversely affect the investment results of the Funds. Loan documents that the Funds enter into may contain negative covenants that limit their ability to further mortgage the property or impose other limitations.

*Failure to Make Debt Payments.* Loans obtained to fund property acquisitions generally are secured by first mortgages on such properties. If the Funds are unable to make their debt service payments as required, a lender could foreclose on the property or properties securing such debt. This could cause a Fund to lose part or all of its

investment. Certain of the Funds' future indebtedness may be cross-collateralized. Consequently, a default on this indebtedness could cause a Fund to lose part or all of its investment in multiple properties.

*Lack of Control over Entities in Which the Funds Invest.* On occasion, we may recommend investments in an entity that a Fund will not control. As a result, in these situations, the Fund may not be able to control the decisions made by such entities. The entities holding investments may therefore make decisions that could be adverse to the Funds. Such investments may also have potential risks of impasse on major decisions, such as sales or mergers, because the Funds would not have full control over the partnership, limited liability company or other entity. In addition, any investment in an entity with co-owners may, under certain circumstances, involve risks not present were a co-owner not involved, including the possibility that partners or other co-owners might become bankrupt or fail to fund their share of required capital contributions. Partners or other co-owners may have economic or other business interests or goals that are inconsistent with the Funds' business interests or goals, and may be in a position to take actions contrary to the Funds' policies or objectives. Disputes between a Fund and its partners or other co-owners may result in litigation or arbitration that would increase expenses and prevent the Fund from focusing its time and effort on its business. Consequently, actions by or disputes with partners or other co-owners might result in subjecting facilities to additional risk. The occurrence of any of the foregoing events could have a material adverse effect on the Funds' results of operations and may adversely affect their investment results.

*Competition.* We compete for investment and development opportunities with the following persons (among others):

- private investors;
- pension funds;
- insurance company investment accounts;
- real estate investment trusts;
- real estate partnerships;
- financial institutions; and
- local developers.

Many of these competitors have substantially greater financial and other resources than us and may have better relationships with developers and sellers. Additionally, these competitors may enjoy significant advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Moreover, the number of entities and the amount of funds competing for suitable investment properties may increase. However, increased competition from competitors may adversely affect our ability to recommend attractive investment opportunities, as well as the price for such investment opportunities.

There may be numerous other properties that compete with properties that we recommend to the Funds and that compete with the Funds for tenants. The number of competitive properties could have a material effect on the Funds' ability to rent space at their properties and the amount of rents charged. The Funds could be adversely affected if additional competitive properties are built in locations competitive with their properties, causing increased competition for customer traffic and creditworthy tenants. This could result in decreased cash flow from tenants and may require the Funds to make capital improvements to properties which they would not have otherwise made, thus affecting the investment results of the Funds.

*Inflation Risk.* Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Funds' investments may decline. For example, a substantial rise in inflation could reduce the value of a Fund's investments subject to leases if the inflation rate is high enough that percentage rent and automatic increases in base rent do not keep up with inflation.

*Construction Risks.* We may recommend that the Funds invest directly or indirectly in existing or newly constructed properties. We may also recommend investments in properties that are subject to completion of construction and development. If a Fund acquires a property for development or renovation, it may be subject to risks in connection with a developer's ability to control construction costs and the timing of completion of construction or a developer's ability to build in conformity with plans, specifications and timetables. In addition, development and renovation plans could be affected by delays in obtaining any necessary permits or consents from appropriate governmental agencies, strikes, adverse weather, shortages of materials and increases in the cost of labor and materials. Although we typically recommend safeguards that are designed to minimize these risks, such as rights to require the tenant to purchase the property that is under development at a pre-established price designed to reimburse a Fund for all

acquisition and development costs, there can be no assurance that the tenants will have sufficient funds to fulfill their obligations under these agreements. The builder's failure to perform may result in tenants terminating leases. These actions may increase the Funds' costs or necessitate legal action by them to rescind the purchase of a property, to compel performance or to sue for damages. Any such legal action may result in increased costs to the Funds.

In addition, certain properties that we recommend may be subject to conservatory easements that prohibit the development of certain activities other than those specific activities already conducted on the property, and limit the ability to materially modify the existing layouts on the property.

We may recommend that the Funds (and/or their affiliates) enter into guaranteed maximum price contracts with developers for the development of new construction properties. Such contracts involve counterparty risk since developers may not perform their contractual obligations in accordance with the terms of such contracts. In addition, such contracts may not be insured by surety bonds or guarantees, which would protect such entities in the event of loss or casualty. Without such protection, in the event of loss or casualty, such entities could lose their investments in such new construction properties.

*Real Estate Liquidation Risk.* Real estate and real-estate related investments are illiquid. The Funds may not be able to readily dispose of real estate assets or have the ability to react quickly to changing investment circumstances due to market conditions that could affect the market price of properties, thereby adversely affecting the Funds. Furthermore, the Funds may not have the authority to cause an entity through which they have made an investment to sell or refinance a real estate property or to refrain from selling or refinancing a real estate property.

*Market and Business Conditions.* Changes in general or local economic or market conditions, state or local statutes, state or local taxation, litigation, increased energy costs, insurance costs, product costs and labor costs, competitive factors, fuel or labor shortages, quality of management, the ability of a chain or franchisor(s) to fulfill any obligations to operators of its businesses, limited alternative uses for a building, changing consumer habits, condemnation or uninsured losses, changing demographics, changing traffic patterns, inability to remodel outmoded buildings as required by the franchise or lease agreement, voluntary termination by a tenant of its obligations under a lease, bankruptcy of a tenant, and other factors beyond the Funds' or the underlying investment properties' control, may reduce the value of investments, the ability of tenants to pay rent on a timely basis, the amount of the rent and the ability of borrowers to make mortgage loan payments on time.

Additionally, properties securing mortgages that are owned by the Funds may decrease in value from the date when the mortgage loan was made and the creditworthiness of the mortgagee may decrease. Therefore, investment risk will increase due to decreasing market values.

*Properties with Limited Operating History.* Newly-developed or newly-renovated properties generally will not have any operating or performance histories that will allow us to make objective pricing recommendations in acquisitions. The purchase prices of these properties are oftentimes based upon projections by us as to the expected operating results of such properties, subjecting the Funds to risks that such properties may not achieve anticipated operating results or may not achieve these results within anticipated time frames.

*Risks Related to Debt Investments.* We may recommend investments in debt investments, including construction, participating and other real estate-related loans (collectively, "Debt Investments"). The value of the Debt Investments and the ability to realize full repayment on any Debt Investment may be adversely affected by all of the factors that affect an investment. In particular, certain important risks associated with Debt Investments include, among others: (a) dependency for repayment on successful operation of the underlying property and tenant businesses operating thereon; (b) the non-recourse nature of such loans with respect to the borrower; and (c) amortization schedules that are often longer than the stated maturity and provide for balloon payments at stated maturity rather than periodic principal payments.

Debt Investments are also subject to risks of borrower defaults, bankruptcies, fraud and special hazard losses that are not generally covered by standard hazard insurance. In the event of any default under mortgage loans held, directly or indirectly, by a Fund or any entity in which a Fund has an interest, that Fund will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal amount of the mortgage loan and may not receive interest payments on such mortgage loan. Foreclosures of mortgage loan, bankruptcies affecting mortgage loan borrowers and other collateral realization processes will be expensive and lengthy processes that could have a substantial negative effect on the Fund's anticipated return on investment.

*Payments from Tenants.* The success of our investment recommendations depends on rent payments from property tenants to generate returns and cash for the Funds. The Funds generally have no control over the success or failure of their tenants' businesses. Significant adverse changes in the operations of any facility, or the financial condition of any tenant, could have a material adverse effect on the Funds' ability to collect rent payments and, accordingly, on the investment results of the Funds. Failure on the part of a tenant to comply materially with the terms of a lease could give a Fund the right to terminate the lease with that tenant, repossess the applicable facility and enforce the payment obligations under the lease. However, the Fund then would be required to find another tenant. If the Fund is unable to re-let the properties, then it may be forced to sell the properties at a loss due to the repositioning expenses likely to be incurred by the purchasers. Moreover, the bankruptcy of any of the Fund's tenants could delay their efforts to collect past due balances under its leases, and could ultimately preclude collection of amounts due to the Fund. The occurrence of any of the foregoing events may adversely affect the timing of and the investment results of the Funds.

*Inability to Sell Property.* The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our and/or the Funds' control. We cannot predict whether the Funds will be able to sell any property for the price or on the terms set by them, or whether any price or other terms offered by a prospective purchaser will be acceptable to them. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. The Funds may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot guarantee that the Funds will have funds available to correct such defects or to make such improvements.

*Lease Terminations.* The Funds are subject to the normal risks associated with leasing property, including the risk that upon the expiration of leases for space located in the properties, the leases may not be renewed, the space may not be re-let or the terms of renewal or leasing (including any cost of required renovations or concessions to tenants) may be less favorable than current lease terms. If we are unable promptly to re-let a space or renew leases for a significant portion of a property's space or if the rental rates upon renewal or re-letting are significantly lower than expected rates, then the Funds' earnings may be adversely affected. Vacancies may not be able to be filled in a timely manner or on acceptable contract terms.

*Construction Risks.* We may recommend investments directly or indirectly in existing or newly constructed properties. We may recommend investments in properties that are subject to completion of construction and development. If the Funds acquire a property for development or renovation, they may be subject to risks in connection with a developer's ability to control construction costs and the timing of completion of construction or a developer's ability to build in conformity with plans, specifications and timetables. In addition, development and renovation plans could be affected by delays in obtaining any necessary permits or consents from appropriate governmental agencies, strikes, adverse weather, shortages of materials and increases in the cost of labor and materials. Although we and/or our affiliates generally seek to include in agreements with developers safeguards designed to minimize these risks, such as rights to require the tenant to purchase the property that is under development at a pre-established price designed to reimburse us for all acquisition and development costs, we cannot be sure that the tenants will have sufficient funds to fulfill their obligations under these agreements. The builder's failure to perform may result in tenants terminating leases. These actions may increase the Funds' costs or necessitate legal action by the Funds to rescind the purchase of a property, to compel performance, or to sue for damages. Any such legal action may result in increased costs to the Funds and us.

*Special Purpose Properties.* Certain properties that we recommend may not be readily adaptable to other uses such as general residential, retail or office use. Therefore, if a property becomes unprofitable for its operator due to competition, age or improvements or other factors such that the tenant becomes unable to meet its obligations under the lease, the liquidation value of the property may be substantially less than if the property were readily adaptable to other uses. The receipt of liquidation proceeds could be delayed by the approval process of any state agency necessary for the transfer of the property.

*Environmental Risks.* Under various federal and state environmental laws and regulations, owners and operators of real estate may be required to investigate and clean up certain hazardous or toxic substances, asbestos-containing materials or petroleum products released on real estate properties. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic substances. The presence of contamination or the failure to remediate contaminations at any such properties may adversely affect the Funds' ability to sell or lease the properties or to borrow using the properties as collateral. Furthermore, a person

that arranges for the disposal or transports for disposal or treatment a hazardous substance at a property owned by another may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the Funds' ability to sell such real estate or to borrow using such real estate as collateral.

Environmental liabilities that may be incurred, directly or indirectly, could have an adverse effect on the Funds' financial condition or results of operations and thereby adversely affect their investment results.

We typically expect to recommend that the Funds obtain Phase I environmental assessments on all of properties prior to acquisition. Phase I environmental assessments are intended to identify potential environmental contamination for which properties may be responsible. Phase I environmental assessments include historical reviews of the properties, reviews of certain public records, preliminary investigations of the sites and surrounding properties, screening for the presence of hazardous substances, toxic substances and underground storage tanks, and the preparation and issuance of a written report. Phase I environmental assessments do not include invasive procedures, such as soil sampling or ground water analysis. Thus, these environmental assessments may not reveal all environmental liabilities and there may be material environmental liabilities of which neither we nor the Funds' were aware.

*Capital Expenditures for Property Renovation.* Properties, particularly those that consist of older structures, have an ongoing need for renovations and other capital improvements, including periodic replacement of furniture, fixtures, and equipment. Under the terms of certain of leases, the Funds may be obligated to pay the cost of expenditures for items that are necessary for the continued operation of their properties and that are classified under generally accepted accounting principles as capital items. If these capital expenditures exceed estimates, the additional costs could have an adverse effect on the Funds. In addition, we may recommend investments in properties that require significant renovations. Renovation of properties involves certain risks, including the possibility of environmental problems, construction cost overruns and delays, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from properties.

*Property Tax Increases.* Properties may be subject to real and personal property taxes that increase as property tax rates change and as the facilities are assessed or reassessed by taxing authorities. Leases generally provide that the property taxes are charged to tenants as an expense related to the facilities that they occupy. As the owner of the facilities, however, the Funds are ultimately responsible for payment of the taxes to the government. If property taxes increase, tenants may be unable to make the required tax payments, ultimately requiring the Funds to pay the taxes.

*Reduction in Funds Available for Future Acquisitions.* All real estate properties that we recommend are subject to operating risks common to real estate in general, any or all of which may negatively impact the Funds. If a property is not fully occupied or if rents are being paid in an amount that is insufficient to cover operating expenses, the Funds could be required to expend funds with respect to that property for operating expenses. Properties are subject to increased utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses. While some properties that we recommend may require tenants to pay a portion of such expenses, some may not be negotiated on that basis, in which event the Funds may have to pay those costs. If the Funds are unable to lease properties on a basis requiring the tenants to pay all or some of such expenses, or if tenants fail to pay required tax, utility and other impositions, the Funds could be required to pay those costs.

*Inability to Obtain Adequate Financing.* We cannot be sure that the Funds' will be able to obtain lines of credit or long-term permanent financings on satisfactory terms.

*Financing to Purchasers.* In some instances we may recommend that a Fund sell an investment by providing financing to purchasers. If a Fund provides financing to purchasers, such Fund will bear the risk that the purchaser may default, which could result in litigation and related expenses. Even in the absence of a purchaser default, the distribution of the proceeds of sales, or their reinvestment in other assets, will be delayed until the promissory notes or other property the Funds may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

*Adverse consequences of failure to maintain REIT status.* We may recommend investments in REITs. If a REIT in which a Fund invests were to fail to qualify as a REIT in any taxable year, the REIT would be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates, and distributions to stockholders, including the Fund, would not be deductible by it in computing its taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution

to stockholders. Unless entitled to relief under certain provisions of the Internal Revenue Code, as amended, the disqualified REIT also would be disqualified from taxation as a REIT for the four taxable years following the year during which it ceased to qualify as a REIT.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE DESCRIPTION OF ALL OF THE RISKS ASSOCIATED WITH OUR INVESTMENT RECOMMENDATIONS OR THAT ARE OR WILL BE APPLICABLE TO THE FUNDS.**

**Item 9: Disciplinary Information**

Not applicable.

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

### **RELYING ADVISERS**

As mentioned in Item 4 above, certain of our affiliates, including HIS and HWBF (each, a “Relying Adviser” and, collectively, “Relying Advisers”), may from time to time perform and/or provide Investment Advisory Services with respect to our clients. While we and each of the Relying Advisers are organized as separate legal entities, we collectively conduct a single advisory business. Accordingly, the Relying Advisers rely on our investment adviser registration instead of separately registering as investment advisers with the SEC under the Advisers Act. To rely on our registration, we have entered into investment management supervisory agreements with each Relying Adviser, pursuant to which, among other things, (i) the Relying Adviser, its employees and persons acting on its behalf are “persons associated with” and “supervised persons” (as each term is defined in the Advisers Act) of TXRE Advisers, LLC with respect to all Investment Advisory Services provided thereby, (ii) the Investment Advisory Services of the Relying Adviser, its employees and persons acting on its behalf are subject to our supervision and control, (iii) any Investment Advisory Services of the Relying Adviser are subject to the Advisers Act and the rules and regulations thereunder, and (iv) the activities and books and records of the Relying Adviser are subject to inspection and examination by the SEC. Each Relying Adviser is subject to our compliance policies and procedures and, except as the context otherwise requires, any reference in this brochure to “we,” “us,” “our” includes TXRE Advisers, LLC and the Relying Advisers.

Any and all Investment Advisory Services with respect to the Brookfield Fund have been delegated to, and shall be provided and/or performed severally by, us and Brookfield Asset Management Private Institutional Capital Adviser US, LLC (the “Brookfield RIA”). Any Investment Advisory Services of the general partner of the Brookfield Fund that are undertaken by any of our affiliates, agents, supervised persons, employees and persons acting on their behalf are subject to our supervision and control. Any Investment Advisory Services of the general partner of the Brookfield Fund that are undertaken by affiliates of the Brookfield RIA are subject to the Brookfield RIA’s supervision and control.

### **AFFILIATED REAL ESTATE BROKER**

We are affiliated, and share certain principals and employees with, Hillwood Realty Services Corporation, a real estate broker. Although we intend to keep our business activities and operations separate and independent from the business activities and operations of Hillwood Realty Services Corporation, the activities of Hillwood Realty Services Corporation may present actual or potential conflicts of interest, including, but not limited to, the time conflicts presented thereby.

### **ACTIVITIES OF PRINCIPALS AND EMPLOYEES**

Certain of our principals and employees may serve as directors, officers or committee members of public companies and their activities on behalf of those public companies may present actual and/or potential conflicts of interest (including conflicting fiduciary duties). To address these potential conflicts, we provide full and fair disclosure of such activities in this brochure.

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

### CODE OF ETHICS

We have adopted and implemented a code of ethics, which sets forth standards of business conduct for our supervised persons. Our code of ethics is primarily designed to educate supervised persons about our philosophy regarding ethics and professionalism, emphasize our fiduciary duties to the Funds, encourage supervised persons to comply with applicable laws, prevent the misuse of material non-public information and the circulation of rumors and other forms of market abuse and address conflicts of interest that could arise from personal trading by our access persons. Among other things, we impose restrictions on access persons relating to the purchase or sale of securities for their own accounts and the accounts of certain affiliated persons. Our access persons generally are required to disclose their personal securities transactions and personal securities holdings. We also maintain certain policies and procedures designed to prevent supervised persons from misusing material non-public information. A copy of our code of ethics will be made available to the Funds upon request.

### CO-INVESTMENT OPPORTUNITIES

The general partner of the Brookfield Fund may cause the Brookfield Fund to co-invest with other entities so long as such arrangements do not materially adversely alter the economic or control rights of the limited partners set forth in the partnership agreement. If the Brookfield Fund provides the members of the general partner of the Brookfield Fund (the “Members”), or any of their affiliates, with the opportunity to co-invest with the Brookfield Fund in the securities of, or provide equity financing to, any investment of the Brookfield Fund, then such co-investment amount will be allocated among the Members and their respective affiliates, for their own account, *pro rata* in accordance with their capital commitments to the Brookfield Fund; *provided, however*, that if one Member or its affiliate elects not to take or use any portion of its allocated co-investment amount, the other Member or its affiliate will have the right, but not the obligation, to pursue such portion. In the event that the total amount of the co-investment amount allocated to the Members under the terms of the partnership agreement of the Brookfield Fund has not been taken or used by all or any of the Members, the Members generally may sell or syndicate to third parties such remaining amount, *pro rata* in accordance with their capital commitments to the Brookfield Fund; *provided, however*, that if the Members agree, the entire remaining amount may be jointly sold or syndicated by the Members.

### CONFLICTS OF INTEREST

#### Brookfield Fund

The Brookfield Fund may establish an advisory committee (the “Advisory Committee”) composed of designees of limited partners that are not affiliated with us or the general partner of the Brookfield Fund. In addition to any other waiver, consent or approval rights of the Advisory Committee expressly set forth in partnership agreement of the Brookfield Fund, the general partner will present to the Advisory Committee for its prior review and approval any transaction in which the general partner has a material conflict of interest, and any matter that, with respect to the Advisers Act, would require the approval of the Brookfield Fund or the limited partners.

The Brookfield Fund and its subsidiaries may not enter into transactions with affiliates unless specifically authorized by the partnership agreement or with the approval of the Advisory Committee; *provided, however*, the Brookfield Fund and its subsidiaries may invest in any securities issued by, or acquire investments from, sell investments to or merge investments with and into, any affiliate with the consent of limited partners representing at least eighty-five percent (85%) of the capital commitments (excluding the capital commitments of affiliates from the numerator and denominator of such calculation).

#### UST Fund

In general, any transactions in which we or our affiliates have a material conflict of interest will require the approval of the general partner of the UST Fund. As noted herein, we do not have direct or indirect discretionary investment decision-making authority with respect to the UST Fund.

## **Item 12: Brokerage Practices**

### **BROKERAGE POLICIES**

We do not expect to select and/or recommend broker-dealers or other counterparties to the Funds. In the event that we are called upon to select and/or recommend broker-dealers or other counterparties to clients in the future, we will implement and adopt policies and procedures reasonably designed to ensure that such brokers are selected in a fair and equitable manner and will promptly amend our brochure to disclose such policies and procedures.

### **Item 13: Review of Accounts**

#### **REVIEWS OF ACCOUNTS**

Certain of our executive officers generally conduct routine reviews of the Funds and their investments on at least a monthly basis. With respect to accounting matters, the general partner of the Brookfield Fund has engaged an independent public accounting firm to conduct an annual audit. In addition, the general partner of the UST Fund has engaged an independent public accounting firm to conduct an annual audit of the UST Fund.

In monitoring the performance of each Fund's investments, we perform various levels of review. Among other items, we may consider: opportunities in the real estate market, inquiries regarding a specific asset, changes in an asset's operating environment, changes in the debt market and changes in the customer of a real estate asset.

#### **REPORTS**

We provide the Brookfield Fund with periodic financial and/or asset management reports. After the close of each taxable year, investors in the Brookfield Fund will receive audited financial statements and certain tax information in connection with the preparation of their federal income tax returns.

With respect to the UST Fund, we and/or our affiliates (a) maintain the books of account of the UST Fund and its subsidiaries, (b) assist the UST Fund in obtaining its audited financial statements, (c) deliver to HIS certain reports and financial statements with respect to the UST Fund as set forth in the partnership agreement of the UST Fund; and (d) prepare or cause the UST Fund's accountants to prepare, the UST Fund's tax returns as described in the partnership agreement of the UST Fund.

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

### **THIRD-PARTY COMPENSATION**

Except as disclosed in this brochure, we currently do not receive any economic benefit from a non-client for providing investment advice or other advisory services with respect to the Funds.

### **REFERRALS**

HWBF has entered into a placement agent agreement (the “Placement Agreement”) with Brookfield Private Advisors LLC (“Placement Agent”), pursuant to which the Placement Agent has been appointed and retained to act as HWBF’s exclusive agent in connection with the offering of limited partner interests by the Brookfield Fund in a targeted solicitation to investors in one or more private placements. For the services of the Placement Agent under the terms of the Placement Agreement, HWBF pays or causes the Brookfield Fund to pay a cash fee to the Placement Agent equal to 0.5% of commitments to the Brookfield Fund raised from eligible investors during the term of the Placement Agreement or the “tail period” (as defined in the Placement Agreement).

### **Item 15: Custody**

We may be deemed to have custody of the Brookfield Fund's and certain of the UST Fund's cash and securities for purposes of Rule 206(4)-2 under the Advisers Act. Accordingly, the cash and securities of each Fund (except for privately placed securities) are maintained at one or more qualified custodians, to the extent required by Rule 206(4)-2. With respect to the Brookfield Fund, the general partner is responsible for selecting qualified custodians, and it may change custodians at any time and from time to time without the consent of, or notice to, investors. With respect to the UST Fund, HIS has the authority to deposit certain funds of the UST Fund in segregated accounts as are designated by HIS (subject to the terms set forth in the asset management agreement). In general and to the extent required by law, independent public auditors conduct annual audits of the Funds, and audited financial statements are provided to investors on an annual basis. Annual audited financial statements generally are provided by the general partners to investors in the Funds within 120 days after the end of each fiscal year, but there can be no assurance that they will be successful in this regard.

## **Item 16: Investment Discretion**

### **DISCRETIONARY AUTHORITY**

Neither we nor any of the Relying Advisers has discretionary power and authority over the amounts or types of investments to be bought or sold on behalf of the Funds. Instead, the general partner of each Fund has ultimate authority with respect to investment-related decisions of that Fund. Nevertheless, as disclosed in Item 10, certain of our affiliates and supervised persons (together with certain persons affiliated with the Brookfield RIA) manage and ultimately control the activities and operations of the general partner of the Brookfield Fund. Due to our relationship with the general partner of the Brookfield Fund, we may have indirect discretionary power and authority with respect to the Brookfield Fund.

### **LIMITED POWER OF ATTORNEY**

Pursuant to the asset management agreement, the UST Fund granted HIS a power of attorney to (among other things) effectuate the transactions described in the asset management agreement (that have been approved by the general partner of the UST Fund) and to make, execute, consent to, acknowledge, record and file partnership agreements, service agreements, financing statements and all other agreements and instruments with respect to the business and affairs of the UST Fund.

**Item 17: Voting Client Securities**

Due to the nature of the Funds' investments, neither we nor any of the Relying Advisers expect to be called upon to vote proxies with respect to securities owned by the Funds.

## Item 18: Financial Information

Not applicable.