

# **QDC-Asset Management, L.L.C.**

## **Form ADV, Part 2A Brochure**

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This brochure provides information about the qualifications and business practices of QDC-Asset Management, L.L.C. If you have any questions about the contents of this brochure, please contact us at (202) 393-1999. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about QDC-Asset Management, L.L.C. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This brochure refers to QDC-Asset Management, L.L.C. as a “registered investment adviser” and as being “registered” with the SEC. Registration with the SEC as an investment adviser does not imply that QDC-Asset Management, L.L.C. possesses a certain level of skill or training.

## **Item 2 – Material Changes**

This brochure is the first annual update since the filing of our Form ADV, Part 2A dated February 14, 2012. Since that filing, we filed an other-than-annual amendment dated April 5, 2012, which revised the brochure to reflect that a related investment adviser, NCP 2 L.L.C. (“NCP 2”), looks to and relies on the registration of QDC-Asset Management, L.L.C. (“QDC-Asset”), pursuant to the American Bar Association Subcommittee on Hedge Funds no-action letter dated January 18, 2012. That amendment resulted in material changes to Items 4, 5 and 6 of the brochure.

This item only discusses material changes to the brochure since our original filing. In the brochure dated April 5, 2012 and in this brochure, we have made additional changes to the original brochure that we do not consider to be material.

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#### **Item 4 – Advisory Business**

QDC-Asset and NCP 2 (collectively, the “Adviser”) serve as investment advisers to private real estate investment funds sponsored by affiliates of Quadrangle Development Corporation (the “QDC Funds” and individually each a “QDC Fund” or “Fund”) and to the general partners of the QDC Funds that are formed as limited partnerships. The general partner entities are special-purpose entities formed by Quadrangle Development Corporation (“QDC”) to serve as general partners and are affiliates of the Adviser. NCP 2 is the investment adviser to National Capital Properties Trust II.<sup>1</sup> QDC-Asset is the investment adviser to National Capital Properties III, LP and its general partner, NCP 3 LLC, as well as National Capital Properties IV, LP and its general partner, NCP 4 LLC.

The Adviser’s principal owner is QDC, a real estate development company controlled by Christopher Gladstone (the “Principal”). The QDC Funds invest in real estate assets in Washington, D.C., Virginia, and Maryland, focusing on office, hospitality, multi-family residential, mixed use, and land development projects. From time to time, the Adviser makes temporary investments for the QDC Funds operating through a real estate investment trust structure in stocks of publicly traded real estate investment trusts for the primary purpose of maintaining the tax advantages offered by this structure.

The Adviser’s services include evaluating proposed real estate investments, making recommendations about proposed investments, performing regular valuations of the QDC Funds’ portfolio investments, preparing reports for the QDC Funds, and advising on disposition of the QDC Funds’ investments.

The investment objectives and guidelines of the QDC Funds and any investment limitations are provided in each QDC Fund’s formation documents. In providing investment advice to the QDC Funds and to the general partners of certain QDC Funds, the Adviser pursues these objectives. As such, the Adviser’s services are individually tailored to the needs and investment objectives of each QDC Fund. The Adviser enters into a written advisory contract with each QDC Fund and its general partner, as applicable. Investors in the QDC Funds are not clients of the Adviser and investment advice is not based on the individual investment objectives of QDC Fund investors.

As of December 31, 2012, the Adviser was the investment adviser to three (3) QDC Funds with approximately \$388 million in regulatory assets under management (including still-unfunded commitments), all of which was managed on a discretionary basis. Although the general partner entities retain ultimate decision-making authority under the applicable formation documents for the QDC Funds that are formed as limited partnerships, QDC-Asset reports its assets under

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<sup>1</sup> NCP 2 will look to and rely on the registration of QDC-Asset and is not itself registering as an investment adviser. This position is based on the American Bar Association Subcommittee on Hedge Funds no-action letter dated January 18, 2012.

management as being managed on a discretionary basis due to the relationship of QDC-Asset and the general partner entities and the fact that the advisory personnel of QDC-Asset and the general partner entities are the same persons. These general partner entities will look to and rely on the registration of QDC-Asset and are not themselves registering as investment advisers.<sup>2</sup>

QDC has been involved in the real estate development business since 1971. QDC-Asset was formed in October 1999, when QDC sponsored its first real estate investment fund. NCP 2 was formed in February 2001. All of the QDC Funds are closed to new investors. In 2012, the Adviser registered with the SEC due to revisions to the Investment Advisers Act of 1940 (the “Advisers Act”) by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

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<sup>2</sup> This position is based on the American Bar Association Subcommittee on Private Investment Entities no-action letter dated December 8, 2005.

## **Item 5 – Fees and Compensation**

The Adviser receives compensation from each QDC Fund pursuant to the terms of an advisory contract with the Fund and, if the Fund is formed as a limited partnership, its general partner. Each advisory contract specifies the amount of the Adviser's fees and the method by which the fees are calculated. Each QDC Fund's formation documents include details on fees, expenses and similar matters. Investors in the QDC Funds negotiate and approve all formation documents, including all details concerning fees and expenses, as well as the forms of contracts with affiliates, at formation.

Annual asset management fees are generally based on committed and/or invested capital. The Adviser's fees are payable quarterly in arrears by deducting them from the capital or earnings of the applicable QDC Fund. Because the Adviser has registered as an investment adviser with the SEC under the Advisers Act, and this brochure is delivered only to Qualified Purchasers as defined in section 2(a)(51)(A) of the Investment Company Act of 1940 (the "Investment Company Act"), a fee schedule is not provided.

The QDC Funds do not pay any other fees to the Adviser. However, investors in the QDC Funds that are formed as limited partnerships may also pay sponsor fees, carried interest, and other fees to the general partners of the QDC Funds and/or affiliates of the QDC Funds other than the Adviser. The projects in which the QDC Funds invest also contract with affiliates of the Adviser for property-specific services, such as property management, leasing, and parking management, for which those affiliates receive fees in amounts and under contracts negotiated with and approved by QDC Fund investors.

Unless otherwise provided in the applicable formation documents, each QDC Fund is responsible for paying all of its expenses, including organizational expenses, transaction expenses, certain indemnification expenses, investor communication expenses, certain expenses associated with QDC Fund meetings, expenses relating to unconsummated transactions, legal and accounting costs (including for in-house legal and accounting services), reasonable, actual, out-of-pocket expenses incurred by the Adviser in connection with its duties under its advisory agreement with the Fund, and expenses of any Fund subsidiary. If a QDC Fund incurs transaction expenses in connection with an investment in which it co-invests with another QDC Fund, those expenses are generally paid by each QDC Fund on a pro rata basis. Each QDC Fund may also reimburse its general partner (if applicable), the Adviser or any investor in the Fund for any costs advanced on behalf of the Fund.

Neither the Adviser nor any of its supervised persons accepts compensation for the sale of securities.

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

The Adviser does not directly accept performance-based fees. Each of QDC Funds that are formed as limited partnerships may pay carried interest to its general partner, in which advisory personnel of the QDC-Asset participate. Through an equity interest held in National Capital Properties Trust II by an affiliate of NCP 2, certain advisory personnel of NCP 2 receive a preferential return that is the economic equivalent of a carried interest. The performance-based compensation paid to these affiliates of the Adviser is determined under the provisions of the applicable formation documents and thus is negotiated and approved by the QDC Fund investors at the time of formation.

Under the formation documents for the QDC Funds, a Fund's general partner or NCP 2 (as applicable) receives performance-based compensation with respect to gains realized upon a disposition of real estate or other realized income from the Fund's investments. Performance-based compensation is never paid on unrealized gains. The net proceeds from such a realization are distributed to investors in the QDC Fund pro rata in proportion to their capital contributions until they have received distributions equal to their contributions and an agreed upon percentage rate of return on those contributions. Thereafter, the general partner or NCP (as applicable) receives an agreed upon percentage of any further distributions and the remainder is allocated to the investors in proportion to their capital contributions.

That the affiliates of the Adviser receive compensation based on performance of the QDC Funds may create an incentive for the Adviser to recommend investments that are riskier or more speculative than would be the case absent this performance-based compensation. Investors in the QDC Funds are informed of the performance-based compensation in the QDC Funds' formation documents and negotiate and approve this compensation at formation.

## **Item 7 – Types of Clients**

The Adviser provides investment advisory services to the QDC Funds, which are pooled investment vehicles, and to the general partners of certain QDC Funds, which are special purpose entities. The QDC Funds currently advised by the Adviser are: (i) National Capital Properties Trust II, (ii) National Capital Properties III, LP, and (iii) National Capital Properties IV, LP. Each QDC Fund is a Qualified Purchaser under the Investment Company Act and an Accredited Investor under Regulation D of the Securities Act of 1933 (the “Securities Act”). Investors in the QDC Funds are primarily large institutional investors.



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

### *Method of Analysis and Investment Strategy*

Under the Adviser's investment strategy, the QDC Funds invest in real estate assets, actively manage those assets, and ultimately dispose of those assets. Real estate assets are typically acquired and held by special-purpose subsidiaries of the QDC Funds, including subsidiaries that are real estate investment trusts of which the funds own substantially all of the equity.

The QDC Funds may invest in improved or unimproved real property. Where property is improved, investments may be in office, hospitality, multi-family residential, and/or mixed use assets in Washington, D.C., Maryland, and Virginia. Improved properties may also have ancillary uses, such as retail space and parking facilities. Properties may be used for these purposes at the time of investment or be acquired for the purpose of development, renovation, or repositioning by the QDC Funds. The QDC Funds focus on properties with durable demand, limited new supply or barriers to entry, access to public and surface transportation, and a strong retail amenity base.

None of the QDC Funds may invest more than a certain percentage of its assets in a single property. The debt that each QDC Fund is permitted to incur is limited to a certain percentage of the value of its assets. These limitations are provided in the formation documents for each QDC Fund.

In analyzing real estate investment opportunities, the Adviser utilizes various financial evaluation methods, including (i) capitalization rate, (ii) cash on cash return, and (iii) internal rate of return, among others.

### *Risk of Loss*

The QDC Funds are designed for and offered strictly to experienced and sophisticated persons who are able to bear the risk of substantial impairment or total loss of their investment in the QDC Funds. Accordingly and in addition to this over-arching consideration, the Adviser's investment strategy and methods of analysis involve the following material risks among others:

**Real Estate Investments:** The QDC Funds make investments in real estate assets, which involve unusual legal and financial risks. The valuations of real estate properties may fluctuate significantly, depending on a property's location, local real estate market, capital market conditions, and occupancy. Maintenance, insurance, and operating costs associated with the individual properties may also change significantly. Any adverse changes in these factors could adversely affect the QDC Funds' performance. Any adverse change in the financial condition of a major tenant of a property held by a QDC Fund could also adversely affect that Fund's performance.

The Adviser's recommendations to a QDC Fund regarding real estate investments are based on financial and other projections. Those projections are estimates of future results and depend on various assumptions. Actual results may vary from projections, and the projected performance results of the QDC Funds may not be attained. Various factors that cannot be predicted, including general economic conditions and changes in debt markets, may materially and adversely affect the Adviser's strategy and the QDC Funds' performance. Access to financing also is important to the success of the Adviser's strategy, and changes in the real estate and capital markets may increase the risk that financing will not be available to the QDC Funds on reasonable terms.

Use of Leverage: The QDC Funds will utilize leverage, which offers the opportunity for greater capital appreciation as well as a higher degree of risk. The real estate investments of the QDC Funds may utilize varying degrees of leverage, generally at the individual property level. Cash flow problems, interest rate increases, and other issues may impair the ability of the properties to make payments on their debt. To the extent the properties require additional financing or refinancing, such financing may not be available on reasonable terms.

Illiquidity: The market for the QDC Funds' assets may be limited at the time of disposition. Contractual restrictions may also limit when the QDC Funds may dispose of their assets. Due to their closed-end nature, the QDC Funds are required to dispose of their assets by certain dates, regardless of the then-existing market for those assets, with only a limited ability to extend with the consent of a Fund's investors committee. These factors may result in the QDC Funds' disposing of their assets at a time that would not be financially optimal in the view of the Adviser, reducing the consideration they receive upon disposition.

Environmental Risk: Under various federal, state, and local laws, an owner or occupier of real property may be responsible for costs associated with environmental contamination. These laws may require an owner or occupier to pay for the costs of removing or remediating hazardous materials that have been released on its property. An owner or occupier of property that has been affected by the release of hazardous materials may be subject to legal action by government authorities and private parties for the cost of removal or remediation. The presence of or improper removal or remediation of such materials may also adversely affect the use, valuation, and disposition of the property.

Access to Off-Market Transactions: The Adviser's investment strategy depends in part on its ability to recommend to the QDC Funds the acquisition of real estate assets through off-market transactions. The Adviser's ability to recommend such transactions could be affected by personnel changes in its management or the management of its affiliates, changes in the real estate markets in which the QDC Funds invest, and other factors. Performance of the QDC Funds could be adversely affected if the Adviser's access to off-market transactions were reduced.

Dependence on Key Personnel: During their investment periods, the QDC Funds depend in significant part on the Principal and Robert Gladstone (the “Key Persons”). If both of the Key Persons were to discontinue their active and significant involvement with the general partner of a QDC Fund formed as a limited partnership or if the Principal were to dispose of a majority ownership interest in the general partner of a QDC Fund formed as limited partnership to an unrelated person during the Fund’s investment period without establishing a transition plan, investment activity may be suspended pursuant to the procedures in the formation documents until investors in the QDC Fund approve a plan to resume investment activities.

Limited Number of Investments: Each QDC Fund will make only a limited number of investments and take large positions in those investments. If any single investment experiences a material loss, the overall returns to the applicable QDC Fund may be adversely affected.

Conflicts of Interest: The Adviser, the QDC Funds, and any general partner entities of the QDC Funds formed as limited partnerships are related persons. Although the fees payable to the Adviser have been disclosed to, negotiated with, and approved by investors in the QDC Funds at the time of formation, any of these fees may be more favorable to the Adviser than might be available from an unaffiliated third party.

Entities in which the Adviser, QDC or the Principal have an interest may be retained by the Adviser, the QDC Funds, or subsidiaries of the QDC Funds. These entities may receive fees for providing property management, leasing, parking management, and other services to the portfolio properties of the QDC Funds. Although these fees are disclosed to, negotiated with, and approved by investors in the QDC Funds at the time of formation, as are the forms of permitted contracts with affiliates, any of these arrangements may be more favorable to the related entities than might be available from an unaffiliated third party.

Additionally, as disclosed in Item 6, because affiliates of the Adviser receive performance-based compensation, the Adviser may have an incentive to recommended investments that are riskier or more speculative than would otherwise be the case absent this performance-based compensation.

## **Item 9 – Disciplinary Information**

The Adviser does not have any legal or other disciplinary event to disclose. This statement applies to the Adviser and every management person of the Adviser.

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

QDC-Asset and NCP 2 are affiliates of QDC, a real estate development company. Among other activities, QDC sponsors pooled investment vehicles (the QDC Funds) that invest in development projects and improved real property. The Adviser provides investment advisory services exclusively to the QDC Funds and to the general partners of the QDC funds that are formed as limited partnerships, which are related persons. To the extent this relationship results in (i) the Adviser's receiving fees that may be more favorable than might be available from an unaffiliated third party, (ii) related persons' providing real estate development, leasing, property management or parking services to the QDC Funds or the real estate projects in which the QDC Funds invest in return for fees that may be more favorable than might be available from an unaffiliated third party, or (iii) the Adviser's recommending riskier investments than it would otherwise recommend absent the performance-based compensation paid to its affiliates, there are potential conflicts of interest. The relationships between the QDC Funds and related persons that may provide services to the QDC Funds and their real estate investment projects are disclosed in the QDC Funds' formation documents and approved by investors in the QDC Funds at formation.

The Adviser and its management persons have a material relationship Robert Gladstone, who is a licensed real estate broker.

The Adviser does not recommend or select other investment advisers for the QDC Funds.

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

### *Code of Ethics*

As an investment adviser registered with the SEC under the Advisers Act, the Adviser has adopted a Code of Ethics (the “Code”) that sets forth standards of conduct and requires compliance with federal securities laws and its fiduciary obligations as an adviser to its clients. The Code applies to all persons defined as Access Persons under SEC Rule 204A-1. The Code outlines policies in several areas, including: standards of conduct and compliance with laws, rules and regulations; protection of material non-public information; and personal securities trading and reporting policies and procedures. Upon request, the Adviser will provide a copy of the Code to any client, prospective client, or investor in the QDC Funds.

Under the Code, Access Persons must comply with all laws, rules, and regulations applicable to its operations and business. The Adviser also expects its Access Persons to comply with all applicable internal policies and procedures and to seek guidance from the Chief Compliance Officer or management personnel when in doubt about any contemplated course of action.

The Code requires Access Persons to maintain the confidentiality of all confidential or proprietary information regarding the Adviser or the QDC Funds, except when disclosure is mandated by law. The Code emphasizes that, under federal securities laws, persons may not trade in securities while possessing material, non-public information concerning the issuer of those securities, nor may persons share that information with others who may trade in that issuer’s securities.

The Code bars the Adviser and its advisory personnel from effecting transactions with a QDC Fund as principal without full disclosure to and informed consent by the QDC Fund. The Adviser’s officers, directors, employees, and other Access Persons are also barred from using information about investments or prospective investments of the QDC Funds, or their ability to influence those prospective investments, for personal gain or in a manner detrimental to the interests of the Adviser or the QDC Funds.

All Access Persons must report their personal securities holdings to the Adviser upon becoming an Access Person and on an annual basis. Access Persons also must report their personal securities transactions on a quarterly basis. Access Persons must obtain pre-clearance before purchasing securities in any initial public offering, private placement, or other limited offering. The Chief Compliance Officer also maintains a list of public securities about which the Adviser has non-public information (the “Restricted List”). Access Persons must obtain clearance before executing a transaction in any of the public securities on the Restricted List. Apart from securities on the Restricted List, no pre-clearance of personal securities transactions in publicly traded securities is required. The Chief Compliance Officer will monitor Access Persons’

personal securities transactions to ensure that no transactions raise the appearance of potential trading on non-public information.

All Access Persons are required to promptly report any actual, apparent, or suspected violations of the Code to the Chief Compliance Officer or their supervisor. Each Access Person has received a copy of the Code. Access Persons must certify annually that they have been provided a copy of the Code and that they have agreed to be bound by its provisions. An Access Person may be subject to discipline for violations of the Code.

### *Participation or Interest in Client Transactions*

As a fiduciary, the Adviser must put the interests of the QDC Funds before its own interests. Each QDC Fund maintains a committee consisting of certain limited partners or investors, as provided in the QDC Fund's formation documents (the "Investor Committee"). A QDC Fund must obtain approval of its Investor Committee before investing in an opportunity that materially deviates from the QDC Fund's program guidelines, engaging in a transaction with any affiliate of the QDC Fund or the Adviser (other than those provided in the formation documents), or taking certain other actions. The general partner of a QDC Fund formed as a limited partnership is also required to consult with its Investor Committee regarding any conflict of interest not addressed in the QDC Fund's formation documents.

A QDC Fund's formation documents may describe certain investment opportunities in which the Principal or other related persons have existing investments that will be presented to the QDC Fund's Investor Committee for possible investment (each a "Pre-Existing Investment"). Without approval of its Investor Committee, however, the QDC Fund does not co-invest in Pre-Existing Investments or other opportunities in which the Adviser or a related person has a material financial interest or in which the Adviser or a related person also invests.

Before the investment period designated in a QDC Fund's partnership has terminated or 80% of its commitments have been invested in or committed to a specific opportunity, without limited partner consent the Principal is barred from organizing another pooled investment vehicle with similar objectives. Therefore, the QDC Funds' investment periods generally do not overlap. Any co-investment by the QDC Funds with each other or with the Principal generally takes the form of a QDC Fund's investing in a Pre-Existing Investment, as described above.

## **Item 12 – Brokerage Practices**

As a general matter, the Adviser invests through private transactions that do not involve the selection, recommendation, or compensation of any securities broker-dealers. However, from time to time, the Adviser will make investments for the QDC Funds in stocks of publicly traded real estate investment trusts, typically for a temporary period.

The Adviser will typically select the broker to be used in any public securities transactions for the QDC Funds. The Adviser will seek the best price and execution available, except to the extent that it may determine to pay higher brokerage commissions for brokerage and research services in accordance with Section 28(e) of the Exchange Act.

The Adviser does not make arrangements with specific brokers or dealers to receive research or other services beyond transaction execution in exchange for brokerage commissions from the QDC Funds' transactions (so-called "soft dollar" arrangements).

The Adviser will periodically evaluate the overall reasonableness of the brokerage commissions and negotiated terms paid to or made with broker-dealers with respect to client transactions by, among other things, seeking to compare such commissions and terms with the commission rates and negotiated terms being charged by and entered into with other comparable broker-dealers.



### **Item 13 – Review of Accounts**

The investment portfolios of the QDC Funds are periodically reviewed by the Adviser's management team for compliance with their investment guidelines and strategies. The Chief Accounting Officer, accounting personnel and asset management personnel conduct monthly reviews. The President, Corporate Vice President, and asset management personnel conduct quarterly reviews. Quarterly mark-to-market appraisals are also obtained for operating assets. Written reports, including mark-to-market appraisals of the QDC Funds' operating assets by recognized third party experts unaffiliated with QDC, are distributed to the QDC Funds and their investors on a quarterly basis. The QDC Funds are audited annually, and reports are distributed to investors in the QDC Funds.

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

The Adviser does not receive an economic benefit for providing investment advice or other advisory services from anyone other than the QDC Funds and the general partners of the QDC Funds formed as limited partnerships. QDC has not entered into written agreements with third parties to act as solicitors for its investment management business.

## **Item 15 – Custody**

To comply with Rule 206(4)-2 of the Advisers Act, the QDC Funds have audited financial statements prepared annually, and upon liquidation, by an independent public accountant registered with and subject to inspection by the Public Company Accounting Oversight Board. The financial statements are prepared in accordance with generally accepted accounting principles and are distributed to all investors in the QDC Funds within 120 days of year end or promptly upon liquidation.

The QDC Funds maintain custody of client cash with a qualified custodian. If the QDC Funds make investments that are not covered by an exception for private securities under Rule 206(4)-2(2), it will engage a qualified custodian to hold those securities.

## **Item 16 – Investment Discretion**

Investment decisions for Trust II are made on a discretionary basis by NCP 2. Investment decisions for the QDC Funds formed as limited partnerships are made by their general partners, all of the advisory personnel of which are also advisory personnel of the Adviser. While under the general partners retain ultimate decision-making authority, in the normal course, they approve the recommendations of the Adviser. Accordingly, the Adviser reports all assets under management as managed on a discretionary basis.

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

Under Rule 206(4)-6 of the Advisers Act, registered investment advisers that exercise voting authority with respect to client securities are required to have proxy voting policies and procedures. As the QDC Funds will only hold publicly traded securities for temporary periods, the Adviser does not expect to receive proxy statements.

The Adviser will vote marketable securities (and vote proxies and grant consents and waivers with respect to private securities) as to which it has discretionary authority pursuant to proxy voting guidelines (which are available to clients upon request). In the event that the Adviser determines that there may be a conflict between the interests of the Adviser and the interests of any of the QDC Funds with respect to a particular matter on which a vote, consent or waiver is requested, it will refrain from providing advice on the matter under consideration and/or provide disclosure of the conflict to the Investor Committees of the applicable QDC Funds, as appropriate in the particular circumstances.

With respect to the QDC Funds' real estate investments, a Fund's general partner or NCP 2 (as applicable) may generally take action on behalf of the Fund with regard to management and other decisions without investor consent. As provided in the formation documents, however, certain fundamental matters affecting investments require the general partner or NCP (as applicable) to seek direction from the investors in the Fund. Additionally, in connection with any conflict of interest not specifically contemplated by the formation documents, the Fund's general partner or NCP 2 (as applicable) consults with the Investor Committee and seeks a waiver of such conflict.

## **Item 18 – Financial Information**

An investment adviser that maintains discretion over client assets is required to disclose any financial condition that is reasonably likely to impair the ability to meet contractual obligations. The Adviser is under no such impairment.