

# Columbia Pacific Advisors, LLC

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## **Firm Brochure** (Part 2A of Form ADV)

March 31, 2014

This brochure provides information about the qualifications and business practices of Columbia Pacific Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (206) 728-9063. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Columbia Pacific Advisors, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with the information with which you determine to hire or retain an Adviser.

Additional information about Columbia Pacific Advisors, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This brochure is an update to our disclosure document dated March 31, 2013. The following material changes to our March 31, 2013 brochure that are included in this updated brochure are as follows:

- We have opened two new additional funds; Columbia Pacific Diversified Alpha Fund, L.P. and Columbia Pacific Partners Fund, L.P. Disclosure relating to these funds can be found in Items 4, 5, 6, 8, 13 and 15.
- Item 4 has been revised to disclose changes in management structure.
- Brandon Brady has stepped down from our Board of Managers, see Item 4.
- Item 8 has been revised to include a summary of risks.
- Item 10 has been expanded to include additional disclosure regarding the firm's affiliations with certain related entities.

### **Item 3 – Table of Contents**

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#### **Item 4 – Advisory Business**

Columbia Pacific Advisors, LLC (“Columbia”) is a Washington limited liability company. We began conducting business in December 2006.

Listed below are the firm’s principal owners:

ALEXANDER B. WASHBURN (controls at least 25%)

DANIEL R. BATY (controls at least 10%)

QUARTERMASTER, LLC (a limited liability company controlled by Stanley L. Baty - controls at least 10%)

BRANDON D. BATY (controls at least 10%, but has stepped down from the Board of Managers)

Columbia is the:

- (i) general partner of Columbia Pacific Opportunity Fund, L.P. (the “Opportunity Fund”), a Washington limited partnership; and
- (ii) investment manager to:
  - a. Columbia Pacific Distressed Fund, L.P. (the “Distressed Fund”), a Delaware limited partnership.
  - b. CPDFCI, L.P. (“CPDFCI”), a Delaware limited partnership.
  - c. Columbia Pacific Senior Housing Fund, L.P. (the “Senior Fund”), a Delaware limited partnership.
  - d. Columbia Pacific Income Fund I, L.P. (the “Income Fund”), a Delaware limited partnership.
  - e. Union Bay Capital Partners I, LLC (“Union Bay Fund”), a Delaware limited liability company.
  - f. Columbia Pacific Real Estate Fund I, L.P. (the “Real Estate Fund”), a Delaware limited partnership.
  - g. Columbia Pacific Diversified Alpha Fund, L.P. (the “Diversified Fund”), a Delaware limited partnership.
  - h. Columbia Pacific Partners Fund, Ltd. (the “Master Partners Fund”), a Cayman Islands limited company.
  - i. Columbia Pacific Partners Fund (Delaware), L.P. (the “Delaware Partners Fund”), a Delaware limited partnership.
  - j. Columbia Pacific Partners Fund (Cayman), Ltd. (the “Cayman Partners Fund” and together with the Delaware Partners Fund, the “Partners Funds”), a Cayman Islands limited company.
  - k. Columbia Pacific China Healthcare Fund, L.P. (the “China Fund”), a Delaware limited partnership.
  - l. A high net worth family limited liability company

Columbia Pacific Distressed GP, LLC (the “Distressed GP”) is a Washington limited liability company, whose sole member is Columbia, and serves as the general partner of the Distressed Fund and CPDFCI. Columbia Pacific Senior Fund GP, LLC (the “Senior GP”) is a Washington limited liability company, whose sole member is Columbia, and serves as the general partner of the Senior Fund. Columbia Pacific Income Fund GP, LLC (the “Income GP”) is a Washington limited liability company, whose sole member is Columbia, and serves as the general partner of the Income Fund. Union Bay Capital Management, LLC (“UBCM”) is a Washington limited liability company, whose members are Columbia (90% ownership) and the Opportunity Fund (10% ownership), and serves as the managing member of the Union Bay Fund. Columbia Pacific Real Estate Fund GP, LLC (the “Real Estate GP”) is a Washington limited liability company, whose sole member is Columbia and serves as the general partner of the Real Estate Fund. Columbia Pacific Diversified Alpha Fund GP, LLC (the “Diversified GP”) is a Washington limited liability company, whose members are Columbia (90%) and two family LLC’s (5% each) and serves as general partner of the Diversified Fund. Columbia Pacific Partners GP, LLC (the “Partners GP”) is a Washington limited liability company, whose sole member is Columbia and serves as general partner of the Partners Funds.

The Opportunity Fund, Distressed Fund, CPDFCI, Senior Fund, Income Fund, Union Bay Fund, Real Estate Fund, Diversified Fund, the Partners Funds and the China Fund are collectively referred to in this brochure as the “Private Funds.”

In its capacity as general partner or investment manager to the Private Funds, Columbia is responsible for implementing each Private Fund's investment objectives and strategies. Columbia may offer investment advisory services to other private investment vehicles or other clients in the future.

Capitalized terms contained in the paragraphs below that are not otherwise defined therein shall have the meanings ascribed to these terms in the relevant Private Fund's private placement memorandum.

### **Opportunity Fund**

The Opportunity Fund has a perpetual term but may cease to offer limited partnership interests to current or prospective investors at any time as Columbia may determine in its discretion. A Limited Partner of the Opportunity Fund may not withdraw amounts within three years of such Limited Partner's initial capital contribution. Subject to such lock-up period, Limited Partners will generally be permitted to withdraw amounts from their capital accounts as of each June 30 and each December 31 in each fiscal year on not less than 90 days prior written notice. No withdrawal will be permitted if such withdrawal would reduce a Limited Partner's capital account below \$500,000 unless such withdrawal is a complete withdrawal. Columbia may permit withdrawals on other terms in its sole discretion. If the aggregate net asset value of amounts requested to be withdrawn on a withdrawal date exceeds 20% of the net asset value of the Opportunity Fund on the applicable withdrawal date, Columbia may, in its sole discretion, reduce the amount. The minimum investment is \$500,000. Columbia reserves the right to waive this requirement.

### **Distressed Fund and CPDFCI**

The Distressed Fund and CPDFCI no longer offer limited partnership interests and are currently in the process of winding down. The term of each of the Distressed Fund and CPDFCI will end on the tenth anniversary of the initial closing date of such Funds, but may be extended for up to four consecutive one-year periods. However, 80% in interest of the Limited Partners of each of the Distressed Fund and CPDFCI may vote to dissolve such Fund at any time for any reason.

### **Senior Fund**

The Senior Fund no longer offers limited partnership interests. The term of the Senior Fund will end on the tenth anniversary of the Closing date of September 30, 2011, but may be extended for up to four consecutive one-year periods at the discretion of Columbia.

The Senior Fund's investment period began on September 30, 2011 and ends on September 30, 2014 (the "Investment Period"). During the Investment Period, the Limited Partners will be required to make capital contributions to fund new and follow-on investments and the payment of the Senior Fund's expenses, as set forth in the Senior Fund's private placement memorandum. Columbia may, in its discretion, terminate the Investment Period early if it determines that applicable laws or regulations require such early termination. Upon the termination of the Investment Period, the Partners will not be required to make any further capital contributions to the Fund, except with respect to: (i) follow-on investments, (ii) Fund expenses including management fees and indemnification obligations, and (iii) investments in process at the end of the Investment Period. The minimum investment commitment was \$500,000; however, Columbia had the right to waive this requirement.

### **Income Fund**

The Income Fund will have a term ending on the sixth anniversary of the Initial Closing Date ("Closing Date") of March 31, 2012, but may be extended for up to two consecutive one-year periods, at the discretion of Columbia.

The Income Fund's investment period began on March 31, 2012 and will end by the third anniversary of the Final Closing Date of April 1, 2013 (the "Investment Period"). During the Investment Period, the Limited Partners will be required to make capital contributions to fund new and follow-on investments and the payment of the Income Fund's expenses. Columbia may, in its discretion, terminate the Investment Period early if it determines that applicable laws or regulations require such early termination. Upon the termination of the Investment Period, the Partners will not be required to make any further capital contributions to the Fund, except with respect to: (i)

follow-on investments, (ii) Fund expenses, including management fees and indemnification obligations, and (iii) investments in process at the end of the Investment Period. The minimum investment commitment was \$500,000. Columbia reserves the right to waive this requirement.

### **Union Bay Fund**

The Union Bay Fund will have a term ending on the eighth anniversary of the Initial Closing Date (the “Initial Closing”) of October 31, 2012, which may be extended for up to two consecutive one-year periods, at the discretion of Columbia. Members who participated in Closings after the Initial Closing were required to make capital contributions to the Fund in an amount equal to the sum of (i) the amount Members would have contributed to the Fund to date had it been admitted at the Initial Closing, plus (ii) an interest charge (dating back to the Initial Closing) equal to the Prime Rate plus 5% on the amount described in clause (i).

The Union Bay Fund’s investment period began on October 31, 2012 and ends on October 31, 2015 (the “Investment Period”). During the Investment Period, the Members will be required to make capital contributions to fund the making of new and follow-on investments and the payment of Fund expenses. Columbia may, in its discretion, terminate the Investment Period early if it determines that applicable laws or regulations require such early termination. Upon the termination of the Investment Period, the Members will not be required to make any further capital contributions to the Fund, except with respect to: (i) follow-on investments, (ii) Fund expenses, including management fees and indemnification obligations, and (iii) investments in process at the end of the Investment Period. The minimum investment commitment is \$500,000. Columbia reserves the right to waive this requirement.

### **Real Estate Fund**

The Real Estate Fund will have a term ending on the tenth anniversary of the Initial Closing Date (the “Initial Closing”) of April 30, 2013, which may be extended for up to four consecutive one-year periods, at the discretion of Columbia. Additional closings may occur on dates as Columbia determines up to April 30, 2014. Limited Partners participating in Closings after the Initial Closing will make capital contributions to the Fund in an amount equal to the percentage sum to date LPs would have contributed to the Fund had it been admitted at the Initial Closing.

The Real Estate Fund’s investment period began on April 30, 2013 and will end on the third anniversary of the Final Closing Date (the “Investment Period”). During the Investment Period, the Limited Partners will be required to make capital contributions to fund the making of new and follow-on investments and the payment of Fund expenses. Columbia may, in its discretion, terminate the Investment Period early if it determines that applicable laws or regulations require such early termination. Upon the termination of the Investment Period, the Limited Partners will not be required to make any further capital contributions to the Fund, except with respect to: (i) follow-on investments, (ii) Fund expenses, including management fees and indemnification obligations, (iii) investments in process at the end of the Investment Period and (iv) satisfying Partnership obligations in respect of any Portfolio Investment. The minimum investment commitment is \$500,000. Columbia reserves the right to waive this requirement.

### **Diversified Fund**

The Diversified Fund has a perpetual term but may cease to offer limited partnership interests to current or prospective investors at any time as Columbia may determine in its discretion. A Limited Partner may not withdraw amounts without penalty within 12 months (Tranche A Interests) and 24 months (Tranche B Interests) of such Limited Partner’s capital contribution. A Limited Partner may withdraw all or part of their interests prior to termination of the applicable lock-up by paying a redemption fee of 4% of the amount to be withdrawn and, in addition for Tranche B Interests, an amount equal to the first year of Management Fee that hasn’t been collected. For purposes of applying a lock-up period, each capital contribution made by a Limited Partner has a separate and distinct lock-up. Capital contributions are made on the first of a month. Subject to such lock-up period, Limited Partners will generally be permitted to withdraw amounts from their capital accounts on the last business day of a calendar quarter with at least 150 days prior written notice. Withdrawals must be for a minimum of \$100,000 and no withdrawal will be permitted if such withdrawal would reduce a Limited Partner’s capital account below

\$500,000 unless such withdrawal is a complete withdrawal. Columbia may permit withdrawals on other terms in its sole discretion. A Limited Partner withdrawing less than 90% of his/her balance generally will be paid within 45 calendar days after the withdrawal date. Those withdrawing at least 90% will generally be paid the withdrawal as follows: 90% of the estimated Redemption Price within 45 calendar days after the withdrawal date and the balance will be paid, without interest, within 30 calendar days following completion of the Fund's annual audit. Any Interest in a Special Investment does not get redeemed until the Fund disposes of the Special Investment. If the aggregate amounts requested to be withdrawn on a withdrawal date exceeds 25% of the Net Asset Value (NAV) of the Fund on the applicable withdrawal date, Columbia may, in its sole discretion, limit such withdrawals to an aggregate value of 25% of the NAV by reducing pro rata the amount of withdrawal requests (the "Gate"). The minimum investment is \$500,000 for initial investment and \$100,000 for additional investments. Columbia reserves the right to waive, reduce or increase this requirement.

### **Partners Funds**

The Delaware Partners Fund and the Cayman Partners Fund are feeder funds that invest substantially all of their investible assets in the Master Partners Fund. The Partners Funds have a perpetual term but may cease to offer interests to current or prospective investors at any time as Columbia may determine in its discretion.

Investors in the each of the Partners Funds will generally be permitted to redeem a minimum of \$100,000 on any month-end with not less than 60 days prior written notice. An investor redeeming any amount within 12 months of their initial contribution will be assessed a 5% redemption penalty which will be credited to all non-redeeming investors in proportion to their account balances. Columbia may, in its sole discretion, waive this fee. If a withdrawal would reduce an investor's capital account below \$500,000, it must be a complete withdrawal. Columbia may permit withdrawals on other terms in its sole discretion. If the aggregate net asset value of amounts requested to be withdrawn on a withdrawal date exceeds 25% of the Net Asset Value of the Master Partners Fund on the applicable withdrawal date, Columbia may, in its sole discretion, reduce the amount.

The minimum investment is \$500,000 for initial investment and \$100,000 for additional investments. Columbia reserves the right to waive, reduce or increase this requirement.

### **General Information**

Limited Partners of the following Private Funds: Distressed Fund, CPDFCI, Senior Fund, Income Fund and Real Estate Fund; and Members of Union Bay Fund may not withdraw any amounts from such Funds except in the limited circumstances described in the relevant Private Fund's limited partnership or limited liability agreement. Additional information regarding each Private Fund and the terms of an investment therein is set forth in each Private Fund's private placement memorandum.

Limited Partners or Members in any of the Private Funds managed by Columbia may not impose restrictions on investing in certain securities or types of securities. Columbia does not tailor advisory services to the individual or particular needs of the investors in the Private Funds. Additional information about the Private Funds, including their investment objectives and strategies, are set forth in their respective private placement memorandums. We have broad investment authority with respect to our clients. Since we do not provide individualized advice to the Private Funds' investors, such investors are encouraged to consider whether the investment objectives of the Private Funds are in line with their individual objectives and risk tolerance prior to investment.

### **A high net worth family limited liability company**

Columbia gives specifically tailored investment advice to a family limited liability company.

As of December 31, 2013, we were actively managing total client assets of approximately \$760,048,000. Approximately \$667,809,000 of client assets was managed on a discretionary basis. Approximately \$92,239,000 of client assets was managed on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

The Private Funds are subject to the (i) management fees described below, which are deducted in advance and on a quarterly basis, directly from each Private Fund on the first day of the quarter, with the exception of the Partners Funds (which is charged a monthly management fee, in advance); and (ii) incentive allocations or carried interest distributions. Columbia may, in its sole discretion, waive or reduce the management fees with respect to any Limited Partner or Member of the Private Funds.

Apart from the management fees described below, each of the Private Funds are also subject to certain performance-based incentive fees and/or certain carried interest distributions more fully described under Item 6 hereof.

### **Opportunity Fund**

Columbia receives a management fee at an annual rate of 1% of the aggregate of the net asset value of each Limited Partner's capital account (other than those affiliated with Columbia) on the first day of each fiscal quarter, and the net asset value of each Limited Partner's Side Pocket Interests (as defined in the Limited Partnership Agreement) on such day, if any. Management fees for any capital contributions made at any time other than the beginning of a fiscal quarter will be prorated to reflect the number of days remaining prior to the end of the relevant quarter, but no refund will be made where a Limited Partner is permitted to withdraw amounts from the Opportunity Fund other than at the end of a fiscal quarter.

### **Distressed Fund**

The Distressed Fund will pay Columbia a management fee at an annual rate of 2% of aggregate capital commitments of the Limited Partners (other than those affiliated with the Distressed GP) until the end of the Fund's term.

### **CPDFCI**

CPDFCI will pay Columbia a management fee at an annual rate of 1% of aggregate capital commitments of the Limited Partners (other than those affiliated with the Distressed GP) until the end of CPDFCI's term.

### **Senior Fund**

The Senior Fund will pay Columbia a management fee, payable quarterly and in advance on the first day of each quarter, at an annual rate of 1% of aggregate capital contributions of the Limited Partners (other than those affiliated with the Senior Fund GP) until the end of the Fund's term. For Capital Contributions made during a quarter, the Management Fee applicable to such additional Capital Contributions will be pro-rated and collected at the beginning of the following quarter.

### **Income Fund**

The Income Fund will pay Columbia a management fee, payable quarterly and in advance on the first day of each quarter, at an annual rate of 1.5% of aggregate capital contributions of the Limited Partners (other than those affiliated with the Income Fund GP) until the end of the Fund's term. For Capital Contributions made during a quarter, the Management Fee applicable to such additional Capital Contributions will be pro-rated and collected at the beginning of the following quarter.

### **Union Bay Fund**

The Union Bay Fund will pay Columbia a management fee at an annual rate of 2% of the total capital commitments of the Members (other than those affiliated with Columbia) payable beginning on the Initial Closing and quarterly thereafter until the end of the Fund's Investment Period. The calculation of the Management Fee shall be prorated for any partial period. The Management Fee for any period will be further reduced by the net amount of any director's fees, consulting fees or advisory fees received by the Managing Member or Managing Directors. Any reimbursement to the Managing Member for out-of-pocket expenses incurred on behalf of portfolio companies will not be offset against the Management Fee. Following the Investment Period, the



Management Fee will be based on the aggregate capital contributions of the Members and will be reduced by 0.25% each year, to a minimum of 1%.

### **Real Estate Fund**

The Real Estate Fund will pay Columbia a management fee at an annual rate of 1% of aggregate capital commitments of the Limited Partners (other than those affiliated with the Real Estate Fund GP) through the fifth anniversary of the Initial Close. Thereafter, until the end of the term of the Fund, the fee will be lowered to an annual rate of 0.75%. For Capital Contributions made during a quarter, the Management Fee applicable to such additional Capital Contributions will be pro-rated and collected at the beginning of the following quarter.

### **Diversified Fund**

Columbia receives as a management fee the percentage of the net asset value of each Limited Partner's capital account as follows: Tranche A interests at an annual rate of 1.5%, and for Tranche B interests at an annual rate of 1% of the balance of such Limited Partner's Capital Account with respect to such Tranche and the aggregate balance of such Limited Partners Special Capital Account with respect to such Tranche as of the last business day of the prior calendar quarter. Columbia may, in its discretion, reduce or waive the fee for any limited partner, including their employees and/or affiliates. Management fees for any capital contributions made at any time other than the beginning of a fiscal quarter will be prorated to reflect the number of days remaining prior to the end of the relevant quarter. A Limited Partner whom is permitted to redeem amounts from the Diversified Fund other than at the end of a fiscal quarter will be rebated a prorated portion of the Management fee with respect to the amount redeemed.

### **Partners Funds**

Columbia receives a monthly management fee from each of the Partners Funds calculated at the following annual rates: (i) founders class tranche shares, at an annual rate of 1.0%; and (ii) for ordinary class tranche shares at an annual rate of 1.5% of the net asset value of each series of Master Fund Shares corresponding to each investor. Management fees paid with respect to any period of less than a month will be prorated based on the number of days in such partial period, but the Master Fund will not refund any portion of the Management Fee previously paid with respect to any intra-month redemption.

### **China Fund**

The China Fund pays its management company a management fee equal to 1% per annum, payable quarterly in advance. Under an express delegation of responsibility for investment decisions, Columbia may provide investment advice to the China Fund to the extent that it invests in any securities or requests investment advice. In the event that Columbia provides any investment advice to the China Fund, then the China Fund may allocate a portion of the Asset Management Fee otherwise payable to its management company to Columbia.

### **Separately Managed Account**

Columbia charges the one family limited liability company it manages a fixed annual fee, billed quarterly in arrears.

### **General information**

Columbia's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as, but not limited to, fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Columbia's fee, and Columbia shall not receive any portion of these commissions, fees and costs.

Item 12 further describes the factors that Columbia considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

The Private Funds are subject to the following performance-based incentive allocations and/or carried interest distributions:

### **Opportunity Fund**

Columbia receives, as of the end of each fiscal year, an incentive allocation equal to 20% of each Limited Partner's allocable share of aggregate net profits for the fiscal year, provided that any prior net losses previously allocated to the Limited Partner must be offset by allocations of net profits before the incentive allocation may be made with respect to such Limited Partner. Any withdrawal at any time other than the end of a fiscal year will also be subject to an incentive allocation as of the date of such withdrawal. Columbia may, in its sole discretion, waive or reduce the incentive allocation payable with respect to any Limited Partner.

### **Distressed Fund**

The Distressed GP ("GP") will be entitled to "carried interest" distributions equal to 20% of the net proceeds from dispositions of, and income attributable to, the Fund's portfolio investments (subject to retention to pay expenses and to certain reserve and reinvestment rights). Distributions will be made in the following order and priority:

- (i) an amount equal to 100% of the Partners' aggregate capital contributions
- (ii) an amount sufficient to provide a compounded return of 7% per annum on the Partners' aggregate capital contributions from the dates of contribution to the dates of distribution under clause (i).
- (iii) Then, 100% to the GP until the GP has received an amount equal to 20% of distributions made under clause (ii) and this clause; and
- (iv) Finally, (a) 20% to the GP and (b) 80% to the Partners in proportion to their percentage interests.

Upon any distribution thereafter, the GP will be required to return distributions to the Fund to the extent the GP has been over distributed with respect to its carried interest (reduced by the aggregate tax liability deemed incurred by the GP on account of its carried interest).

### **CPDFCI**

The Distressed GP ("GP") will be entitled to "carried interest" distributions equal to 25% of the net proceeds from dispositions of, and net income attributable to, CPDFCI's portfolio investments (subject to retention to pay expenses and provide for reasonable reserves). Distributions will be made in the following order and priority:

- (i) an amount equal to 100% of the Partners' aggregate capital contributions
- (ii) an amount sufficient to provide a compounded return of 7% per annum on the Partners' aggregate capital contributions from the dates of contribution to the dates of distribution under clause (i)
- (iii) Then, 100% to the GP until the GP has received an amount equal to 25% of distributions made under clause (ii) and this clause; and
- (iv) Finally, (a) 25% to the GP and (b) 75% to the Partners in proportion to their percentage interests.

Upon any distribution thereafter, the GP will be required to return carried interest distributions to CPDFCI to the extent the GP has been over distributed with respect to its carried interest (reduced by the aggregate tax liability deemed incurred by the GP on account of its carried interest).

### **Senior Fund**

The Senior GP ("GP") will be entitled to "carried interest" distributions equal to 25% of the net proceeds from dispositions of, and net income attributable to, the Fund's portfolio investments (subject to retention to pay expenses and provide for reasonable reserves). Distributions will be made in the following order and priority:

- (i) an amount equal to 100% of the Partners' aggregate capital contributions
- (ii) an amount sufficient to provide a compounded return of 6% per annum on the Partners' aggregate capital contributions from the dates of contribution to the dates of distribution under clause (i)
- (iii) Finally, (a) 25% to the GP and (b) 75% to the Partners in proportion to their percentage interests.

Upon any distribution thereafter, the GP will be required to return carried interest distributions to the Fund to the extent the GP has been over distributed with respect to its carried interest (reduced by the aggregate tax liability deemed incurred by the GP on account of its carried interest).

### **Income Fund**

The Income GP (“GP”) will be entitled to “carried interest” distributions equal to 20% of the net proceeds from dispositions of, and net income attributable to, the Fund’s portfolio investments (subject to retention to pay expenses and provide for reasonable reserves). Distributions will be made in the following order and priority:

- (i) an amount equal to 100% of the Partners’ aggregate capital contributions
- (ii) an amount sufficient to provide a compounded return of 8% per annum on the Partners’ aggregate capital contributions from the dates of contribution to the dates of distribution under clause (i)
- (iii) Then, 100% to the GP until the GP has received an amount equal to 20% of distributions made under clause (ii) and this clause; and
- (iv) Finally, (a) 20% to the GP and (b) 80% to the Partners in proportion to their percentage interests.

Upon final liquidation of the Fund, the GP will be required to return carried interest distributions to the Fund to the extent the GP has been over distributed with respect to its carried interest in excess of 20% of aggregate Fund profit (reduced by the aggregate tax liability deemed incurred by the GP attributable to its carried interest).

### **Union Bay Fund**

UBCM (“Managing Member”) will be entitled to “carried interest” distributions equal to 20% of the net proceeds from dispositions of, and net income attributable to, the Fund’s portfolio investments (subject to retention to pay expenses and provide for reasonable reserves). Distributions will be made in the following order and priority:

- (i) an amount equal to 100% of the Members’ aggregate capital contributions;
- (ii) an amount sufficient to provide an 8% per annum return, cumulative but not compounded, on the Members’ aggregate capital contributions from the dates of contribution to the dates of distribution under clause (i);
- (iii) 100% to the Managing Member until the Managing Member has received an amount equal to 20% of distributions made under clause (ii) and this clause; and
- (iv) Then, (a) 80% to the Members in proportion to their percentage interests and (b) 20% to the Managing Member until such time as the Members have received cumulative distributions from all provisions equal to two times (2x) their invested capital; and
- (v) Thereafter, (a) 70% to the Members and (b) 30% to the Managing Member.

Upon liquidation of the Fund, the Managing Member will be required to return carried interest distributions to the Fund to the extent the Managing Member has been over distributed with respect to its carried interest in excess of 20% of aggregate Fund profit (reduced by the aggregate tax liability deemed incurred by the Managing Member attributable to its carried interest).

### **Real Estate Fund**

The Real Estate GP (“GP”) will be entitled to “carried interest” distributions equal to 25% of the net proceeds from dispositions of, and net income attributable to, the Fund’s portfolio investments (subject to retention to pay expenses and provide for reasonable reserves). Distributions will be made in the following order and priority:

- (i) an amount equal to 100% of the Partners’ aggregate capital contributions;
- (ii) an amount sufficient to provide a compounded return of 6% per annum on the Partners’ aggregate capital contributions from the dates of contribution to the dates of distribution under clause (i);
- (iii) Then, 100% to the GP until the GP has received an amount equal to 25% of distributions made under clause (ii) and this clause (iii); and
- (iv) Finally, (a) 25% to the GP and (b) 75% to the Partners in proportion to their percentage interests.

Upon liquidation of the Fund, the GP will be required to return distributions to the Fund to the extent the GP has been over distributed with respect to its carried interest in excess of 25% of aggregate Fund profit (reduced by the aggregate tax liability deemed incurred by the GP attributable to its carried interest).

**Diversified Fund**

Columbia does not receive performance-based fees for services rendered to the Diversified Fund.

**Partners Funds**

Columbia receives, as of the end of each fiscal year, an incentive allocation; founders class tranche shares equal to 15% and ordinary class tranche shares equal to 20% of each Limited Partner's allocable share of aggregate net profits for the fiscal year, provided that any prior net losses previously allocated to the Limited Partner must be offset by allocations of net profits before the incentive allocation may be made with respect to such Limited Partner. Any withdrawal at any time other than the end of a fiscal year will also be subject to an incentive allocation as of the date of such withdrawal. Columbia may, in its sole discretion, waive or reduce the incentive allocation payable with respect to any Limited Partner.

**China Fund**

Columbia does not receive performance-based fees for services rendered to the China Fund.

**Item 7 – Types of Clients**

Columbia provides investment advisory services to its Funds and to one high net-worth family limited liability company.

Columbia does not impose any minimum requirements on our Private Fund clients. The Private Funds, however, generally impose minimum investment commitments, unless such minimums are waived by Columbia, and require investors to satisfy certain suitability standards. Columbia also does not impose any minimum requirements to the high net worth family limited liability company to whom it provides investment advisory services.

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

As the General Partner of, or the investment manager to each Fund, Columbia has authority over and responsibility for the investment program of each Fund. An investment in a Fund involves a significant amount of risk and is suitable only for sophisticated investors of substantial means who have no immediate need for liquidity in the amount invested, and who understand and can afford a risk of loss of all, or a substantial part of such investment. There can be no assurance that any returns will be realized or that a Limited Partner, or Member, will receive a return of its capital. In addition, investors should be aware that there will be occasions when the General Partner, or Managing Member, and its affiliates (including the Manager) may encounter potential conflicts of interest in connection with the Funds.

The following is a brief summary of the investment objective, strategy and related information of or for each Fund:

**Opportunity Fund**

The investment objective of the Opportunity Fund is to generate positive returns in all markets through a prudently diversified portfolio of significant investments that will generate superior-risk adjusted returns. The Opportunity Fund seeks to invest across multiple asset classes through direct investments. Direct investments will be made in assets in which Columbia's principals have expertise. Investments within this class can be both debt and equity, private and public. Potential asset classes include, but are not limited to; real estate, private equity, public equity, distressed debt, and special situation lending.

The Opportunity Fund will be free to change its investment policies and practices in any manner in the sole discretion of Columbia and without the approval of or notice to the limited Partners. The Opportunity Fund may trade in derivative instruments and may trade on margin or borrow funds in order to employ leverage. Columbia reserves the full discretion to invest Opportunity Fund assets in any way Columbia believes may be in the best

interests of the Opportunity Fund consistent with the Opportunity Fund's overall investment objective. If determined to be consistent with its investment objectives, the Opportunity Fund may guarantee certain loans obtained by the portfolio companies in which it and/or some of Columbia's other private fund clients invest. The Opportunity Fund may be compensated for such guarantees, the terms of which are negotiated between Columbia and each borrower.

Columbia may designate, in its sole discretion, that certain investments of the Opportunity Fund, such as investments in illiquid funds, accounts or securities, or funds, accounts or securities that do not have a readily ascertainable market value, will be designated "Side Pocket Investments." Partners admitted after the designation of a Side Pocket Investment will have no interest in that Side Pocket Investment and, except as set forth in the limited Partnership agreement of the Opportunity Fund, no Partner will be permitted to withdraw any amount of its interest attributable to a Side Pocket Investment until all or the relevant part of such Side Pocket Investment is no longer designated as such. Side Pocket Investments will be subject to management fees, but no incentive allocation will be payable on any Side Pocket Investment until gains have been realized or deemed realized by Columbia in its sole discretion with respect to that Side Pocket Investment.

### **Distressed Fund**

The investment objective of the Distressed Fund is to achieve superior long-term capital appreciation through investments in distressed senior housing and healthcare real estate and related distressed investments such as mortgage-backed securities, bonds, warrants and mezzanine debt. Subject to certain co-investment opportunities that may be granted to certain third parties and limited Partners for strategic or capacity related reasons, the Distressed GP, Columbia and each of Daniel R. Baty, Stanley L. Baty and Alexander B. Washburn (the "Managing Partners") will present to the Distressed Fund all investment opportunities that fall within the investment objectives of the Distressed Fund during the investment period commencing on the initial closing date and ending on the third anniversary of the final closing date.

The Distressed Fund will not invest in portfolio investments more than 10% of the value of which consists of real estate located outside of North America or companies organized, headquartered or having their principal place of business outside of North America. The Fund may not invest in any other blind pool investment vehicle with respect to which the Distressed Fund would pay a "carried interest" or a management fee. The Distressed Fund may invest in listed options, futures or over-the-counter financial derivatives for the purpose of hedging the value of the Distressed Fund's investment in portfolio investments that are not options, futures or derivatives.

The Distressed Fund may borrow funds in anticipation of capital draw downs, and the Distressed Fund and its portfolio investments may borrow funds for the acquisition of assets and for other purposes, provided that in no event will the Fund at any one time have outstanding indebtedness for borrowed money in excess of 50% of the Distressed Fund's aggregate capital commitments. The Distressed Fund may also guarantee obligations of portfolio investments.

### **CPDFCI**

The investment objective of CPDFCI is to co-invest with the Distressed Fund, through a single-purpose entity, to acquire senior housing and healthcare real estate through direct ownership and a joint venture with Blackstone Real Estate Advisors and Emeritus Corporation ("JV Investment") and related investments. At the time of the investment, the JV Investment comprised 60% of CPDFCI's capital commitments and CPDFCI owned an 11% interest in the JV Investment. Subject to certain co-investment opportunities that may be granted to certain third parties and limited Partners for strategic or capacity-related reasons, the Distressed GP, Columbia and each Managing Partner will present to CPDFCI all investment opportunities that fall within the investment objectives of CPDFCI during the investment period commencing on the initial closing date and ending on the first anniversary of the final closing date.

CPDFCI may not invest in any other blind pool investment vehicle with respect to which CPDFCI would pay a "carried interest" or a management fee. CPDFCI may invest in listed options, futures or over-the-counter financial

derivatives for the purpose of hedging the value of CPDFCI's investment in portfolio investments that are not options, futures or derivatives.

CPDFCI may borrow funds in anticipation of capital drawdowns, and CPDFCI and its portfolio investments may borrow funds for the acquisition of assets and for other purposes. CPDFCI may also guarantee obligations of portfolio investments.

### **Senior Fund**

The investment objective of the Senior Fund is to own an interest in any corporation, partnership, limited liability company, or other legal entity whose primary business is to acquire, develop, construct, own, operate, sell, lease, sublease, finance, or otherwise deal with senior housing facilities (including independent living, assisted living and skilled nursing) in North America, as well as ancillary businesses, including therapy, home health, durable medical equipment and hospice in North America.

The Senior Fund and the Real Estate Fund have similar (although not identical) investment objectives in that both funds focus on investments in real estate. In addition, these funds may co-invest in a particular portfolio company. This may result in a theoretical conflict of interests on behalf of Columbia and/or supervised persons in that they may have an incentive to provide preferential treatment in terms of time, resources, and investment opportunities to the fund that pays higher fees. Columbia mitigates these potential conflicts through the establishment of policies and procedures regarding trade allocation which requires Columbia and its supervised persons to put the interests of clients first, at all times.

### **Income Fund**

The investment objective of the Income Fund is to make short to medium term real estate secured loans and invest in other high quality secured loans at what the Manager believes to be a discount to fair value. The Fund intends to create a portfolio of loans with strong collateral profiles diversified both geographically and by product type. The Fund intends to primarily apply attractive, low leverage and stable financing to balance sheet borrowers who are willing to provide strong collateral, which may include a combination of personal guarantees and substantial collateral.

### **Union Bay Fund**

The investment objective of the Union Bay Fund is to achieve attractive risk adjusted returns by providing a range of debt and equity financing solutions to growth stage companies. Typically, investments will be structured as senior secured loans coupled with an equity security, including warrants, options or rights to purchase common or preferred stock. The Fund will focus on, but not be limited to, two primary types of offerings, revenue based finance agreements and senior convertible promissory notes.

### **Real Estate Fund**

The investment objective of the Real Estate Fund is to own an interest in any corporation, partnership, limited liability company, or other legal entity whose primary business is to acquire, develop, construct, own, operate, sell, lease, sublease, finance, or otherwise deal with real estate. The Fund investments will include, but will not be limited to; hospitality, industrial, multi-family, retail and senior housing facilities (including independent living, assisted living and skilled nursing) in the United States and Canada. While the Fund intends to invest a material portion of its funds in senior housing facilities, the Fund may invest opportunistically in other real estate assets.

As previously discussed, the Real Estate Fund and the Senior Fund have similar (although not identical) investment objectives in that both funds focus on investments in real estate. In addition, the Real Estate Fund and the Senior Fund may co-invest in a particular portfolio company. This may result in a theoretical conflict of interests on behalf of Columbia and/or its supervised persons in that they may have an incentive to provide preferential treatment in terms of time, resources, and investment opportunities to the fund that pays higher fees.

Columbia mitigates these potential conflicts through the establishment of policies and procedures regarding trade allocation which requires Columbia and its supervised persons to put the interests of clients first, at all times.

### **Diversified Fund**

The Fund is a multi-strategy fund which provides investors the opportunity to participate, through a single investment in the Fund, in a diversified portfolio of Investment Funds sponsored by various Portfolio Managers. The Fund will have complete investment flexibility in meeting its objectives and to achieve certain desired market exposures at lower fees, including investing (i) in private and/or public pooled investment vehicles (including ETFs and mutual funds), and/or (ii) directly in publicly listed securities, options in private or publicly held companies, and/or short-term debt securities or money market instructions (and similar short-term instruments).

The Fund's investment objective, through its investments in the Investment Funds, is to generate historical public equity-like returns with a lower level of corresponding risk and volatility. The Fund is not expected to keep pace during periods of strong equity market performance but should temper losses in declining equity markets.

The Fund will seek to achieve its investment objective by capitalizing on inefficiencies in global capital markets as well as certain non-traditional risk premiums that are uncorrelated in most equity market environments to those risk premiums present in traditional stock and bond market portfolios. The Fund will predominantly allocate capital to Portfolio Managers who pursue a variety of non-traditional investment strategies that employ sophisticated trading and portfolio management techniques.

The Fund will seek exposure to Portfolio Managers employing diverse investment styles and strategies across global markets and asset classes. Allocating Fund assets among multiple Portfolio Managers may enable the Fund to achieve higher returns and less volatility compared to an investment in a single manager. The Fund will also provide access to Investment Funds that may not be readily accessible the Fund's investors due to high minimum investments, limits of the number of investors or other restrictions.

There can be no assurance that the Fund will achieve its investment objective or avoid substantial losses.

### **Partners Funds**

The investment objective of the Partners Fund is to produce positive returns and outperform major U.S. equity indices through market cycles. This objective is measured over a period of several quarters. The Fund seeks to achieve its investment objective by constructing a relatively concentrated portfolio of long and short investments which Columbia believes have the potential to deliver returns that are substantial on an absolute basis and compensate for associated risk. The Fund seeks to enhance the returns from security selection by increasing or decreasing overall and net portfolio exposures to benefit from or reduce impact of general market movements.

Columbia seeks rates of return generally associated with investments in common equities and, to this end, intends primarily to make long and short investments in common stocks and long investments in call or put options on common stocks. Columbia may invest in ETFs, futures and other Financial Instruments generally and in connection with hedging activities. Columbia may also invest in debt or non-convertible preferred stock.

Columbia anticipates that the Fund's investments will be made predominantly in publicly traded securities. Although the Fund may invest in a broad range of Financial Instruments, Columbia anticipates that, in general, a majority of the Fund's investments will be made in publicly traded equities or securities linked to the performance of publicly traded equities. Columbia anticipates investing directly or indirectly in securities of companies at all market capitalizations.

The Fund's portfolio may be invested in a relatively small number of positions, the performance of which, over time, may be expected to drive the Fund's performance. Expected holding periods may range from days to several quarters.

Columbia may seek to create directional exposure. Directional market exposure, concentrated positions, and other factors may contribute to the volatility of the Fund's returns. Reducing short-term volatility is not an objective of the Fund. The Fund's risk management will likely focus on the potential for long-term capital impairment on a position-by-position basis and overall Fund liquidity and drawdown potential based on gross and net exposures.

Columbia has three primary considerations when constructing the Fund's portfolio and evaluating investments: (1) market direction and trends; (2) fundamental outlook of a prospective investment; and (3) discovery cycle of a prospective investment. Overall portfolio positioning is driven by Columbia's market outlook. This outlook is shaped by fundamental, technical, and sentiment factors. When Columbia believes that a trend is sustainable, it will add or increase positions that it expects will benefit from that trend. When it considers a trend to be uncertain or likely to reverse, Columbia generally will make compensating adjustments to the portfolio through a reduction or reversal of net exposures. This may be accomplished through changes in single issuer equity positions, futures or ETFs. The Fund anticipates frequently maintaining substantial net exposures.

The fundamental outlook for a prospective investment is Columbia's estimate of its expected value in a future period based on various factors, including projected free cash flow and sustainable enterprise valuation multiples adjusted for certain assets and liabilities. In addition to return potential, risk factors and potential catalysts are identified. The purpose of this analysis is to form a baseline expectation about a stock's longer-term direction and return potential independent of short-term factors, such as market trends and share price momentum. The private equity experience of the Fund's portfolio manager is useful in developing the fundamental outlook.

Over shorter periods, Columbia believes absolute and relative stock performance is influenced by a public market "discovery cycle." Exceptional earnings growth, a new product story, participation in a favored industry group, or other factors may cause new types of investors to "discover" a stock. The interest of new buyers may lead the stock to outperform the general market, and valuations and expectations may move higher as the marginal buyer becomes more demanding (e.g., "hot money" momentum traders buying from "growth at a reasonable price" investors). Often expectations become unsustainable and give way to corrections during which stocks typically underperform the general market. Certain catalysts (e.g., exceeding or missing earnings expectations) often precede progression through the discovery cycle. By seeking to identify stocks on the verge of moving into or out of favor with investor groups, Columbia aims to shorten holding periods and correspondingly increase rates of return.

In order to construct a risk-return profile that fits the Fund's objectives, investments may be structured using option positions to substitute for or supplement cash equity positions. In particular, Columbia may use long purchases, short selling and derivatives, including futures contracts, to manage or hedge exposures to particular risks or overall market conditions and directional trends. In addition, Columbia may use margin borrowing and derivatives transactions to leverage Columbia's view of the risk/return profile of particular investments. The Fund does not intend to take naked short option exposure.

### **Separately Managed Account**

Columbia gives specifically tailored investment advice to a family limited liability company. Such investment advice is based on the investment objectives of such client, as communicated to Columbia.

### **Material Risks**

Listed below is a summary of some of the material risks involved in connection with our methods of analysis and investment strategies. The discussion of material risks provided below is not meant to be a complete description of risks that may be applicable to Columbia or to an investment in the Private Funds. The risks discussed below may be applicable to some, but not necessarily to all of the Private Funds. All investment activities involve a high degree of risk, including the possible risk of loss of an investor's entire investment and any returns thereon. For a more detailed discussion of the material risks involving an investment in each of the Private Funds, please refer to



the relevant fund's private placement memorandum. The information contained herein is a summary only and is qualified in its entirety by the relevant fund's governing documents.

#### *General Investment Risks.*

A potential investor in the funds should note that the prices of the securities and other instruments in which the fund invests might be volatile. Market movements are difficult to predict and are influenced by, among other matters, government trade, fiscal, monetary and exchange rate and control programs and policies; changing supply and demand relationships; national and international political and economic events; changes in interest rates; and the inherent volatility of the marketplace. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in the financial instrument and currency markets, and such intervention (as well as other factors) may cause these markets and related investments to move rapidly.

In addition, a fund's success may depend on the fund's investment advisor's ability to implement the fund's investment strategy. Any factor that would make it more difficult to execute more timely trades, such as a significant lessening of liquidity in a particular market, may also be detrimental to profitability. No assurance can be given that the investment strategies to be used by the fund will be successful under all or any market conditions. In addition, securities that the investment adviser to the fund believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame that the Investment Adviser anticipates. As a result, the fund may lose all or substantially all of its investment in any particular instance.

#### *General Economic Conditions.*

The success of any trading activity conducted by a fund may be affected by general economic conditions, which may affect the level and volatility of securities prices, interest rates and the extent and timing of investors' participation in the markets for currencies, securities and other instruments. Unexpected volatility or liquidity in the markets in which a fund holds positions could impair the fund's ability to carry out its investment strategy or cause it to incur losses.

#### *Equity Securities.*

The market price of securities owned by a fund may go up or down, sometimes rapidly or unpredictably. A risk of investing in a fund is that the equity securities in its portfolio will decline in value due to factors affecting equity securities markets generally or particular industries or issuers represented in those markets. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities that the fund's investment adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the investment adviser anticipates. As a result, the fund may lose all or substantially all of its investment in any particular instance.

#### *Potential Impact of a Limited Number of Investments.*

Some or all of the Private Funds may invest in a limited number of securities and other instruments. Accordingly, such fund or funds could become concentrated in relatively fewer securities and/or other instruments at any given

time. As a result of the foregoing, the aggregate return of the fund could be derived from a relatively undiversified, limited number of securities and other instruments. If a large portion of the assets of the fund is held in cash or cash-like instruments, performance might also be affected.

#### *Short Selling.*

Some or all of the Private Funds may engage in short selling as part of its general investment strategy. Short selling involves selling securities that are not owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the fund potentially to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, because the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss upon such repurchase. The fund's obligations under its short sales will be marked-to-market daily and collateralized by the fund's assets held at the broker, including its cash balance and its long securities positions. Because short sales must be marked-to-market daily, there may be periods when short sales must be settled prematurely, and a substantial loss would occur.

#### *Investments in Companies with Smaller Capitalizations or Limited Coverage.*

Some or all of the Private Funds may invest in the securities of companies with smaller capitalizations or that are the subject of little or no analysis or coverage by Wall Street or similar U.S. or non-U.S. firms. Investments in such companies may involve greater risk than is customarily associated with investments in the securities of companies with larger capitalizations or with greater Wall Street or similar coverage. For example, smaller companies often have limited product lines, markets, and/or financial resources, may be dependent for management on one or a few key persons, may lack substantial capital reserves, may not have established performance records and may be more susceptible to losses. Also, the securities of companies with smaller capitalizations or limited Wall Street or similar coverage may be thinly traded (and therefore may have to be sold at a discount from then-current market prices or in small lots over an extended period of time) and may be subject to wider and more abrupt price swings, thus creating the potential for greater losses than investments in the securities of companies with larger capitalizations or greater Wall Street or similar coverage. In addition, in connection with such reduced liquidity, transaction costs incurred by the Fund with respect to investments in the securities of companies with smaller capitalizations or limited Wall Street, analyst or similar coverage may be higher than the transactions costs the fund would have incurred if the fund had invested only in the securities of larger capitalization companies or companies with greater Wall Street, analyst or similar coverage.

#### *Equity Securities*

The value of the equity securities held by some or all of the Private Funds are subject to market risk, including changes in economic conditions, growth rates, profits, interest rates and the market's perception of these securities. While offering greater potential for long-term growth, equity securities are more volatile and more risky than some other forms of investment.

#### *Debt and Other Income Securities*

Some or all of the Private Funds may invest in fixed-income and adjustable rate securities. Income securities are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. In general, the values of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Because of the resetting of interest rates, adjustable rate securities are less likely than non-adjustable rate securities of comparable quality and maturity to increase or decrease significantly in value when market interest rates fall or rise, respectively. Market risk relates to the changes in the risk or perceived risk of an issuer, country or region. Credit risk relates to the ability of the

issuer to make payments of principal and interest. The values of income securities may be affected by changes in the credit rating or financial condition of the issuing entities.

### *Borrowing*

Borrowing for investment purposes generally provides exposure to changes in price at a ratio greater than 1:1 in reference to the amount invested. Some or all of the Private Funds may incur leverage by borrowing securities to effect short sales, entering into transactions on margin, entering into swaps and other derivatives contracts, and deploying other leveraging strategies. Such funds may borrow for other investment purposes as well as for liquidity purposes and such funds may not be limited in the amount of its borrowings (except for limits, if any, imposed by applicable law). Such borrowing increases the risk of loss and volatility. Borrowings may be secured or unsecured, but in most instances are expected to be secured by the fund's assets. Margin calls or changes in margin requirements applicable to the fund's borrowings may require the fund to pledge additional collateral or liquidate the fund's holdings, which could require it to sell investments at substantial losses that would not otherwise occur. In addition, regardless of the price movements of the fund's investments, it will incur expenses whenever it borrows (such as fees, commissions, interest and taxes), which will reduce the return to the fund's investors.

### *Real Estate Ownership in General*

A Private Fund's investments will be subject to the risks generally incident to the ownership of real estate and facilities, including: uncertainty of cash flow to meet fixed and other obligations; adverse changes in local market conditions, population trends, neighborhood values, community conditions, general economic conditions, local employment conditions, interest rates, and real estate tax rates; changes in fiscal policies; changes in applicable laws and regulations (including tax laws); uninsured losses and other risks that are beyond the control of its general partner. There can be no assurance of profitable operations because the cost of owning the properties may exceed the income produced, particularly since certain expenses related to real estate and its development and ownership, such as property taxes, utility costs, maintenance costs and insurance, tend to increase over time and are largely beyond the control of the owner. Moreover, although insurance is expected to be obtained to cover most casualty losses and general liability arising from the properties, no insurance will be available to cover certain uninsured casualties as well as cash deficits from ongoing operations.

### *Competition for Investment Opportunities*

Some or all of the Private Funds may be competing for investment opportunities with entities that have greater financial and other resources than such fund. Those entities may be able to accept more risk than the fund can prudently manage. Competition generally may reduce the number of suitable investment opportunities available to the fund and increase the bargaining power of property owners seeking to sell. No assurances can be given that such competition will not adversely affect the fund's ability to make investments and generate revenues.

### *Illiquidity of Real Estate*

Equity real estate investments are relatively illiquid and therefore tend to limit the ability of a fund to vary its portfolio promptly in response to changes in economic or other conditions.

### *Investments in Development and Construction of Projects*

Some of the Private Funds may invest in development and construction projects. Risks associated with development and construction activities may include: (i) abandonment of development opportunities; (ii) construction costs of a property exceeding original estimates, possibly making the property uneconomical; (iii) occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable; (iv) financing may not be available on favorable terms for development of a property; and (v) construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs. In addition, new development activities, regardless of whether they would ultimately be successful, typically require

a substantial portion of management's time and attention. Development activities would also be subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations. These factors could adversely impact the fund's performance.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Columbia or the integrity of Columbia's management. Columbia has no disciplinary information.

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

Columbia serves as the general partner of, or investment manager to each Private Fund, as further described in the responses in the Advisory Business section above.

The owners of Columbia have an affiliation with another investment adviser, Columbia Pacific Capital Management (CPCM) which provides advisory services for separately managed accounts. The principal owners of Columbia have an ownership interest in CPCM, but are not involved in the daily operations. CPCM's advisory clients may invest in private funds for which CPA acts as general partner or as investment manager. In order to prevent any potential conflicts of interests arising from this arrangement, CPCM does not charge or collect a fee, whether in the form of a management fee, advisory fee, or performance based fee, from its client(s) investments in the Private Funds managed by CPA. In addition, CPCM may provide advisory services to some of the investors of the Private Funds of CPA. If they do, CPCM will charge fees based on their advisory management contract with each respective investor.

Columbia is the sole member of CPA Development, LLC ("CPA Development"), a limited liability company that currently provides development and management services to entities in which the Senior Fund and Real Estate Fund invest. In addition, CPA Development provides services to some of the portfolio companies of the Opportunity Fund and certain companies owned by one or more of CPA's principals. Pursuant to a written agreement between CPA Development, LLC and these portfolio companies, CPA Development is responsible for the development, construction and management of certain properties owned by these portfolio companies. CPA Development is paid a Development Fee by the specific portfolio companies in the above mentioned funds that ranges from 3% to 7.5% of the development costs, less certain expenses set forth in the agreement between the parties. The fees earned by CPA Development indirectly benefit Columbia and its principal owners since Columbia is the sole member of CPA Development and as such, each principal owner is allocated a proportionate percentage of any net revenues earned by CPA Development.

In addition, one of the portfolio managers for Columbia also serves as the Managing Director for CPA Development and in such capacity receives compensation from CPA Development. This arrangement may result in a theoretical conflict of interest in that such portfolio manager may recommend that the funds make investment in companies that have engaged, or intend to engage CPA Development.

In order to address the potential conflicts described above, Columbia requires that before an agreement is entered into between CPA Development and such portfolio companies, proper documentation and support is created and maintained relative to the advisability and propriety of such arrangement. In addition, the terms of such agreement are negotiated on an arms-length basis and an analysis is conducted relative to the competitiveness of the fees charged by CPA Development.

One of Columbia's private fund clients, specifically the Opportunity Fund, and some of Columbia's affiliates have entered into an agreement with Seattle Bank pursuant to which the fund and certain affiliates have provided

financing to Seattle Bank for recapitalization purposes. Currently, a number of the Private Funds (collectively, the “Depositors”) maintain bank accounts at Seattle Bank, which deposits currently represent a substantial portion of the bank’s assets. In addition, Columbia may recommend that funds and/or securities of the Private Funds be custodied at Seattle Bank. This arrangement may create a potential conflict of interest in that any revenues earned by the Seattle Bank from the accounts maintained by the Depositors, as well as fees earned from custodial services provided by Seattle Bank to the Private Funds, may theoretically increase the value of Opportunity Fund’s and its affiliates’ investment in Seattle Bank. In order to mitigate such conflict, and in accordance with Columbia’s fiduciary duty to each of the Private Funds, Columbia has established policies and procedures which requires Columbia and its supervised persons to put the interests of each of its clients first, at all times, by making an independent determination relative to the advisability and propriety of recommending that the assets of its fund clients be deposited at Seattle Bank, and the suitability of having fund assets custodied at such bank.

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

Columbia has adopted a Code of Ethics (the “Code”) that sets forth the basic policies of ethical conduct for all managers, members, officers, directors and employees of Columbia and their fiduciary duty to its clients. The Code includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumormongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All Access Persons (as defined in the Code) at Columbia must acknowledge the terms of the Code annually, or upon any amendments.

Columbia anticipates that, in appropriate circumstances, it may cause a Private Fund over which Columbia has management authority to effect and recommend the purchase or sale of securities in which Columbia, its affiliates and/or clients, directly or indirectly, have a position of interest. This arrangement may result in a theoretical conflict of interest in that Columbia and/or its affiliates may be deemed to have an incentive to recommend the purchase or sale of securities in which it has a potential interest. In order to mitigate such theoretical conflict of interest, a determination is made by Columbia prior to such transaction that such transaction is consistent with the relevant Private Fund’s investment objectives. In addition, the Code is designed to ensure that any conflict of interest arising from such arrangement will always be resolved in favor of the client.

In addition, the Code governs personal trading by each employee of Columbia deemed to be an Access Person and is intended to ensure securities transactions effected by Access Persons of Columbia are conducted in a manner that avoids any actual or potential conflict of interest between such persons and the clients or affiliates of Columbia. Columbia collects, reviews and maintains records of securities holdings and securities transactions effected by each Access Person. These records are reviewed to identify and resolve any conflicts of interest.

The Code is designed to assure that the personal securities transactions, activities and interests of the employees of Columbia will not interfere with (i) making decisions in the best interest of the Private Funds and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of Columbia’s clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity.

Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as the Private Funds, there is a possibility that employees might benefit from market activity by a Private Fund in a security also held by an employee. Employee trading is periodically monitored under the Code to reasonably prevent and detect any conflicts of interest between Columbia and its clients brought about by such arrangement.

Certain affiliated accounts may trade in the same securities on the same day as the Private Fund accounts, on an aggregated basis when consistent with Columbia’s obligation of best execution. In such circumstances, the affiliated and client accounts at the same custodian will receive securities at the same average price. Columbia

will retain records of the trade order (specifying each participating account) and its allocation. Partially filled orders will usually be allocated on a pro rata or random basis.

It is Columbia's policy that the firm will not affect any principal cross securities transactions for client accounts. Columbia will also not conduct any cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A cross transaction may be deemed to have occurred if a security is crossed between an affiliated fund and another client account and Columbia or its affiliated person acts as agent for both the purchaser and seller of the securities, and receives compensation for acting as agent beyond the investment management fees that it stands to receive in the ordinary course of managing the assets of such client or clients.

Columbia's clients or prospective clients may request a copy of the firm's Code by contacting Paul Parietti, the Chief Compliance Officer, at (206) 701-7887.

### **Item 12 – Brokerage Practices**

Among the Private Funds managed by Columbia, only the Opportunity Fund, Partners Fund and Diversified Fund currently trade public securities. As a result, the following discussion pertains directly to the trading activities of these three funds.

Columbia has complete discretion over the selection of broker-dealers to execute securities transactions and negotiate compensation arrangements with such broker-dealers. In addition to using broker-dealers as agents and paying commissions, Columbia may cause any of the three funds to buy or sell securities directly from, or to broker-dealers acting as principal (such as market-makers for over-the-counter securities) at prices that include markups or markdowns, and may buy securities from underwriters or broker-dealers in public offerings at prices that include compensation to the underwriters or broker-dealers. The following discussion summarizes the material aspects of Columbia's practices in selecting broker-dealers to execute transactions.

#### **Selection Criteria – Execution Quality**

In choosing broker-dealers, Columbia is not required to consider any particular criteria. For the most part, Columbia seeks "best execution" of securities transactions. "Best execution" is not synonymous with the lowest price. In evaluating whether a broker-dealer will provide best execution, Columbia considers a range of factors. These include, among others, (i) historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions, (ii) the execution, clearance and settlement and error correction capabilities of the broker-dealer generally and in connection with securities of the type and in the amounts to be bought or sold, (iii) the broker-dealer's willingness to commit capital, (iv) the size of the transaction, (v) the availability of securities to borrow for short sales, (vi) the market for the security, (vii) and, as discussed more fully below, the nature, quantity and quality of research and other services and products provided by the broker-dealer. Columbia is not required to select the broker-dealer that charges the lowest transaction price, even if that broker-dealer can provide execution quality comparable to other broker-dealers. The Opportunity Fund and the Partners Fund may at times pay more than the lowest transaction price available in order to obtain for Columbia services and products that relate to investment research or trading activities. The Diversified Fund does not generate soft dollars.

#### **"Soft Dollars"**

Columbia may select broker-dealers in recognition of the value of various services or products, beyond transaction execution, that they provide to Columbia or its advisory clients. Selecting a broker-dealer in recognition of the provision of services or products other than transaction execution is commonly referred to as paying for those services or products with "soft dollars." Because many of those services and products could benefit Columbia, Columbia may face conflicts of interest in allocating a client's securities transactional business.

These may include incentives to cause the client to engage in the following practices to induce broker-dealers to provide those benefits, including by:

- (i) paying broker-dealers higher compensation (including markups and markdowns on principal transactions with market-makers) than the compensation payable to other market participants who do not provide the services or products;
- (ii) selecting broker-dealers that do not provide the best possible price;
- (iii) using (and paying) broker-dealers who do not actually provide execution services (including broker-dealers who are paid commissions on transactions effected on a principal basis with other broker-dealers acting as market makers); and
- (iv) effecting more transactions than might otherwise be optimal.

The agreements between Columbia and its clients generally authorize Columbia to use client soft dollars for a wide range of purposes, including certain purposes that may fall outside the safe harbor afforded by Section 28(e) of the Exchange Act as amended (see below). The extent of any such conflict depends in large part on the nature and uses of the services and products acquired with soft dollars.

Columbia believes its use of soft dollars benefits both the Opportunity Fund and the Partners Funds. However, the research and services acquired with soft dollars generated by the Opportunity Fund's and Partners Funds' investments may not necessarily be utilized solely for the benefit of the Opportunity Fund and the Partners Funds, and may also benefit Columbia, its members, employees and affiliates. Columbia may allocate soft dollar benefits among its various clients in a manner it deems, in good faith, to be appropriate.

### **Fund Expenses**

Columbia may, in its discretion, use soft dollars to pay broker-dealers for record-keeping, custodial and related services for the Opportunity Fund.

### **Research and Brokerage**

Columbia may use soft dollars to acquire other "research" and "brokerage" services and products for which the Opportunity Fund would not otherwise be required to pay. Section 28(e) of the Securities Exchange Act of 1934, as amended, provides a "safe harbor" for soft dollar uses when certain conditions are met. Under Section 28(e), "research" means services or products used to provide lawful and appropriate assistance to Columbia in making investment decisions for its clients. "Brokerage" services and products are those used to effect securities transactions for Columbia's clients or to assist in effecting those transactions. To be protected under Section 28(e), Columbia must, among other things, determine that commissions paid are reasonable in light of the value of the "brokerage" and "research" services and products acquired. Notwithstanding this protection, Columbia could be considered to have a conflict of interest when it uses soft dollars for research and brokerage services and products. Because Columbia might otherwise have to pay cash for those services and products, it may have an incentive to use broker-dealers who provide those products and services more than it otherwise would. The types of "research" Columbia expects to acquire include (but is not limited to): reports on, and other information about, particular companies or industries; economic surveys and analyses; recommendations as to purchase, holding or sale of specific securities; financial publications; portfolio evaluation services; computerized news, pricing and statistical services; analytical software; proxy analysis services and systems; for use in running software used in investment decision making; and other products or services that may enhance Columbia's investment decision making. "Brokerage" services and products (beyond typical execution services) include (but are not limited to): computer systems and facilities used for such things as communicating orders electronically to executing brokers.

When a particular product or service that a broker or dealer is willing to provide for soft dollars has dual purposes (*i.e.*, it is useful to Columbia for both "research" and non-research purposes), Columbia may allocate the cost of the product or service between its research and non-research uses and pay only the "research" portion with soft dollars. Columbia's interest in making such allocation may differ from the Opportunity Fund's and Partners



Fund's interest in that Columbia has an incentive to designate as much as possible of such cost to "research" in order to permit payment with soft dollars.

### **Procedures**

Broker-dealers from which Columbia obtains soft dollar services or products generally establish "credits" based on past transactional business (including markups and markdowns on principal transactions), which may be used to pay or reimburse Columbia for specified expenses. In some cases, a broker-dealer may suggest a level of future business that would fully compensate the broker-dealer for services or products it provides. Columbia's actual transactional business with a broker-dealer may be less than the suggested level but can—and often will—exceed that level, and credits established may exceed the amounts used to acquire services and products. This may be in part because Columbia's investment activities generate aggregate commissions in excess of the levels of future business suggested by all broker-dealers who provide services and products. And it may be in part because those broker-dealers may also provide superior execution and may therefore be most appropriate for particular transactions. These procedures are generally consistent with the requirements of Section 28(e) when the products or services acquired constitute research and/or brokerage services.

### **Brokerage for Client Referrals**

Broker-dealers with which a Private Fund transacts may introduce Columbia to prospective investors in the Private Fund. However, Columbia does not consider the prospect of receiving or the receipt of investor referrals when selecting or recommending broker-dealers for securities transactions for its clients.

### **Directed Brokerage**

Managed account clients may, under the terms of our agreement, require us to execute transactions through a specified broker dealer, in which event they may receive less favorable prices or may pay higher brokerage commissions because we may not be able to aggregate orders to reduce transaction costs.

### **Aggregation of Orders**

Columbia may (but is not required to) combine orders on behalf of the Opportunity Fund, Partners Funds and/or Diversified Fund with orders for other accounts for which Columbia or its principals have trading authority, or in which Columbia or its principals have an economic interest. When it does, Columbia will generally allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants. Columbia believes combining orders in this way will be advantageous to all participants over time. However, the average price could be less advantageous to the Opportunity Fund, Partners Funds or Diversified Fund than if it had been the only account effecting the transaction or had completed its transaction before the other participants.

## **Item 13 – Review of Accounts**

Publicly traded securities are monitored on a daily basis; for the Opportunity Fund by Alexander Washburn and Trent Stedman; for the Partners Funds by Trent Stedman; for the Diversified Fund by Heide Lankeit. Each Columbia fund's Portfolio Manager reviews the investments in their respective funds on at least a weekly basis. The principals of Columbia monitor all other investments on at least a monthly basis.

In general, each investor in a Private Fund receives, for each fiscal year of the Private Fund, audited financial statements performed by an independent public accountant that is registered with and subject to regular inspection by the Public Company Accounting Oversight Board. And such other information as may be reasonably necessary for the preparation of the investor's tax returns.

In addition, each investor in the:

**Opportunity Fund** generally receives, semi-annually, an unaudited capital account statement and quarterly performance data;



**Distressed Fund** generally receives, annually, an unaudited report providing a summary of the Distressed Fund's portfolio investments;

**CPDFCI** generally receives, annually, an unaudited report providing a summary of CPDFCI's portfolio investments;

**Senior Fund** generally receives, semi-annually, an unaudited report providing a summary of the Senior Fund's portfolio investments;

**Income Fund** will generally receive, semi-annually, an unaudited report providing a summary of the Income Fund's portfolio investments;

**Union Bay Fund** will generally receive, quarterly, an unaudited report providing a summary of the Union Bay Fund's portfolio investments;

**Real Estate Fund** will generally receive, semi-annually, an unaudited report providing a summary of the Real Estate Fund's portfolio investments;

**Diversified Fund** generally will receive quarterly unaudited capital account statements and performance data;

**Partners Funds** generally will receive monthly an unaudited capital account statement and quarterly unaudited performance data.

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

While Columbia does not have any referral arrangements for compensation at the present time, Columbia may appoint one or more placement agents to solicit prospective investors for interests in the Private Funds. Unless paid by the relevant investor, all fees or compensation payable to a placement agent with respect to an investment by such investor will be paid solely by Columbia or its affiliates (other than the relevant Private Fund), which fees or compensation are expected to be paid out of the management fees, incentive allocations or carried interest distributions payable by such Private Fund.

#### **Item 15 – Custody**

**Opportunity Fund** – Columbia self-custodies approximately 2/3 of the investments. We choose to custody the public securities at Jefferies LLC and cash at Jefferies LLC and/or Washington Trust Bank.

**Distressed Fund** – Columbia self-custodies all of the investments. Cash is custodied at Washington Trust Bank.

**CPDFCI** – Columbia self-custodies all of the investments. Cash is custodied at Washington Trust Bank.

**Senior Fund** – Columbia self-custodies all of the investments. Cash is custodied at Seattle Bank.

**Income Fund** – Columbia self-custodies all of the investments. Cash is custodied at Seattle Bank.

**Union Bay Fund** – Columbia self-custodies all of the investments. Cash is custodied at Washington Trust Bank.

**Real Estate Fund** – Columbia self-custodies all of the investments. Cash is custodied at Seattle Bank.

**Diversified Fund** – We choose to custody the public securities at Jefferies LLC and cash at Jefferies LLC and/or Washington Trust Bank.

**Partners Funds** – We choose to custody the public securities at Jefferies LLC and cash at Jefferies LLC and/or Washington Trust Bank.

Columbia does not receive any compensation from the above mentioned custodians and believes that all firms provide adequate service for reasonable fees. Item 13 refers to the annual audits performed on each fund. For the family limited liability company, we only have custody of the assets invested by the family limited liability company in our funds; for all other assets, the custodian was chosen by the family limited liability company.

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

Columbia has complete discretion over the selection and amount of securities to be bought or sold by the Private Funds (within the parameters established by the relevant Fund's limited partnership agreement or limited liability agreement, and/or private placement memorandum). Columbia is not required to obtain the consent or approval of any Limited Partner or Member of a Private Fund in connection with any investment transaction or decision on behalf of the Private Fund. For the family limited liability company, Columbia has discretion over the selection and amount of private securities to be bought or sold but does not have discretion over the amount of public securities to be bought or sold.

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

Columbia has adopted a policy governing the voting of proxies that is designed to ensure that Columbia votes proxies relating to securities or other assets held by the Private Funds in a prudent and diligent manner intended to enhance the economic value of the relevant securities or other assets. Each proxy proposal will be considered on its own merits, and an independent determination will be made whether to support or oppose management's position. A client may obtain a copy of these proxy voting policies as well as information on how Columbia has voted past proxies by calling (206) 728-9063.

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

Columbia has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## **BROCHURE DISCLOSURE**

In no event should this disclosure brochure be considered to be an offer of interests, or as a solicitation of offers to purchase interests, in any of Columbia's Private Fund clients or relied on in determining whether to invest in any Private Fund. It is also not an offer of, or agreement to provide, advisory services directly to any recipient of this disclosure brochure. Rather, this brochure is designed solely to provide information about Columbia for the purpose of compliance with certain obligations under the Advisers Act and, as such, responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided to potential investors in the private placement memorandum, limited partnership agreement or investment management agreements of the Private Funds (the "Offering Documents"). To the extent that there is any conflict between any discussion in this disclosure brochure and the Offering Documents provided to investors, the Offering Documents provided to such investors should govern.