

Disclosure Brochure

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This brochure provides information about the qualifications and business practices of Thorofare, LLC (hereinafter “Thorofare”). If you have any questions about the contents of this brochure, please contact us at (213) 873-4012. 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. Additional information about Thorofare is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Thorofare is an SEC registered investment adviser. Registration does not imply any level of skill or training.

**Item 2. Material Changes**

This Brochure is Thorofare's initial Brochure.

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#### **Item 4. Advisory Business**

A. Thorofare currently acts as discretionary investment adviser to two limited partnerships: Thorofare Asset Based Lending Fund II, L.P. (“Thorofare Fund II”), and Thorofare Asset Based Lending Fund III L.P. (“Thorofare Fund III”, collectively the “Fund(s)” or “Thorofare Funds”). The Thorofare Funds are the only clients of the firm. The general partners of the Thorofare Funds are Thorofare Lending Fund II Management, LLC and Thorofare Lending Fund III Management, LLC (“General Partner(s)” respectively), each Delaware limited liability companies. Thorofare solely owns the General Partners.

Thorofare was formed in June 2010. Thorofare’s principal owners are Kevin Miller, through KHM Wentworth, LLC; Brendan Miller, through Wapple, Inv., LLC; Ryan Herbert, through RMH Clayton, LLC; and Marc Rapaport through RFT-TC, LLC.

B. Thorofare and the General Partners specialize in managing portfolios of real estate loans and the Thorofare Funds are designed and formed to provide investors with a real estate lending investment vehicle. Thorofare’s investment advice is limited to discretionary investment advisory services with respect to such types of investments. Thorofare seeks to identify real estate transactions that cannot be completed by traditional financing sources for a myriad reasons. Loan-to-Value (LTV) is a primary consideration for qualifying loans. In addition, Thorofare targets transactions with inherently strong borrower equity positions. Thorofare’s goal is to create a portfolio of loans at attractive LTVs with borrowers who, based on their need for private financing, are willing to pay above market interest rates for such financing. Specific property locations will be targeted on a micro market level with particular focus on assessing market depth, lease rates, vacancy, absorption, new construction and job growth.

C. Thorofare’s investment advice is tailored to the investment objectives, investment strategy and restrictions (if any) set forth in each respective Fund’s agreement of limited partnership and private placement memorandum (“Offering Documents”). For example, Thorofare Fund III has the following investment restrictions requiring the requiring that the Fund may not:

- (i) make any investment (other than the temporary investment of amounts pending use or distribution in permitted short-term investments) that is not an investment in Qualified Loans;
- (ii) make an investment in a Qualified Loan any portion of the Primary Collateral for which is undeveloped land (i.e., land that has not been zoned for commercial or residential development); or
- (iii) make a Qualified Loan if the aggregate outstanding principal balance owed by the borrower and its affiliates under such Qualified Loan as of the funding of such Qualified Loan exceeds the greater of: (a) \$20 million; or (b) 10% of the Partnership’s aggregate Capital Commitments. Notwithstanding the foregoing, the Partnership, in the General Partner's sole discretion, may co-invest in or purchase a loan with a principal balance

exceeding the foregoing limits, if the Partnership's investment in such loan stays within such parameters.

D. As of September 1, 2014, Thorofare advises approximately \$193,652,472 in assets across two of the Thorofare Funds.

## **Item 5. Fees and Compensation**

A. Management Fees and Management Interests: The General Partners of the Thorofare Funds are entitled to management fees or a management interest as set forth in the respective Thorofare's Offering Documents ("Management Fees or Management Interest"). The Management Fees or Management Interest are paid to Thorofare pursuant to an investment advisory agreement executed between Thorofare and the General Partners of the Funds.

For example, Thorofare Fund II's Management Fee is calculated as two percent (2%) per annum of the unreturned capital of each partner and paid monthly in arrears. Such Management Fee is accrued concurrently with the accrual of the preferred return, as defined in the Offering Documents. Thorofare Fund III's Management incentive is defined as a management interest ("Management Interest") in lieu of a Management Fee, entitling the General Partner to special distributions up to two percent (2%) per annum, calculated in a manner akin to the calculation of simple interest, on the aggregate unreturned capital of all limited partners other than affiliates of the General Partner (and corresponding allocations of profit). Such Management Interest is paid in accordance with Section 7.4 of the agreement of limited partnership, and according to a pro-rata distribution calculation as set forth in Section 4(b)(ii) of the of the agreement of limited partnership.

The General Partner of each respective Thorofare Fund, without the approval of any limited partner, may enter into a side letter or similar agreement to or with one or more limited partner(s) (a "Side Letter"), which has the effect of establishing rights under, or altering or supplementing the terms hereof or any subscription agreement with respect to such limited partner, including a waiver of Management Fees, Management Interest or Carried Interest (defined below).

### B. Additional Compensation:

Thorofare Capital Inc. ("TCI"), an affiliate of Thorofare, is engaged to render services in connection with the Thorofare Fund's loan origination process. TCI is also a mortgage brokerage affiliate of Thorofare and may charge mortgage brokerage fees and expenses with respect to related party mortgage transactions. The Thorofare Funds pay to TCI, fifteen percent (15%) of origination fees and exit fees generated. The remaining eighty five percent (85%) of the origination fees and exit fees generated ("Origination Service Charge") is divided equally amongst the respective Fund and the General Partner of the respective Thorofare Fund. The Residual Origination Fees paid to the respective Fund are classified as investment cash flow of the Fund and are subject to application of Management Fees.

Thorofare and TCI may enter to enter into an expense sharing agreement whereby the companies will allocate overhead and other expenses, including compensation for employees or contractors, amongst the respective companies. Employees of TCI will provide underwriting support to Thorofare as part of each Thorofare Fund's investment due diligence process and will be compensated accordingly.

Currently, Thorofare treats all employees, whether of Thorofare, TCI as "Access Persons" for regulatory purposes. As such all such employees are subject to Thorofare's Code of Ethics and regulatory compliance policies and procedures.

In addition to the Carried Interest, the Origination Service Charge, the respective Thorofare Fund's General Partner's share of the Residual Origination Fee, the Management Fee or Management Interest and the returns on its investment in the Partnership, the General Partner of the respective Thorofare Fund and its affiliates: (i) may charge the borrowers under Qualified Loans held by the Partnership and other third parties normal and customary fees for services rendered by the General Partner and affiliates in connection with such Qualified Loans (collectively, "Borrower Fees") and (ii) may require such borrowers and third parties to reimburse the General Partner and its affiliates for costs and expenses incurred by the General Partner and its affiliates in connection with the provision of services (collectively, "Borrower Reimbursements"), including:

- (i) loan processing and documentation fees; and
- (ii) escrow fees, trustee fees, appraisal fees, late fees and site inspection fees;

provided that Borrower Fees will not include Origination Fees.

If the General Partner or any of its affiliates, such as TCI, provide real estate brokerage services in connection with the sale of any real property that serves as Primary Collateral or Additional Collateral, the General Partner or such affiliate may receive a disposition commission (a "Disposition Commission"), from the proceeds of such sale, not to exceed 6% of the sale price of such real property net of any other real estate brokerage commission payable in connection with such sale from the proceeds of such sale. If the General Partner or any of its affiliates provide property management services with respect to any real property that serves as Primary Collateral or Additional Collateral of which the Partnership takes possession, the General Partner or such affiliate may receive normal and customary property management fees ("Property Management Fees"). If the General Partner or any of its affiliates provide mortgage brokerage services in connection with the making of a Qualified Loan, the General Partner or any such affiliate may receive a customary mortgage commission (a "Mortgage Commission") from the proceeds of such loan. In addition, to the extent that the General Partner (or an affiliate thereof) provides the Partnership with any services (including, without limitation, loan servicing) for which the Partnership would otherwise engage a third party ("Fund Services"), then the General Partner (or such affiliate) shall be entitled to provide such Fund Services and be compensated therefor, without the consent of any other Partner, so long as: (a) the compensation charged is reasonable and customary for the services provided, and (b) the terms and conditions relating to such

Fund Services are no less favorable to the Partnership than would generally be available from third parties under similar circumstances.

The General Partner and its affiliates, including Thorofare, will be entitled to *receive and keep* all Borrower Fees, Borrower Reimbursements, Disposition Commissions, Property Management Fees, Mortgage Commissions and fees for Fund Services; provided that, for the avoidance of doubt, any cost or expense reimbursed to the General Partner or any of its affiliates as a Borrower Reimbursement may not be charged to the Partnership as a Partnership Expense.

#### C. Partnership Expenses:

As set forth in Article VII of the respective Thorofare Funds Offering Documents, each of the Funds must reimburse the General Partner organizational expenses and partnership expenses. Organization expense reimbursement is generally capped at 0.1% of investor capital commitments. In addition to organizational expenses and Management Fees, partnership expenses include, without limitation: the cost and expenses of sourcing, evaluating, originating, negotiating, consummating, servicing, managing and disposing of investments; legal, accounting and other service provider fees; interest on indebtedness; insurance premiums (including E&O and or D&O for Thorofare, the General Partners (including the members, officers and employees of such) and LP Advisory Board and third party insurance services); foreclosure, litigation and indemnification expenses; out-of-pocket expenses of the LP Advisory Board; and taxes and governmental fees. To the extent such fees are incurred jointly by the Funds, such may be allocated in a manner to each respective Fund in good faith by the General Partner. Organizational and Partnership Expenses may, but do not currently, include placement fees. The General Partners have discretion to allocate all or a portion of such placement fees to the respective Thorofare Fund in its sole discretion.

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

The General Partners of the Thorofare Funds are entitled to receive a carried interest of twenty percent (20%) on Distributions of Available Assets (“Carried Interest”), after return of investor capital and the preferred return, as defined in Section 4.2(b) of the respective Thorofare Fund agreement of limited partnership. Carried Interest is considered a performance-based fee for regulatory purposes. Thorofare does not currently advise on any parallel or side-by-side funds.

#### **Item 7. Types of Clients**

Thorofare provides discretionary investment advisory, through each Thorofare Fund’s general partner services to pooled investment vehicles operating as limited partnerships exempt from registration as an investment company pursuant to Section 3(c)(5) of the Investment Company Act. Thorofare Fund investors are accredited investors, qualified clients, and/or qualified purchasers. Thorofare Fund investors may also be knowledgeable employees of Thorofare.

Thorofare may also provide non-discretionary investment advisory services to unaffiliated investment advisers and institutional investors related to real estate mortgage origination and underwriting expertise, and provide non-advisory services, such as loan servicing, for a fee, to third parties.

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

### **Methods of Analysis and Strategy:**

Our strategy is to identify real estate transactions that cannot be completed by institutional lenders for a myriad reasons, including bureaucratic reasons. LTV is the primary consideration for qualifying loans (as defined in the respective Fund's Offering Documents) and we generally target transactions with inherently strong borrower equity positions. Our goal for each Thorofare Fund is to create a portfolio of loans at attractive LTVs with borrowers who, based on their need for private financing, are willing to pay above market interest rates for such financing, and that generates a 10% per annum preferred return to investors. Specific property locations are targeted on a micro market level with particular focus on assessing market depth, lease rates, vacancy, absorption, new construction and job growth. In addition, we seek to obtain extended title coverage through American Land Title Association lender's policies to ensure that each qualified loan has a senior secured position on all properties funded.

Our strategy is to generally fund only those real estate transactions that can achieve a large spread between debt and equity positions. Our target for the Thorofare Funds is to achieve a fully-funded portfolio of qualified loans with an average LTV on its primary collateral of 55%, and primary collateral of each qualified loan to be at or below a 68% LTV, with many qualified loans further backed by additional collateral or personal guarantees of the borrowers or others. Qualified loans held by the Fund will primarily be loans made by the Fund as a direct lender to the borrower. However, the Partnership may, in the General Partner's sole discretion, acquire qualified loans on the secondary market.

We consider investments nation-wide. Regardless of the market of each potential investment, we and/or our affiliates complete an initial due diligence investigation of each property prior to a Fund's funding of a potential loan. During the underwriting process, our analysts typically conduct a site inspection and investigate market conditions, title, environmental concerns, zoning, borrower credit, and most importantly, property value. We utilize a variety of economic models to analyze the safety and quality of a Fund's portfolio.

Thorofare's Fund revenues come from a variety of sources. Loan origination and underwriting fees ("Origination Fees") are expected to be between 1% and 3% of the principal amount of a loan and 50% of such fees, when collected, will be considered as revenue to the respective Fund, with the other 50% accruing to the General Partner to offset costs associated with the loan origination and underwriting process.



### **Risk of Loss:**

An investor's decision to invest in a Thorofare Fund entails risk. All investments have risk of loss, including loss of your investment. There are no guarantees that any past success of any Thorofare Fund will result in positive investor investment returns in the future. Private investment partnerships have their own set of risk, including, but not limited to lack of liquidity and diversification, strategy risk and conflicts of interest related to affiliated party transactions as set forth below. Moreover, no investor (Limited Partner) may sell, transfer, assign, convey, pledge, mortgage, encumber, hypothecate or otherwise dispose of all or any part of its partnership interest (Interest) without the General Partner's consent. There is no public market for Interests in the Thorofare Funds.

A more complete discussion of the risk associated with an investment in a Thorofare Fund is set forth in the respective Fund's private placement memorandum ("PPM"), and investors are encouraged to carefully review the PPM prior to making an investment decision.

### **Borrower Risk, General Market & Real Property Risk and Competition:**

Investments related to real property carry specific risks, including but not limited to: foreclosure risk and local rules and regulations affecting the ability to foreclose on properties; vacancy rates and general financial condition of buyers and sellers; condemnation, environmental contamination and eminent domain; state and local regulations and/or ordinances affecting the purchase, sale or management of properties; litigation and insurance risk; geographic market concentrations, general credit risk, and other risks.

Thorofare Funds' investments are speculative and profitability depends on the ability of our borrowers to repay their loans. The ability of a borrower to repay may be affected by local, regional, and national real estate market and economic conditions beyond the control of the Fund. Delinquencies and defaults are sensitive to local and national business and economic conditions. Favorable real estate and economic conditions may not necessarily enhance a borrower's ability to repay due to circumstances specific to a borrower and are beyond the Fund's control.

Each type of property on which we, or our affiliates, underwrite loans has their own specific set of risks, including general economic conditions, business conditions, local market competition and conditions. Competition amongst loan originators can vary from market to market, and our Fund's returns can be affected by heavy competition in the loan origination space.

Rising or falling interest rates may increase risk associated with Thorofare's investment strategy, including but not limited to: increased competition, Thorofare's ability to close loans at targeted interest rates; a borrowers ability to refinance an existing loan, lower investment returns due to the inability to close loans at higher interest rates.

### **Lack of Diversification and Investment Concentration:**

It would not be appropriate for an investor to invest a substantial portion of its wealth in any single investment or fund. An investment in a Thorofare Fund should be part of a comprehensive

investment portfolio strategy, which includes a broad diversification of investments. Our Funds lack broad diversification since we invest in a specific type of investment, real estate asset backed loans. Moreover, our Funds may have a relatively high degree of concentration in the Fund's loan portfolio at any given time.

#### Conflicts of Interest:

Certain conflicts of interest exist between and amongst Thorofare, its affiliates and other third parties. Conflicts of interest can cause Thorofare to engage in riskier investments; act in Thorofare, its affiliates or third parties' own best interest; or increase the costs associated with an investor's investment in one of the Thorofare Funds. Such conflicts of interest include: engaging in affiliated party transactions such as the sharing of origination fees with an affiliate loan underwriter; co-investment by a limited partner or affiliate of Thorofare; the generation of fees and reimbursement of expenses by Thorofare or its affiliates that are not deemed investment income by the Thorofare Funds or reimbursable to the Thorofare Funds; indemnification of the General Partner, Thorofare or its affiliates; activities of principals of Thorofare that may overlap with the business of Thorofare and its Funds; the offering of side letters to one or more limited partners causing such limited partners to pay lower fees; and the Thorofare Funds' preferred return or carried interest provisions may impact investment decisions of Thorofare. Other conflicts of interest may exist. Please review the conflicts of interest section of the respective Thorofare Fund's Offering Documents for more information and discussion regarding how Thorofare mitigates such risks.

#### **Item 9. Disciplinary Information**

Thorofare is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Thorofare does not have any required disclosures to this Item.

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

Thorofare is affiliated with Thorofare Capital, Inc. ("TCI"). TCI is a mortgage lending company, which underwrites the loans in which the Thorofare Funds invest. Thorofare and TCI share in loan origination fees generated through TCI's business operations.

Thorofare is the sole owner of the general partners of the Thorofare Funds, which are Thorofare Lending Fund II Management, LLC and Thorofare Lending Fund III Management, LLC.

Thorofare has related persons who are real estate agents, salesperson or brokers or act as real estate agents, salesperson or brokers.

Thorofare may provide non-advisory services, such as loan servicing, for a fee, to third parties.

## **Item 11. Code of Ethics**

Thorofare and persons associated with Thorofare (“Associated Persons”) are permitted to buy limited partnership interests of which Thorofare is the advisor. Thorofare has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“Code of Ethics”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by Thorofare or any of its associated persons. The Code of Ethics also requires that certain of Thorofare’s personnel (called “Access Persons”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Thorofare, through the General Partner of the respective Thorofare Fund, in its sole discretion, may provide one or more persons (including Access Persons), with the opportunity to co-invest with the Thorofare Fund in any one or more lending or other investment opportunities offered to the Thorofare Fund and establish, maintain and manage separate co-investment vehicles and/or accounts in connection therewith, with the allocation of such opportunities between the Thorofare Fund and such co-investor (and/or co-investment vehicles and accounts) to be determined by the General Partner in good faith. Any such co-investment by a Limited Partner or any affiliate of a Limited Partner in any such opportunity will be upon terms and conditions no more favorable to such Limited Partner or affiliate in any material economic respect than the terms and conditions upon which the Partnership is investing in such opportunity. Any such co-investors may pay TCI fees to service the co-invested loan investments.

When Thorofare is purchasing or considering for purchase any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Thorofare is selling or considering the sale of any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients, investors and prospective investors may contact Thorofare to request a copy of its *Code of Ethics*.

## **Item 12. Brokerage Practices**

Thorofare and the General Partners specialize in managing portfolios of real estate loans and the Thorofare Funds are designed and formed to provide investors with a real estate lending investment vehicle. Thorofare’s investment advice is limited to advising on such types of investments. As such,

Thorofare does not have traditional brokerage relationships with broker/dealers who execute trades of publicly available securities.

Thorofare has relationships with qualified custodians such as Fidelity, Schwab Institutional and TD Ameritrade to hold custody of investor's interest in the Thorofare Funds. Such custodians may charge a custodian fee for this service and are required to send periodic statements to each client with a custodial agreement.

### **Item 13. Review of Accounts**

Thorofare currently acts as investment adviser to Thorofare Fund II, and Thorofare Fund III, collectively the "Fund(s)" or "Thorofare Funds"). Thorofare and the General Partners continuously monitor all Thorofare Fund investments for adherence to each respective Thorofare Fund's investment objectives, policy and restrictions.

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

Thorofare does not accept client referrals since the only clients of Thorofare are the Thorofare Funds. Thorofare may, however execute finder's agreements and compensate individuals to introduce prospective investors to Thorofare. Thorofare will compensate such finders. All finders agreements will be entered into in accordance with SEC guidance set forth in SEC No-Action Letter, Mayer Brown LLP, File No. 132-3. Nonetheless, Thorofare will enter into a written agreement with all finders. All finders agreements will clearly set forth that finders are not authorized to solicit or offer any security for sale, including interests in any Thorofare Fund, to prospective investors, and that such an offer or sale can only take place through Thorofare's provision of the appropriate offering documents and brochure to such prospective investors.

### **Item 15. Custody**

Thorofare is deemed to have custody of client fund assets and securities. Each Thorofare Fund will engage an independent national CPA firm to audit the Fund and complete audited financial statements within 120 days of fiscal year-end. Copies of the audited financial statement reports are sent to each Thorofare Fund investor.

Thorofare Funds limited partnership interests are privately offered securities. The Thorofare Funds hold and invest in only privately offered securities. As such, Thorofare is not required to hold limited partnership interests or securities with a qualified custodian or generate an internal control report.

Thorofare has relationships with qualified custodians such as Fidelity, Schwab Institutional and TD Ameritrade to hold custody of investor's interest in the Thorofare Funds. Such custodians may charge a custodian fee for this service and are required to send periodic statements to each client with a custodial agreement. Not all Thorofare Fund investors hold their interest at a custodian.

**Item 16. Investment Discretion**

Thorofare does not have discretionary authority to trade securities held by the Thorofare Funds. The General Partner of each respective Thorofare Fund has complete discretionary management authority pursuant to each Fund's Offering Documents. The General Partner of each respective Thorofare Fund will execute the Investment Management Agreement delegating non-discretionary investment advisory authority to Thorofare.

**Item 17. Voting Client Securities**

Thorofare does not vote client securities, because the securities in which the Thorofare Funds invest are privately held debt securities.

**Item 18. Financial Information**

Thorofare does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Thorofare is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Thorofare has no disclosures pursuant to this Item.