

# True North Management Group, LLC

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## Item 1: Cover Page

This brochure provides information about the qualification and business practices of True North Management Group, LLC. If you have any questions about the contents of this brochure, please contact us at [dmcgowan@tninvestors.com](mailto:dmcgowan@tninvestors.com). The information in this brochure has not been approved or verified by the United States and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about True North Management Group, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

True North Management Group, LLC is registered as an investment adviser with the SEC. SEC registration does not imply a certain level of skill or training.

## **Item 2: Material Changes**

True North Management Group LLC did not have material changes made to this brochure for the Fiscal Year 2012.

## **Item 3: Table of Contents**

Item 1: Cover Page .....	1
Item 2: Material Changes.....	2
Item 3: Table of Contents .....	2
Item 4: Advisory Business .....	3
Item 5: Fees and Compensation.....	4
Item 6: Performance-Based Fees and Side-By-Side Management .....	5
Item 7: Types of Clients.....	6
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss.....	6
Item 9: Disciplinary Information .....	15
Item 10: Other Financial Industry Activities and Affiliations .....	15
Item 11: Code of Ethics, Participation of Interest in Client Transactions and Personal Trading.....	15
Item 12: Brokerage Practices .....	17
Item 13: Review of Accounts .....	19
Item 14: Client Referrals and Other Compensation .....	19
Item 15: Custody .....	19
Item 16: Investment Discretion .....	19
Item 17: Voting Client Securities .....	20
Item 18: Financial Information .....	20

## **Item 4: Advisory Business**

### Overview

True North Management Group, LLC (“True North”) was formed in 2004 to provide real estate investment management services. True North is a limited liability company operating under the laws of the state of Delaware. Its principal owners are Richard Gunthel and Paul Turovsky. As set forth more fully below, True North provides a variety of real estate investment management services based on the specific needs of the client and on the nature of the assets that are being acquired on the client’s behalf.

### Investment Services

True North primarily provides discretionary real estate investment management services to institutional investors and investment groups through private pooled investment funds (“Private Funds” or “Funds”). Each Fund is exempt from registration as an investment company pursuant to Section 3(c)(1) of the Investment Company Act of 1940, as amended (the “Investment Company Act”). The Private Funds may issue interests that may be structured in various forms including equity, preferred equity, mezzanine debt or any other financial structure that is consistent with the particular Fund’s investment objectives. For purposes of this brochure, the Funds, and not the Funds’ investors, are considered True North’s clients.

The managing members of the Funds (the “Managing Members”), each of which is an affiliate of True North, have broad discretion under the Funds’ respective limited liability company agreements to manage the affairs of the Funds. Pursuant to such discretion, each of the Managing Members has engaged True North, through an investment advisory agreement, to provide acquisition, origination, and administrative services on behalf of the respective Funds. In addition, True North is responsible for establishing an investment committee (the “Investment Committees”) for each Fund, which is responsible for reviewing and approving any investments recommended by True North. The members of the Investment Committees are all supervised persons of True North.

The principals of True North have also established various feeder funds whose purpose is to invest directly into the Private Funds (“Feeder Funds”). The Feeder Funds are designed to accommodate investments by non-U.S. investors or other investors who are not qualified to invest directly in the Private Funds, and each is exempt from registration as an investment company pursuant to Section 3(c)(1) of the 1940 Act. The sole purpose of the Feeder Funds is to invest directly in the Private Funds.

True North tailors its advisory services to the specific investment objectives and restrictions of each Fund pursuant to the applicable investment guidelines and restrictions set forth in the relevant Fund’s limited liability company agreement, private placement memorandum and investment advisory agreement (collectively, the “Governing Documents”). True North seeks to achieve the investment objective of each Fund by

advising on investments in high yield debt and direct equity investments in real estate assets in the United States and Canada, including distressed debt opportunities and the provision of “rescue capital” in the form of debt or equity to assets that are in transition, possess unique complexities, or have suffered value impairments. True North seeks to implement a focused strategy designed to capitalize on financial market turmoil to generate returns based on real estate fundamentals. True North will seek assets it believes will present additional investment opportunities as lenders and investors reduce exposure to specialized real estate. For more detail on the strategy formulations, please see Item 8, Investment Strategies and Risk of Loss, below.

In accordance with the terms of each Fund’s Governing Documents, the Managing Member of a Fund may enter into “side letter” agreements with certain investors in a Fund whereby the Managing Member may grant individual Investors specific rights, benefits or privileges not set forth in the Fund’s Governing Documents. Side letters may potentially create a conflict of interest by allowing True North to favor the interests of one Investor over another. True North mitigates this potential conflict of interest by generally making available to each Investor in a Fund the right to elect to receive the benefit of side letter provisions extended to similarly situated Investors, and in all cases making the contents of all side letters available to all investors investing in that same fund.

True North’s investment advisory agreements may include limitations on the allocation of funds to certain investments (including, for example, limitations on the amount of investment in any single transaction).

#### Managing Member Commitment

The Managing Member of the Private Funds, which is wholly-owned by the Principals of True North, has committed to invest a specified amount of its capital in each Private Fund as set forth in the respective Private Fund’s Governing Documents (the “Managing Member Commitment”). The Managing Member Commitment is discussed further in Sections 5 and 11, below.

#### Wrap Fee Programs

True North does not participate in any “wrap fee” programs.

#### Assets Under Management

As of February 28, 2013, the amount of client assets True North managed on a discretionary basis was \$718 million. True North does not manage any assets on a nondiscretionary basis.

### **Item 5: Fees and Compensation**

#### Fees Generally

Fees for real estate investment management services are typically negotiated on a case-by-case basis depending on the type of investment being considered and the depth of services being provided.

A Management Fee is typically paid to True North by each Private Fund as specified in such Private Fund's governing documents. The fees and other compensation payable to True North may vary from fund to fund, and have typically conformed with the following schedule: 1.5% of committed capital during the Fund's investment period (as defined in each fund's governing documents) and, later, 1.5% of net equity invested in the fund. In certain cases, investors making very large commitments (typically in excess of \$100 million), may be charged a lower fee. Such fees are paid to True North quarterly and in advance and typically deducted from the account. In the event of a termination of management services, the amount of prepaid management fees would be calculated and promptly refunded.

#### Performance-Based Fees

The Private Funds are also typically charged a performance-based fee that is paid to a True North affiliate, discussed more fully in Item 6, below.

#### Managing Member Commitment

The Managing Member does not pay a Management Fee or carried interest to True North with respect to the Managing Member's Commitment in the Private Funds.

#### Other Fees or Expenses

Each Fund will typically bear all other costs and expenses of the Fund, which may include, without limitation, the fees and expenses owed to the placement agents and financial advisors in connection with the formation of a Fund, legal, auditing, consulting, financing, accounting and custodian fees and expenses; expenses of the members of the Fund's Investment Committee; other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses (such as litigation, if any) and any taxes, fees or other governmental charges levied against the Fund. For a discussion of additional transaction and brokerage costs that may be incurred by the Fund, please see Item 12 below.

Neither True North nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

The Managing Member of each Private Fund will typically receive a performance fee, which paid to the Managing Member at the appropriate payment level within the

Private Fund's distribution hierarchy (i.e., waterfall), which is set forth in the Private Fund's limited liability company agreement. Payment of the Managing Member's carried interest will generally occur on an investment-by-investment basis after all capital contributed for such investment is returned and a specific preferred return on such investment is realized and paid to the relevant Private Fund's members. The performance fee target is typically 20% of the Private Fund's profits (including cash flow from operating the asset and cash received from selling or refinancing the asset) subject to certain limitations, including preferred return hurdles or other hurdles depending on the particular Private Fund. True North typically withholds a portion of any performance fees paid on an investment-by-investment basis to ensure that the total of all performance fees paid for a Private Fund are consistent with the overall returns of that Private Fund.

Certain supervised persons of True North have an ownership interest in one or more of the Managing Members, and may therefore receive a portion of the carried interest for each Private Fund. This fee arrangement may create an incentive for True North to dedicate increased resources and allocate more profitable investment opportunities to a Private Fund that pays higher fees over one that pays lower fees. Performance-based compensation may also incentivize True North to make more speculative investments than it would otherwise make in the absence of such performance-based compensation. True North has procedures designed and implemented to prevent this potential conflict from influencing the allocation of investment opportunities among clients. In particular, True North mitigates this conflict by subordinating the performance-based fees behind certain minimum returns to clients. In addition, Private Fund agreements often require True North to invest alongside Private Fund investors in amounts that are significant to True North principals as a further alignment of interests. Moreover, as discussed in Item 11, as a fiduciary, True North endeavors to place client interests ahead of its own in all investment-related decisions.

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

For purposes of this brochure, the Funds, and not the investors in the Funds, are considered True North's clients. True North currently provides investment advice to the Funds, as discussed in Item 4, above. True North may advise different types of clients in the future.

Each investor in the Funds ("Investor") must generally be an "accredited investor" as defined in Regulation D under the Securities Act of 1933, as amended ("Securities Act"). Additional or different restrictions may apply, and are set forth in the offering or organizational documents for each Fund. The minimum commitment for an Investor in the Funds generally is \$10 million and the minimum commitments for the Feeder Funds is \$100,000, although in certain cases smaller commitments may be accepted in the discretion of the applicable Managing Member.

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

The investment objectives, significant investment strategies and related material risks of the Funds are summarized below, and set forth in greater detail in each Fund's Confidential Private Placement Memorandum. Investments in the Funds are not guaranteed. An investment in a Fund involves a risk of loss that an investor should be prepared to bear.

True North generally focuses on high yield real estate debt and equity opportunities emanating from financial market turmoil. True North will utilize its relationships to source attractive, off-market opportunities arising from financial or operational distress at the property or entity level. Returns will be driven by real estate fundamentals rather than through financial engineering. Investments usually have one or more of the following characteristics:

**Distressed or Undervalued Loans and Properties.** Investment situations where financial institutions dispose of distressed loan portfolios. True North targets attractively priced opportunities in overleveraged, troubled, or undervalued assets where performance suffers from mismanagement or excessive financing. In addition, True North targets purchase opportunities from financial institutions selling loans in out-of-favor asset classes or markets. True North typically works with a borrower to a successful resolution and repayment or acquires the assets through deed-in-lieu of foreclosure.

**Rescue Capital Situations.** True North targets opportunities to provide "rescue capital" in the form of high yield debt or equity instruments to capital-constrained borrowers or property owners in need of access to capital. Additionally, True North seeks to establish equity joint venture relationships with existing property owners, offering capital infusions in exchange for potential preferred returns, upside participation, and operational control.

**Opportunistic Equity.** True North targets opportunities to purchase assets at discounted prices from sellers who are under pressure due to recent credit market difficulties and the inability to secure high levels of leverage.

**High-Operating Content Assets.** True North targets debt and equity investments in high-operating content assets that by their nature require a significant degree of operating expertise to generate substantial returns. Such assets include hotels, assisted living centers, senior housing facilities, medical offices, or other healthcare related facilities.

### **Methods of Analysis**

True North's investment approach is driven by real estate fundamentals and forward critical thinking. The Firm adheres to a disciplined process when considering prospective investments. Each investment opportunity will be subject to True North's due diligence and thoughtful decision-making process. Throughout the life of an investment, True North provides hands-on asset management to optimize performance, manage risk, and continually evaluate exit strategies.

True North pursues a disciplined investment process that entails:

1. leveraging historical relationships to source opportunities;
2. performing rigorous due diligence and underwriting, with applied research and
3. thorough credit analysis;
4. determining optimal investment structure;
5. utilizing active operational asset management style; and
6. focusing on exit strategies.

### **Material Risks**

The material risks associated with investments in real estate, and pursuing the investment strategies described above, include, but are not limited to:

**Risks of Investing in Real Estate and Real Estate-Related Investments.** Investments in real estate assets and real estate-related investments, including operating companies or portfolios of real estate assets and loans secured by real estate assets, are subject to various risks, including adverse changes in national or international economic conditions, local market conditions, availability or terms of debt financing, interest rates, environmental laws and regulations, zoning laws, and other governmental rules and fiscal policies, energy prices, the financial conditions of tenants, buyers, and sellers of properties, real estate tax rates and other operating expenses, the relative popularity of certain property types, and the availability of certain construction materials, as well as risks due to dependence on cash flow, acts of God, uninsurable losses and other factors which are beyond the control of the Managing Members, True North or the Funds. The real estate assets associated with the Fund's investments may be or become nonperforming after acquisition for a wide variety of reasons. Such non-performing real estate investments may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial write-down of such loan or asset. However, even if an asset is performing as expected, a risk exists that, upon maturity of financing, replacement "takeout" financing will not be available or will not be available on attractive terms. It is possible that the Funds may find it necessary or desirable to foreclose on some of the collateral securing one or more debt investments and the foreclosure process can be lengthy and expensive. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, which may have the effect of further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

**Risks Associated with Commercial Mortgage Loans.** The Funds may invest in, among other things, commercial mortgage loans. The value of the Funds' commercial mortgage loans and the underlying commercial mortgage-backed securities will be influenced by the historical rate of delinquencies and defaults experienced on the commercial mortgage loans and by the severity of loss incurred as a result of such defaults. The factors influencing delinquencies, defaults, and loss severity include: (i) economic and real estate



market conditions by industry sectors (e.g., multifamily, retail, office); (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan. Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single-family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (i.e., the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning and other laws) rather than upon the existence of independent income or assets of the borrower. Most commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees. Commercial mortgage loans that may be acquired generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining "balloon" amount at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans and commercial mortgage backed securities bear the risk that the borrower will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation. Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

The residential mortgage market in the U.S. has experienced a variety of difficulties and changed economic conditions. These conditions have had significant adverse effects and may continue to have significant adverse effects on financial markets and the U.S. economy generally, including the commercial mortgage market. Numerous laws, regulations and rules related to the servicing of mortgage loans, including foreclosure actions, have been proposed or enacted by U.S. federal, state and local governmental authorities. These proposed or enacted laws, regulations and rules may result in delays in the foreclosure process, reduced payments by borrowers or increased servicing expenses.

**Risks Associated with High Yield Commercial Mortgage-Backed Securities.** The Funds may invest in commercial mortgage-backed securities and other mortgage-backed securities, including subordinated tranches of such securities. In general, to the extent that the risk factors discussed herein pertain to mortgage loans (and the type of property securing such mortgage loans), they would similarly pertain to the mortgage backed security in which the Funds make investments. Some or all of the commercial mortgage backed securities contemplated to be acquired by the Funds may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated commercial mortgage-backed securities, or "B-pieces", in which the Funds may invest, have speculative characteristics that can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than "B" by the rating

organizations can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner's equity in the property may be insufficient to protect the Funds from loss. If a Fund becomes an investor in subordinated commercial mortgage-backed securities in particular, such Fund will be first in line among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral. The value of commercial mortgage-backed securities and other mortgage-backed securities in which the Funds may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities will decline. In addition, to the extent that the mortgage loans that underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline. Typically, commercial mortgage loans are not prepayable or are subject to prepayment penalties or interest rate adjustments, while the principal on most residential mortgage loans generally may be prepaid at any time without penalty.

**Investment in Troubled Assets.** The Funds may make investments in secured and unsecured nonperforming loans or other troubled assets that involve a significant degree of legal and financial risk and, in the international context, political risks. Furthermore, investments in assets operating in workout modes or under Chapter 11 of the U.S. Bankruptcy Code, as amended, and other comparable bankruptcy laws may, in certain circumstances, be subject to certain additional potential liabilities that may exceed the value of a Fund's original investment. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or counterclaims may be filed and lenders may be found liable for damages suffered by various parties as a result of such actions. In addition, under certain circumstances, distributions by a Fund to the Members may be reclaimed if any such distribution is later determined to have been a fraudulent conveyance or a preferential payment. Moreover, with respect to international investments in secured and unsecured non-performing loans or other troubled assets, there are additional risks and uncertainties related to litigation, bankruptcy, and other laws and regulations affecting the rights and remedies of the Funds with respect to these assets that can create additional financial risks to the Funds.

**Investments through Partnerships and Joint Ventures.** The Funds may make investments in partnerships, joint ventures, operating companies, corporations, companies, or other entities. Such investments may involve risks not present in direct investments, including, for example, the possibility that an operating company, co-venturer or partner of a Fund may commit fraud, become bankrupt, or have economic or business interests or goals which are inconsistent with those of such Fund, or that any such operating company, co-venturer or partner may be in a position to take action contrary to such Fund's objectives. Furthermore, if a co-venturer or partner defaults on its funding obligations, it may be difficult for the Fund to make up the shortfall from other sources. The Members may be required to make additional contributions to replace such shortfall, thereby reducing the diversification of their investments. Any default by such

co-venturer or partner could have an extremely deleterious effect on the Fund, its assets, and the interests of the Members. In addition, the Funds may be liable for actions of their co-venturers or partners. While True North will attempt to limit the liability of the Funds by reviewing the qualifications and previous experience of co-venturers or partners, it does not expect generally to obtain financial information from, or to undertake private investigations with respect to, prospective co-venturers or partners.

**Investments in Entities that the Fund Does Not Control.** The Funds' investments may include debt instruments and equity securities of corporations or other entities which the Funds will not control. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which the applicable Fund does not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve such Fund's interests. A Fund may be required to go through lengthy procedures in order to gain control over the operations of such companies, which, in fact, may never occur or may result in a loss in value of the Fund's investment during this intervening period.

**Liabilities upon Disposition.** In connection with the disposition of an investment, True North may be required to make representations about the business and financial affairs of the entities which hold the investment typical of those made in connection with the sale of any business and may be responsible for the content of disclosure documents under applicable securities laws. They may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in contingent liabilities, which will be borne by the Funds.

**Risks Associated with Unspecified Transactions.** The business of identifying and structuring the acquisition of operating companies and secured and unsecured nonperforming loan and real estate-related debt and equity transactions is highly competitive and involves a high degree of uncertainty.

**Limited Current Return.** The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. Current returns from investments may vary, but True North is not obligated to manage investments to maximize current returns.

**Market Risks.** The Funds may have some investments that are publicly traded. The values of such investments are particularly susceptible to fluctuations based on market trends. Changes in stock prices, interest rates, currency exchange rates, or commodity prices could result in changes in the broader marketplace that adversely affect the value of publicly traded investments.

**Leverage.** The Funds may use a substantial amount of direct or indirect leverage in connection with its investments. This leverage will increase the exposure of such investments to adverse economic factors such as significantly rising interest rates, severe

economic downturns or deterioration in the condition of the investment or its corresponding market. In the event an investment is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of the applicable Fund's equity investment in such investment could be significantly reduced or even eliminated. The financial markets in the U.S. and elsewhere have experienced a variety of difficulties and changed economic conditions. These conditions could adversely impact the amount and terms of financing available to the Funds, which could affect the returns generated by the Funds and the ability to structure potential transactions.

**Recourse to All Assets.** The assets of the Funds, including any investments made by the Funds and any funds held by those entities, will be available to satisfy all liabilities and other obligations to such entity. If a Fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to such Fund's assets generally and not be limited to any particular assets, such as the asset representing the investment giving rise to the liability.

**Uninsured Losses.** The Funds will attempt to maintain insurance coverage against liability to third parties and property damage as is customary for similarly situated businesses. However, there can be no assurance that insurance will be available or sufficient to cover any such risks. Insurance against certain risks, such as earthquakes or floods, may be unavailable, unavailable on economical terms, available in amounts that are less than the full market value or replacement cost of underlying properties or subject to a large deductible. There can be no assurances that the particular risks that are currently insurable will continue to be insurable on an economically affordable basis. Because the Funds are pooled investment funds, all Fund assets may be at risk in the event of an uninsured liability to third parties.

**Expedited Transactions.** Investment analyses and decisions by True North may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to True North at the time of an investment decision may be limited, and True North may not have access to detailed information regarding the investment opportunity, such as physical characteristics, structural or environmental matters, zoning regulations, or other local conditions affecting an investment. With respect to real estate-related investments, True North may not be able to undertake all appropriate inquiries into the previous ownership and uses of a property consistent with good commercial or customary practice. Therefore, no assurance can be given that True North will have knowledge of all circumstances that may adversely affect an investment. In addition, True North may rely upon independent consultants in connection with its evaluation of proposed investments; however, no assurance can be given that these consultants will accurately evaluate such investments and the Funds may incur liabilities as a result of such consultants' actions.

**Risks of Environmental Liabilities.** Under various local laws, ordinances, and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances and other environmental

pollutants (including, without limitation, petroleum products, asbestos, and polychlorinated biphenyls) released on, about, under, or in its property. Environmental laws often impose this liability without regard to whether the owner or operator knew of, or was responsible for, the release of hazardous substances or other environmental pollutants. The presence of hazardous substances or other environmental pollutants, or the failure to remediate hazardous substances or other environmental pollutants properly, may adversely affect the owner's ability to sell or use real estate or to borrow outside funds using real estate as collateral. In addition, some environmental laws create a lien on contaminated property in favor of the government for costs it incurs in connection with the contamination. In addition to clean-up actions brought by federal, state or local agencies and private parties, the presence of hazardous substances or other environmental pollutants on a property may lead to claims of personal injury, property damage, or other claims by private plaintiffs. Environmental liabilities with respect to a specific real estate asset may exceed the value of such asset, and under certain circumstances, subject the other assets of the Funds to such liabilities.

**Hedging Transactions.** The Funds may enter into hedging and similar transactions with respect to interest rate fluctuation risks where deemed appropriate and cost effective by True North. However, True North does not anticipate that hedging will be utilized to cover all such risks, that it will be cost effective in certain situations, or that it will be appropriate in some situations. It is impossible to hedge interest rate fluctuation risk perfectly, and prudent hedging policies can only serve to minimize or reduce, but not to eliminate, the risks of interest rate fluctuations. There can be no assurance that techniques used in derivative or hedging strategies will always be available, that the Funds will engage in these techniques when available, or that the hedging strategies will be successful in limiting the risks of interest rate fluctuations. There are additional risks that counterparties to any hedging transactions will not perform as expected. The Funds will bear the cost of any derivative or hedging transactions entered into on its behalf.

**Regulatory Risks.** There is no assurance that the investments of the Private Funds will be able to: (i) obtain all required regulatory approvals not yet acquired, or that may need to be acquired in the future; (ii) obtain any necessary modifications to existing regulatory approvals; or (iii) maintain required regulatory approvals. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals, or amendments thereto, or delay or failure to satisfy any regulatory conditions or other applicable requirements could impede the development of real estate assets, delay the completion of a previously announced acquisition or sale to third parties, or otherwise result in additional costs to an investment, and in turn the Private Funds.

**Taxation.** Investments in real estate and real estate-related assets may be subject to numerous taxes, fees, and duties by the jurisdiction in which such assets reside or operate. Each investor in a Private Fund will be taxed on the income of the Private Fund regardless of whether the investor receives any actual cash distributions, and an investor's tax liability associated with an investment in the Private Fund for a certain taxable year may exceed the cash distributions during the taxable year. The investments of the Private Funds are structured according to certain tax-planning strategies. If such a

structure fails to operate as intended, it could expose the Private Funds to unexpected taxation that may reduce the returns of the Private Funds. Under certain circumstances, these tax liabilities could be incurred by the limited partners of the Private Funds directly. In addition, future changes in the tax laws affecting the Private Funds' assets and investors could have a material impact on the returns of the Private Funds.

Also, investing in a Private Fund is subject to certain additional risks, including but not limited to the following:

**Reliance on the Managing Member and True North:** Each Fund will be managed exclusively by the applicable Managing Member and True North, and Members will not be able to make any management, investment, or other decisions on behalf of the Funds. In addition, the Managing Members and True North may have limited personnel and may not yet have identified or hired all the personnel who will be employed in connection with the Funds. Should one or more of a Managing Member's or True North's personnel become incapacitated or in some way cease to participate in the management of a Fund, such Fund's performance could be adversely affected.

**Risk of Limited Number of Investments.** The Funds may participate in a limited number of investments and, as a consequence, the aggregate return of the Funds may be substantially adversely affected by the unfavorable performance of even a single investment. In addition, the diversification of the Funds' investments could be further limited and proportionately more capital employed to the extent a Fund invests a significant portion of its capital in a single transaction or limited number of transactions.

**Lack of Liquidity of Investments.** It is unlikely that there will be a public market for most of the investments held by the Funds. The Funds generally will not be able to sell their investments publicly unless their sale is registered under applicable federal and state securities laws, or unless an exemption from such registration requirements is available. In some cases a Fund may be prohibited by contract from selling investments for a period of time. In addition, the types of investments held by the Funds may be such that they require a substantial length of time to liquidate. In the event of a margin call or other loan repayment at a time in which a Fund does not have sufficient cash assets to cover such call or payment, such Fund may have to liquidate certain investments at less than their expected returns, thereby resulting in lower realized proceeds to such Fund.

**Valuation.** The Private Funds' portfolios contain numerous illiquid, subordinate, non-traded, or lightly traded investments for which a traditional fair market value would may difficult and expensive, if not impossible, to determine. Therefore, private equity funds, like the Private Funds, customarily use discounted cash-flow value as a surrogate for traditional fair market value calculations. Fair value estimates involve calculations of expected future cash flows, the timing of receipt of those expected cash flows, and the discount rate applied to the overall cash flows. The fair value of a Private Fund asset includes unrealized gains and losses, and may be adjusted by any cash distributed or contributed to the Private Funds or to reflect any permanent impairment to the asset values as determined by True North. Therefore, the fair value of assets may vary from

actual amounts realized upon the disposition of those assets. There can be no assurances that the fair value determinations, or the assumptions used to make those determinations, will prove to be accurate. The Private Funds may rely on valuations they receive from third parties in determining the price paid for assets. Such valuations may turn out to be inaccurate and therefore affect the Private Funds' returns with respect to such assets. There can be no certainty that the price paid for an asset by a Private Fund will be equal to or less than the determined fair value, and as such, this may have an impact on the fair value as it is calculated on a discounted cash-flow, rather than a price-paid, basis.

#### **Item 9: Disciplinary Information**

There are no legal or disciplinary events that would be material to a client's or prospective client's evaluation of True North's advisory business or the integrity of True North's management persons, including supervised persons.

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

Neither True North nor any of its management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant ("FCM"), commodity pool operator ("CPO") or commodity trading advisor ("CTA"). In addition, neither True North nor any of its management persons is an associated person of an FCM or a CPO or CTA.

In its capacity as Managing Member of the Funds, True North, or an affiliate, holds a nominal investment in such Funds and therefore may be viewed as having an incentive to favor such Funds. Specifically, a True North affiliate will serve as the Managing Member of the Private Funds that True North advises, such that:

- True North Capital Funding, LLC is the managing member of True North Mezzanine Investment Fund, LLC and True North Mezzanine F&F Investors, LLC
- True North Capital Funding, LLC is the managing member of True North High Yield Investment Fund II, LLC, True North High Yield II F&F Investors, LLC and TNHYIF PIF, LP
- True North Management Group LLC is the non-member manager of True North Fairfield Property Partners LLC

True North has adopted controls that are intended to ensure that no clients are favored over others. Specifically, True North is organized such that investments are typically made for a single investment vehicle at a time. The Fund agreements typically require True North professionals to allocate a substantial majority of their time to that singular Fund until the Fund is almost fully invested. Therefore, conflicts of interest regarding investment allocation do not normally arise.

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

True North has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Advisers Act. The Code of Ethics includes guidelines about the appropriate use of company related information, appropriate relationships with clients and vendors, and the appropriate behavior for gifts offered or received. All True North employees must accept in writing the terms of the Code of Ethics upon employment, annually, or as amended.

The Code states that True North personnel must always place the interests of True North’s clients first. The Code sets forth standards of conduct expected of True North’s personnel, which reflect the fiduciary obligations of True North and its personnel to its clients, and requires True North’s personnel to comply with applicable federal securities laws. The Code also requires any employee of True North to report potential violations of the Code promptly to the Chief Compliance Officer (“CCO”). True North provides each employee with a copy of the Code and any amendments thereto, and employees are required to provide a written acknowledgement that they have received the Code, as amended from time to time.

The Code addresses conflicts that could arise from personal securities trading by True North’s “access persons” – i.e., the officers, directors and employees of True North:

- who have access to nonpublic information regarding any client’s purchase or sale of securities, or nonpublic information regarding the portfolio holdings of any clients, or
- who are involved in making securities recommendations to clients or have access to such recommendations that are nonpublic.

The Code generally requires access persons to submit an annual report of brokerage accounts and holdings along with an annual acknowledgement and certification stating that the individual will comply with the Code. In addition, the Code requires personnel to submit quarterly transaction reports (or brokerage statements) that detail the individual’s securities transactions for the quarter, and for the CCO to review those reports. The Code also contains restrictions on the use of insider information and non-public information regarding a client of True North.

True North keeps records of reports and other information that access persons are required to provide under the Code. The CCO reports on issues that arise under the Code to True North’s senior management at least annually. True North’s clients or prospective clients may request a copy of the firm’s Code of Ethics by contacting the firm’s Chief Compliance Officer by telephone at (914) 304-8783 or by email at [dmcgowan@tninvestors.com](mailto:dmcgowan@tninvestors.com).

True North affiliates often serve as the Managing Members of the Private Funds that True North advises. In addition, as discussed in Item 4, Managing Members of the Private Funds, each of which is wholly-owned by the Principals of True North, have committed to invest a specified amount of its capital in each Private Fund as set forth in the respective Private Fund’s Governing Documents. As such, True North may be deemed to be recommending securities in which True North or a related person has a



material financial interest. However, except with respect to the Managing Member Commitment, neither True North nor its employees invest in opportunities recommended to the Private Funds. Also, investments by True North or its employees through the Managing Member Commitment are made at the same time, and on the same economic terms, as investments by the Private Funds. As such, there should be no conflict of interest. In the event that a potential conflict between Private Funds and True North arises, True North will endeavor to resolve such conflict in a manner deemed equitable to the extent possible under the prevailing facts and circumstances and in accordance with True North's fiduciary duties to its clients.

Other than described above, neither True North nor a related person recommends to clients, or buys or sells for client accounts, securities in which True North or such related person has a material financial interest. In addition, except with respect to the Managing Member Commitment, neither True North nor a related person invests in the same securities (or related securities, such as warrants, options or futures) that True North or a related person recommends to clients. Finally, neither True North nor a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that True North or such related person buys or sells the same securities for True North's own (or the related person's own) account.

## **Item 12: Brokerage Practices**

True North seeks to obtain best price and execution for all transactions made on behalf of its clients, to trade assets in a manner that is fair to all clients, and to exercise diligence and care throughout the transaction process. True North engages real estate brokers to assist in property acquisitions and dispositions. It is the real estate industry custom that brokers are selected and compensated by the property seller. Therefore, with respect to real estate assets, True North's broker selection process is typically only implemented on dispositions. In those cases, True North will solicit opinions of value from multiple local brokers (minimum of three) and will request proposals for the sales marketing campaigns from each. True North will select the broker most appropriate for the particular transaction after considering cost, experience, depth of contacts, and likelihood of execution. The broker commissions are typically based on a percentage of the executed sale price. These brokerage fees are borne by the Funds, not directly by True North. True North does not permit clients to direct brokerage, nor does True North routinely recommend, request or require that a client direct True North to execute transactions through a specified broker-dealers.

The sales transactions for which brokers are engaged are typically one-time, independent transactions. No other compensation is typically offered or expected. The nature of the real estate transactions to which True North is typically a party tend to be singular or very low volume.

In addition, True North may sometimes engage a mortgage broker to facilitate mortgage debt procurement. The mortgage broker selection process is similar to the real estate broker selection process described above. True North will solicit proposals from

multiple mortgage brokers and make a selection based on the best likely execution (in terms of mortgage proceeds, rate, and any other pertinent factors). Mortgage brokers receive commissions that are typically based on a percentage of the mortgage proceeds. These brokerage fees are borne by the Funds, not directly by True North.

True North may also recommend the purchase of securities for which there is a more liquid market or provide strategic or other related advice with respect to the sale of such securities. In such circumstances, True North, which is responsible for the execution of trades, will seek to execute the transaction with the broker-dealer that provides best price and execution of such transaction under the circumstances.

In seeking best execution of securities transactions, True North will consider a variety of factors, including: (i) the ability of a counterparty to present the applicable Private Fund with a transaction that meets its investment goals; (ii) the credit availability of the applicable Private Fund with the counterparty; (iii) the financing terms (if any) that the counterparty is willing to provide to the Private Funds in connection with the acquisition of the investment; (iv) the reliability, integrity, financial condition and execution capability of the counterparty being considered for effecting transactions in light of the size and complexity of the transaction; (v) the price or spread; (vi) the commission rates, if any; (vii) the ability of the broker-dealer to maintain confidentiality of a transaction; (viii) the speed of execution; and (ix) settlement reliability and accuracy of the broker-dealer.

Although True North generally seeks to pay the best price under the circumstances, it will not necessarily always do so. Transactions may involve specialized services or considerations (such as the type of assets the Private Fund is seeking to purchase or the availability of financing opportunities to the applicable Private Fund) that must be considered when selecting a counterparty and thereby entail higher markups or commissions than would be the case with transactions that do not involve any specialized services or considerations.

True North does not permit clients to direct brokerage, nor does True North routinely recommend, request or require that a client direct True North to execute transactions through a specified broker-dealers.

True North does not receive any soft dollar benefits. In selecting brokers, True North does not consider whether True North or a related person receives client referrals from a broker or third party.

#### Trade Aggregation and Allocation

True North is organized such that investments are typically made for a single investment vehicle at a time. The Fund agreements typically require True North professionals to allocate a substantial majority of their time to that singular Fund until the Fund is almost fully invested. Therefore, aggregation and allocation issues do not normally arise.

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

Investments made by the Funds are generally long-term in nature and illiquid. Accordingly, the review process generally is not directed towards short-term sell decisions. True North monitors all investments on behalf of each Fund on a regular basis, typically each month, with a more formal written review each quarter. All significant changes in budget, credit quality or asset performance are reviewed by the principals of True North, who engage outside advisors as needed. A review will be made at the time of investment to ensure that the investment is in compliance with the investment objective of the Fund. Special reviews may be triggered by significant changes in the market.

On an annual basis, each Investor receives audited financial statements and tax information necessary for the completion of tax returns. The Managing Members of the Funds issue written reporting packages quarterly to all Fund investors. Such reporting packages include Fund balance sheets, income statements, cash flow statements, a statement of Fund investors' capital and changes in financial position, and a report of all Fund assets, valued at historical cost.

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

True North does not receive economic benefits from a non-client for providing investment advice or other advisory services to its clients.

True North previously engaged Lazard Frères & Co. LLC (a FINRA-member broker-dealer) and Lazard & Co., Limited (a broker-dealer authorized by the FSA in the United Kingdom) as placement agent for Fund II. The placement agent was compensated for the services provided in accordance with an agency agreement with True North, which generally includes a fee in an amount equal to a percentage of the capital commitments for interests made by potential investors in a Fund in which they subsequently invest. By agreement, Fund II pays this fee on behalf of True North, and True North reduces its management fee by an identical amount.

### **Item 15: Custody**

True North has custody of the assets of the Funds. The Funds and their investors receive annual audited financial statements from the Funds' auditor.

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

True North has discretionary authority over the investment activities of the Funds, including discretionary authority to buy and sell securities or other investments on behalf of the Funds and to determine the amount of such investments to be bought and sold. This discretionary authority is generally granted to True North pursuant to its investment management agreements with the Funds, each Fund's Confidential Private Placement Memorandum, as well as the Funds' governing documents. True North exercises its

investment discretion in a manner consistent with the stated investment objectives, policies, guidelines, and restrictions/limitations for each Fund.

**Item 17: Voting Client Securities**

True North does not typically invest in securities that carry proxy voting rights. Consequently, this Item is not applicable.

**Item 18: Financial Information**

True North does not require or solicit prepayment of fees six or more months in advance. True North has never filed for bankruptcy and is not aware of any financial condition that is expected to affect or is reasonably likely to impair its ability to meet its contractual obligations to its clients.