

# Saratoga Realty Investors LLC

100 S. Saunders Road #150

Lake Forest, Illinois 60045, U.S.A.

(888) 590-9687

[www.saratogainvestors.com](http://www.saratogainvestors.com)

September 9, 2014

This Brochure provides information about the qualifications and business practices of Saratoga Realty Investors LLC ("SRI"). If you have any questions about the contents of this Brochure, please contact us at (888) 590-9687 or via email at [info@saratogainvestors.com](mailto:info@saratogainvestors.com). 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.

**THIS BROCHURE DOES NOT CONSTITUTE AN OFFER, SOLICITATION OR RECOMMENDATION TO SELL OR AN OFFER TO BUY ANY SECURITIES, INVESTMENT PRODUCTS OR INVESTMENT ADVISORY SERVICES. SUCH AN OFFER MAY ONLY BE MADE TO ELIGIBLE PERSONS BY MEANS OF DELIVERY OF A CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM AND/OR OTHER SIMILAR MATERIALS THAT CONTAIN A DESCRIPTION OF THE MATERIAL TERMS RELATING TO SUCH INVESTMENT.**

Saratoga Realty Investors 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 information that you may use to determine whether to hire or retain them. Additional information about Saratoga Realty Investors LLC is also available on the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. The CRD number for SRI is 172600.

## Item 2 - Material Changes

---

This is a new adviser.

This Brochure, dated September 2014, is a new document that describes the Adviser's business.

In the future, this section of the Brochure will discuss only the specific material changes that were made to the Brochure and will provide you with a summary of all material changes that have occurred since the last filing of this Brochure with the SEC. This section will also identify the date of our last annual Brochure update.

We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year which is December 31st. We will provide other ongoing disclosure information about material changes as necessary. We will also provide you with a new Brochure, as necessary, based on changes or new information. Currently, our Brochure may be requested at any time, without charge, by contacting Maxwell Yuichi Hoshino at (888) 590-9687.

## Item 3 - Table of Contents

---

<b>Item 1 - Cover Page .....</b>	<b>1</b>
<b>Item 2 - Material Changes .....</b>	<b>2</b>
<b>Item 3 - Table of Contents .....</b>	<b>3</b>
<b>Item 4 - Advisory Business Introduction .....</b>	<b>5</b>
Fund I.....	5
Fund II.....	5
Saratoga Property Advisors, LLC .....	6
<b>Item 5 - Fees and Compensation.....</b>	<b>6</b>
Fund I Fees .....	7
Fund II Fees .....	7
Fees for Advisory Services Provided to SPA .....	8
<b>Item 6 - Performance Based Fee and Side by Side Management .....</b>	<b>8</b>
Fund I Fees .....	9
Fund II Fees .....	9
<b>Item 7 - Types of Client(s).....</b>	<b>9</b>
<b>Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>9</b>
Investment Analysis .....	9
Strategy .....	10
Fund I Investment Strategy .....	10
Fund II Investment Strategy .....	10
Advisory Services Provided to SPA .....	10
Risks.....	10
<b>Item 9 - Disciplinary Information .....</b>	<b>15</b>
<b>Item 10 - Other Financial Industry Activities and Affiliations.....</b>	<b>15</b>
Potential Conflicts of Interest .....	15
<b>Item 11 - Code of Ethics.....</b>	<b>17</b>
Code of Ethics.....	17
Co-Investment Opportunities .....	17
Investments in Management or Service Companies .....	18
Personal Investments.....	18
Insider Trading .....	18
<b>Item 12 - Brokerage Practices .....</b>	<b>18</b>
Best Execution.....	18

Soft Dollars .....	19
Allocation of Investment Opportunities .....	19
Cross Transactions .....	19
Transactions with Limited Partners and Affiliates .....	19
<b>Item 13 - Review of Accounts .....</b>	<b>19</b>
1. Reviews.....	19
2. Reports .....	19
<b>Item 14 - Client Referrals and Other Compensation.....</b>	<b>20</b>
Client Referrals.....	20
Business Relationships .....	20
<b>Item 15 - Custody.....</b>	<b>21</b>
<b>Item 16- Investment Discretion .....</b>	<b>21</b>
<b>Item 17- Voting Client Securities.....</b>	<b>22</b>
<b>Item 18 - Financial Information.....</b>	<b>22</b>

## Item 4 - Advisory Business Introduction

---

Saratoga Realty Investors LLC (“SRI”, “the Investment Manager”, “the Adviser”, or “General Partner”) is a Registered Investment Adviser (“Adviser”) registered through and regulated by the SEC. SRI was founded in 2013.

The Managing Members of SRI are Maxwell Yuichi Hoshino, the Chief Compliance Officer and Managing Member, and Mark T Campbell, Managing Member. Maxwell and Mark each own 50% of SRI.

As of August 22, 2014, SRI has assets under management of more than \$100 million and over 30 accounts, which are managed on a discretionary basis.

SRI manages Fund I and Fund II, which are described below. SRI also provides fee-based investment management to Saratoga Property Advisers (“SPA”), according to the management agreement between SRI and SPA.

### Fund I

Saratoga Secured Income Fund I, L.P. is a California limited partnership formed for the purpose of investing in senior position loans and deeds of trust secured by commercial real estate primarily in California. The Fund I may also acquire such loans in Arizona, Nevada and Colorado. SRI is the investment manager and General Partner to this Fund. SRI has two managing members: Maxwell Yuichi Hoshino, and Mark T. Campbell.

The Fund I may borrow and leverage its investments, up to approximately 25% of the total value of the portfolio. The Fund I is designed to generate a stable stream of net operating income, and anticipates, out of the vast majority or 95% or more of such net operating income when available, paying quarterly cash distributions in U.S. dollars to Limited Partners. The amount of each of the Fund I’s loans will not generally exceed the 70% Loan-To-Value ratio (the “70% Rule”), based on the conservatively assessed value of the security properties at a time when such loan is made. The term of the Fund I’s loans will typically range between 3 and 36 months with interest only payments. The Fund I anticipates that no single loan will exceed \$4,000,000, and or 20% of the total Fund I’s capital after the Final Closing.

### Fund II

Saratoga REIT II, Inc. (the “REIT II”) is an Illinois corporation with limited liability whose sole Investment Manager is Saratoga Realty Investors, LLC. Saratoga Fund II, L.P. is an Illinois limited partnership with limited liability whose sole General Partner is Saratoga Realty Investors, LLC. Together Saratoga REIT II and Saratoga Fund II, L.P. are collectively the “Fund”. The Fund was formed on January 2, 2013. There are a total of two managing members of the Fund, Maxwell Yuichi Hoshino, and Mark T. Campbell. The securities in the Fund have not been registered under the U.S. Securities Act, and are transferred outside the United States in accordance with Rule 904 of Regulation S under the U.S. Securities Act and in compliance with applicable local laws and regulations.

The Fund has been organized for the purpose of acquiring and managing multi-family apartment buildings primarily in Illinois and Colorado but possibly in other states as well such as Minnesota or

Oregon. Thus, the income of the LP will be subject to state income tax in the state(s) of the properties. The Fund's ideal property acquisitions are a smaller size, that is, primarily between \$2 million and \$10 million per asset. The Fund intends to borrow and leverage its investments, up to approximately 70% of the total value of the portfolio. The Fund's objectives are two-fold. The first objective is to realize stable cash yields through buying, holding, and managing income-producing, multi-family housing buildings that offer attractive capitalization rates. The second objective is to realize an attractive internal rate of return primarily by selling such properties throughout an expected favorable sellers' market cycle.

SRI provides real estate and real estate related investment management services for the Fund. SRI has full discretionary authority with respect to investment decisions, and tailors its advisory services to the individual needs of the Fund, in accordance with the investment objectives, strategies and limitations (if any) described in the Fund's offering documents and Subscription Agreement.

SRI is responsible for identifying investment opportunities for the Fund, facilitating the acquisitions, monitoring and disposition of the Funds' investments, as well as providing day-to-day managerial and administrative services to the Partnership. SRI provides investment advice to the Fund (not the Fund investors). SRI manages the assets in a manner intended to achieve the objectives of the Fund.

The Fund is offered only to accredited investors via private placement memoranda. Each Share Holder and Limited Partner must be either an accredited U.S. investor or similar such investor that is not resident in the United States. Each investor is also required, either alone or with its representative, to possess such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the method of investment and the compensation received by SRI.

### **Saratoga Property Advisors, LLC**

SRI also provides investment management services to Saratoga Property Advisors, LLC ("SPA"). SPA manages Saratoga Series III real estate properties, which is an investment strategy set up in order to assist Japanese investors with purchasing, leasing, and then selling property primarily located in Illinois or Colorado. Properties may also be located in Minnesota, Oregon, and other states. SRI helps SPA locate investments that match one Japanese individual with one single building investment. These properties are owned for approximately 6 years. SPA has a relationship with Bank of the West in facilitating these transactions. The Bank of Internet USA manages the mortgage, real estate taxes, and insurance from payments from Bank of the West Sub-Accounts. Maxwell and Mark each own 50% of SPA.

## **Item 5 - Fees and Compensation**

---

Fees are determined and assessed in a manner specific to each Fund. For the specific fees charged by the Funds, please refer to the Offering Documents and Limited Partnership Agreements for the Funds. The fees paid by the Funds are typically not negotiable. Certain fees may be deferred or waived from time to time at the discretion of SRI. Fees are paid quarterly in arrears. There are no minimum fees.

## **Fund I Fees**

The Fund I pays the General Partner a monthly Management Fee, in advance, in an amount equal to  $1.0\% \times 1/12$  or 0.0833% of gross assets under management, determined as of the date such Units are issued and the beginning of each subsequent calendar month (approximately 1.0% annually). The Fund I pays the General Partner an annual Performance Fee equal to 30% of the Fund I's Net New Income. The Performance Fee is discussed further under Item 6 below.

The Fund I's organizational costs and expenses, together with offering costs and expenses incurred in connection with the offer and sale of Units at the Initial Closing, are expected to be approximately \$60,000. The Fund I may reimburse the General Partner for certain organizational expenses incurred on the Fund I's behalf up to \$60,000. These organizational expenses will be paid to the General Partner in equal monthly installment over twelve (12) months after the Initial Closing. Any organizational and offering expenses in excess of the \$60,000 will be borne by the General Partner.

The Fund I's direct operational costs and expenses consist primarily of: (i) Management Fee and Performance Fee as discussed below; (ii) due diligence costs and expenses incurred in connection with the investment and reinvestment of the Fund I's assets; (iii) borrowing charges and other costs and expenses associated with debt finance; (iv) administrative, legal, accounting, record-keeping, and compliance costs and expenses; and (v) governmental licensing, filing and exemption fees. The General Partner is responsible for all salaries, bonuses and employee benefit expenses of its principals and employees who are involved in the management and conduct of the business and affairs of the Fund I (as well as related overhead, including office space and equipment, utilities, telephone and IT related costs, and other similar items).

## **Fund II Fees**

The Fund II pays Saratoga a monthly Management Fee, in advance, in an amount equal to  $1.0\% \times 1/12$  or 0.0833% of gross assets under management, determined as of the date such Shares and Units are issued and the beginning of each subsequent calendar month (approximately 1.0% annually). The Management Fee charged against Shares and Units on the date such Shares and Units are issued is appropriately pro-rated if such Shares and Units are issued on a date other than the beginning of a calendar month. The Acquisition Fee is paid by the Fund II and is equal to 3% of each of the purchase prices of the properties acquired by the Fund II. The Fund II pays Saratoga an exit fee of 30% of net capital gains computed in dollars, if any, when each of the acquired properties are sold. This exit fee is a performance fee, and is discussed in further detail under Item 6 below.

The Fund II generally bears certain costs and expenses associated with its organization, the offering of the Securities and its ongoing investment operations, except as otherwise described in this Memorandum. The Fund II's organizational costs and expenses, together with offering costs and expenses incurred in connection with establishing the Fund II, and the offer and sale of the Securities during the offering period, are expected to be approximately \$50,000. The Fund II may reimburse Saratoga for certain organizational expenses incurred on the Fund II's behalf up to \$50,000. These organizational expenses will be paid to Saratoga in equal monthly installment over twelve (12) months

after the Initial Closing. Any organizational and offering expenses in excess of the \$50,000 will be borne by Saratoga.

The Fund II's direct operational costs and expenses consist primarily of: (i) Management Fees, Acquisition Fees, Placement Fees, Investor Relations Fees and Exit Fees, as discussed below; (ii) ordinary and necessary due diligence costs and expenses incurred in connection with the investment of the Fund II's assets; (iii) borrowing charges and other costs and expenses associated with debt finance; (iv) administrative, legal, accounting, record-keeping, and compliance costs and expenses; and (v) governmental licensing, filing and exemption fees. Saratoga is responsible for all salaries, bonuses, and employee benefit expenses of its principals and employees who are involved in the management and conduct of the business and affairs of the Fund II (as well as related overhead, including office space and equipment, utilities, telephone and IT related costs, and other similar items).

### **Fees for Advisory Services Provided to SPA**

SPA's fee arrangements vary widely from client to client. SPA pays fees for the real estate and advisory services it receives from SRI. Normally these fees are based on an hourly per diem for the time actually spent by Maxwell Hoshino and Mark T. Campbell. However these fees may be reduced depending upon the actual fee arrangements that SPA has with its clients. Please refer to the individual contracts for more complete details.

## **Item 6 - Performance Based Fee and Side by Side Management**

---

SRI charges performance based fees for Fund I and Fund II only; and does not charge performance based fees for advisory services provided to SPA. The Subscription Agreements for the Funds provides the terms by which the partners may be allowed to invest in each Fund. Those terms generally provide investors that have made specified minimum and maximum commitments, non-U.S. investors must be the equivalent of an "accredited investor as defined in U.S. Securities and Exchange Commission ("SEC") Rule 501 under the U.S. Securities Act of 1933. Each investor is also required to have substantial experience, together with the experience of the investor's advisers, in evaluating and investing in private placement transactions of securities of companies similar to the Funds; and have carefully evaluated their financial resources and decided that they can bear the economic risks of investment in the Funds. Further information on the terms is found in the private placement memorandums and subscription agreements. We will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (The Advisers Act) in accordance with the available exemptions, including the exemption set forth in Rule 205-3.

The General Partner's Performance Fee depends on, and rewards the General Partner for, continuing net new income flows in the Fund's profitability, but does not directly penalize the General Partner for losses. While the General Partner itself will be a Limited Partner to align its interests with those of the Fund and the other Limited Partners, this may create an asymmetric incentive for the General Partner to invest the Fund's assets in a manner that is riskier or more speculative than would otherwise be the case. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. We have procedures designed and implemented

to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

### **Fund I Fees**

The Fund I pays the General Partner an annual Performance Fee equal to 30% of the Fund I's Net New Income. The Performance Fee, however, is subordinated to the Annual 5.0% Preferred Dividends payable to Limited Partners. In order to calculate the Performance Fee, the Fund I closes its book, and compiles its balance sheet as of, and income statement for the initial period and then each subsequent quarter ended, the end of each calendar quarter, respectively.

The Fund I then pays the General Partner the Performance Fee on quarterly basis based on its actual quarterly net income, if the Fund I's projected annualized return exceeds the Annual 5.0% Preferred Dividends. After the Fund closes its book, and compiles its income statement for the initial period and then each subsequent year ended December 31st, the Performance Fee then will be adjusted, if necessary, with each fourth (4th) quarter Performance Fee payable to the General Partner.

### **Fund II Fees**

The Acquisition Fee is paid by the Fund II and is equal to 3% of each of the purchase prices of the properties acquired by the Fund II. The Fund II pays Saratoga an exit fee of 30% of net capital gains computed in dollars, if any, when each of the acquired properties are sold.

## **Item 7 - Types of Client(s)**

---

SRI provides discretionary investment advisory services to Fund I, Fund II, and to SPA. Investors in the Funds are all foreign investors and may include, but are not limited to, corporate and business entities, endowments and foundations, trusts, pension plans and qualified profit sharing plans, and high net worth individuals. The Funds have minimum capital commitments for investors, as specified in the offering documents for the Fund. Each investor is required to meet certain suitability qualifications within the meaning set forth under the federal securities laws, such as being an "accredited investor" or a "qualified purchaser", or equivalent of an "accredited investor" as defined in U.S. Securities and Exchange Commission ("SEC") Rule 501 under the U.S. Securities Act of 1933.

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

---

### **Investment Analysis**

SRI identifies potential investment opportunities for Fund I, Fund II, and for SPA through a variety of sources and bases a portion of its investment analyses on information obtained from working with industry professionals such as consultants, with operating partners, joint venture partners, property management and leasing professionals, lenders, brokers, and other professionals within the real estate sector.

The screening process for potential investments involves several steps, which vary depending on the type of asset being proposed for acquisition. Generally a written summary is prepared describing the

due diligence conducted on the proposed acquisition and is provided to the general partners. The general partners make all of the investment decisions for the Funds.

## **Strategy**

The Fund Management Team will be permitted the flexibility to deploy the capital of the Fund into various types of investments in real estate and lending markets in Illinois, California, and throughout the United States. Investment structures come in many forms in the real estate industry, but the Fund Management Team will look for several factors in evaluating the suitability of an investment for the Fund. Investments should be designed to minimize the effect of income taxes, streamline the day-to-day decision-making process, and maximize the efficient use of leverage. To the extent third-party stakeholders in the project's capital structure, such as joint venture partners or lenders are involved in decision-making relating to the management of a particular project, the related control issues should be well-defined within the structure to avoid stalemates or disputes.

### **Fund I Investment Strategy**

The Fund I's investment strategy is to provide financing and or acquire loans made to experienced acquirers of commercial real estate, mostly in the form of short-term and bridge loans ranging from 3 to 36 months, which necessitate underwriting standards that are more flexible than traditional mortgage lenders, and a loan approval process that is faster than traditional lenders. Substantially the vast majority of the Fund's loans, if not all, will be interest only, "balloon payment" loans which are loans requiring the payment of all principal at the maturity of the loan. The General Partner believes there is a significant market opportunity to make mortgage loans to owners of commercial real estate whose financing needs are not met by traditional mortgage lenders.

### **Fund II Investment Strategy**

The Fund II intends to use debt financing in order to take advantage of the historically all-time low interest rates, and thus enhance its equity-based return. At the present time, Saratoga believes the Fund could raise bank financing of up to 70% of the gross value of the portfolio with 20-30 year, fully amortized, fixed rates. Saratoga will proactively monitor and control each Property Manager within each local property management business community. The Fund II implements these strategies with the goal of "selling high", through professional management of the acquired multi-family buildings, repositioning of the properties, if necessary, to realize their full intrinsic values, raising occupancy rates, increasing in lease rates, and cosmetic improvements. Beginning four years from the Final Closing, the Fund will begin to wind up the portfolio by either selling each of the individual properties separately, selling the entire portfolio to an institutional buyer and/or to a REIT.

### **Advisory Services Provided to SPA**

SRI provides a broad range of management and real estate services to SPA. These include client introductions, deal sourcing, investment analysis, physical inspection of the property, due diligence, arranging legal advice, arranging financing, financial accounting, property management, U.S. and Japanese tax accounting, performance evaluation, sales strategy as well as overall general management.

## **Risks**

Investments in the Funds and through SPA involve a significant degree of risk and are generally illiquid. An investor should not invest in the Funds or through SPA, unless the investor is able to withstand a

total loss of its investment in the Fund or real estate property. Even if the investments of the Fund or investments through SPA are successful, they may not produce a realized return to investors for a period of years. There is no assurance that the Fund or that SPA will achieve the investment objectives.

SRI may cause the Funds to use leverage from time to time, in the form of debt financing to acquire and refinance investments. The Funds have established limits with regard to the amount of leverage that can be used, as described in the offering documents for the Funds. Debt service requirements may deplete or restrict a Fund's cash flows. Further, relatively small changes in the overall value of Fund investments may have a magnified impact on the equity value of the Fund. If a Fund investment is unable to generate sufficient cash flow to meet the principal and interest payments on the indebtedness incurred by the Fund, the value of the Fund's investment in the portfolio investment would be significantly reduced or even eliminated. In addition, the amount of debt financing may restrict the amount of funds available for distribution to Fund investors. Debt financing may be unsecured and subordinated to substantial amounts of senior indebtedness and Fund investments may not be protected by financial covenants.

There will be occasions when the General Partner, the Manager, and its affiliates may encounter potential conflicts of interest in connection with the Fund. The following considerations should be carefully evaluated before making an investment in the Partnerships:

- **Lack of Operating History:** Each of the Funds, the General Partners, and the Managers are newly organized entities. Investors must rely upon the ability of the Fund Management Team to identify, structure, and implement investments consistent with the Fund's investment objectives and policies. Past performance of the Fund Management Team or its affiliates is not an indication of future performance by the Fund(s).
- **Real Estate Risks Generally:** The Fund's investments will be subject to the risks inherent in the ownership of real estate assets. These risks include, but are not limited to, general and local economic conditions, the supply and demand for properties, the financial resources of tenants, changes in building, environmental circumstances, other laws, changes in real property tax rates, changes in interest rates and the availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, negative developments in the business economy that depress travel activity, uninsured casualties, acts of God, and other factors that are beyond the control of the General Partner and the Manager.
- **Instability in Financial Markets:** The global economy is currently undergoing pervasive and fundamental disruptions and is in a period of economic recession. The duration and intensity of this recession cannot be accurately predicted and could lead to substantial further weakening of the U.S. and foreign economies. Fluctuations in the market prices of securities and economic conditions generally may affect the Fund's ability to make investments and the value of the investments held by the Fund. Any investment in real estate is subject to significant risks, which are heavily influenced by the local and national economy.

- There can be no assurance that the U.S. and foreign economies will not continue to worsen over the term of the Fund. The Fund may be adversely affected to the extent that it seeks to dispose of its investments in an illiquid or volatile market, and the Fund may find itself unable to dispose of an investment at a price the Fund Management Team believes reflects the investment's fair value. This effect may be exacerbated because the Fund intends to invest in deals that are known to be illiquid.
- Concentration: The General Partner believes that limiting and focusing on the Fund's exposure to particular regions and borrowers are critical to achieving superior risk-adjusted return. A less diversified portfolio (in terms of factors such as a number of investments, property types and regions) generally can be expected to be riskier and more illiquid than a more diversified portfolio.
- Environmental Liabilities: The Fund may be exposed to substantial risk of loss from environmental claims arising in respect of investments made with undisclosed or unknown environmental problems or as to which inadequate reserves had been established. Environmental claims with respect to a specific investment may exceed the value of such investment, and under certain circumstances, subject the other assets of the Fund to such liabilities.
- Interest Rates: Significant changes in market interest rates, or the perception that a change may occur, could adversely affect the Fund's investments.
- Competitive Market for Investment Opportunities: The activity of identifying, completing, and realizing attractive real estate investments has from time to time been highly competitive, and involves a high degree of uncertainty. The Fund will be competing for investments with many other real estate investment vehicles, as well as individuals, financial institutions (such as mortgage banks, pension funds, and real estate investment trusts), and other institutional Investors. Such competition may adversely affect the terms on which the Fund may make investments. In addition, competition may reduce the number of available investment opportunities. There can be no assurance that the Fund will be able to locate suitable investment opportunities, acquire them at a price the General Partner, the Manager, and the Fund Management Team considers appropriate, achieve the anticipated rate of return, or fully invest its committed capital.
- Investment in Troubled Assets: The Fund may make substantial investments in nonperforming or other troubled assets which involve a degree of financial risk and are experiencing or expected to experience severe financial difficulties, which may never be overcome.
- Future Investments Unspecified: The investments have not been identified with certainty. Limited Partners, therefore, will be relying on the ability of the Manager and the General Partner to select the investments to be made using the capital available to the Fund. Because such investments may occur over a substantial period of time, the Fund faces the risks of changes in interest rates and adverse changes in the real estate market.

- Insurance: The type of insurance coverage the General Partner may be able to obtain on its investment properties may be limited and the ability to obtain or maintain insurance coverage at rates that the General Partner believes is commercially reasonable may subject the Partnership to an increased risk of loss.
- Acquiring Real Estate Loans: Real estate loans acquired by the Partnership may be at the time of their acquisition, or may become after acquisition, non-performing for a wide variety of reasons. In addition, the Fund's investment strategy includes investments in real estate loans known to be non-performing. Such non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that upon maturity of such real estate loan, replacement "takeout" financing will not be available. It is possible that the General Partner and the Manager may find it necessary or desirable to foreclose on some of the collateral securing one or more real estate loans purchased by the Fund. The foreclosure process can be lengthy and expensive. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.
- Limitations on Remedies: Although the Fund will have certain contractual remedies upon the default by borrowers under certain investments applicable to loans purchased by the Fund, such as foreclosing on the underlying real estate or collecting rents generated, certain legal requirements may limit the ability of the Fund to effectively exercise such remedies.
- Reliance on Key Employees: The Limited Partners have no right to take part in the management of the Fund. The success of the Fund is substantially dependent on the General Partners, the Manager, and the Fund Management Team. Therefore, no person should purchase limited partner interests unless the person is willing to entrust all aspects of the management of the Fund to the General Partners, the Manager, and the Fund Management Team. In addition, should one or more of the Fund Management Team become incapacitated or in some other way cease to participate in the Fund, its performance could be adversely affected.
- No Market for Limited Partnership Interests: An investment in the Fund should be viewed as illiquid. Limited partnership interests in the Fund have not been registered under the Securities Act, the securities laws of any state or the securities laws of any other jurisdiction, and cannot be sold unless they are subsequently registered under the Securities Act and other applicable securities laws or an exemption from registration is available. It is not believed that registration under the Securities Act or other securities laws will ever be affected. There is no public market for limited partnership interests in the Fund and one is not expected to develop.
- Liability for Return of Distributions: If the Fund is otherwise unable to meet its obligations, the General Partner can cause the Limited Partners to repay to the Fund some or all of the distributions received by the Limited Partners.

- **Contingent Liabilities on Disposition of Investments:** In connection with the disposition of an investment, the Fund may be required to make representations about the business and financial affairs of the investment typical of those made in completion with the sale of a business. The Fund may also be required to indemnify the purchasers of the investment to the extent that any representations are inaccurate. Such provisions may cause delays in the making of distributions to the extent cash reserves are needed to underwrite the obligations.
- **Distributions of Illiquid Securities:** The General Partner may distribute the Fund's assets in-kind, including restricted or otherwise illiquid securities. Limited Partners must be prepared to bear the risks of owning such securities for an indefinite period of time.
- **Indemnification:** The Fund will be required to indemnify the General Partner, the Manager, their affiliates, any of the Fund Management Team, and each of their respective members, officers, directors, employees, shareholders, and partners for liabilities incurred in connection with the affairs of the Fund. The indemnification obligation of the Fund would be payable from the assets of the Fund, including the unpaid capital commitments of the Limited Partners. If the assets of the Fund are insufficient, the General Partner may recall distributions previously made to the Limited Partners, subject to certain limitations set forth in the Partnership Agreement.
- **Mandatory Withdrawal:** The General Partner has the authority to require any Limited Partner to withdraw from the Fund if it determines in good faith that the continued participation in the Fund of the Limited Partner could adversely affect the Fund.
- **Consequences of Default:** In the event that a Limited Partner fails to fund any of its commitment when required, such Limited Partner's interest in the Fund and its investments may be diminished and/or forfeited.
- **Failure to Make Capital Contributions:** If a Limited Partner fails to pay when due installments of its capital commitment to the Fund, and the contributions made by non-defaulting Limited Partners and borrowings by the Fund are inadequate to cover the defaulted capital contribution, the Fund may be unable to pay its obligations when due. As a result, the Fund may be subjected to significant penalties that could materially adversely affect the returns of the Limited Partners (including non-defaulting Limited Partners). If a Limited Partner defaults, it may be subject to various remedies as provided in the Partnership Agreement, including reductions in its capital account balance and preclusion from further investment in the Fund.
- **Risk of Investor Misrepresentation:** Investors will be asked to make certain representations and warranties in connection with its subscription for limited partnership interests in the Fund. If such representations prove to be incorrect, the Fund could lose the benefit of certain Securities Acts and Investment Company Act exemptions, which would materially adversely affect the Fund.

- **General Tax Risks:** The rules governing the tax consequences to Investors from an investment in the Fund are complex. Accordingly, potential Investors are strongly urged to consult their own professional tax advisors. There can be no assurance that the structure of the Fund or any investments by the Fund will be tax efficient for any particular Investor. Moreover, the federal income tax laws, rules, and procedures governing partnerships and their partners are constantly being reviewed by Congress and the IRS and, therefore, are subject to change, possibly with retroactive effect.

Investors should also refer to the risks described in the Private Placement Memorandum for each Fund.

## **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 SRI or the integrity of our management. We have no information to disclose here about the firm or any of our investment advisors.

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

---

SRI serves as the investment manager for both Funds. SRI provides advisory services to SPA. Because the owners of SRI are also the owners of SPA, there is a conflict of interest.

Members of the Fund Management Team serve as managers of the General Partner and managers of SRI. This also presents a conflict of interest.

### **Potential Conflicts of Interest**

While the General Partner and or its affiliates will be a Limited Partner in an attempt to align the General Partner's interests with those of the Fund and other Limited Partners, the following is a list of the important areas in which the interests of the General Partner will conflict with those of the Fund. Limited Partners must rely on the general fiduciary standards that apply to a general partner of a limited partnership to prevent unfairness by the General Partner or an affiliate of the General Partner in a transaction with the Fund. The Fund has not been represented by a separate legal counsel in connection with its formation or with its dealings with the General Partner (See "Fiduciary Responsibility of the General Partner."). Except as may arise in the normal course of the relationship, there are no transactions presently contemplated between the Fund and the General Partner (or its affiliates) other than those listed below.

The existence of the General Partner's carried (or promoted) interest may create an incentive for the General Partner to make more speculative investments on behalf of the Partnership than it would otherwise make in the absence of such incentive-based payments because the General Partner stands to receive a portion of the net profits but does not bear the same portion of net losses. SRI will monitor for this and take appropriate action should this occur.

The Management Fee is due and payable as described in the Partnership Agreement even if the Fund experiences net losses in a particular year or over the term of the Fund. Since SRI is under common ownership with the Fund, the entity may receive income that the limited partners do not.

The Acquisition Fee is, in certain instances, based on the value of all debt and equity interests in an investment. The value of such interests may be higher than the value of the underlying investment. In such cases, the Acquisition Fee will be higher than it would be if it was based on the value of the investment rather than the value of the debt and equity in such investment. The General Partner will determine the value of the debt and equity interest in an investment and will have an incentive to place a higher value than another person determining the value of such interests. In addition, because the Manager will earn the Acquisition Fee before an investment makes any profit, the Acquisition Fee creates an incentive for the Manager to deploy the Fund's capital commitments to make investments, regardless of their performance. SRI will monitor for this and take appropriate action should this occur.

SRI, the General Partner, and the Manager and its affiliates are entitled to receive management fees, acquisition fees, and other similar fees as compensation for financial advisory and similar services. Although it is contemplated that these fees will be the same as other similar SRI transactions, the fee potential, current and future, inherent in a particular transaction could be an incentive for SRI to seek to refer or recommend a transaction to the Fund.

The Fund Management Team will devote such time as shall be necessary to conduct the business affairs of the Fund in an appropriate manner. However, the Partnership Agreement will permit SRI personnel to engage in other investment, real estate, and real estate investment activities and, therefore, conflicts may arise in the allocation of management resources. SRI will monitor for this and take appropriate action should this occur. The members of the Fund Management Team have business interests outside of the Partnership, including other real estate businesses and investments.

SRI may, from time to time, be presented with investment opportunities that fall within the investment objective of the Partnership and other ventures of SRI. Although SRI expects to direct such opportunities to the Fund to the extent that SRI reasonably determines such opportunities are appropriate for the Fund to invest in, the allocation is at the sole discretion of SRI.

The Limited Partners may have conflicting investment, tax, and other interests with respect to their investments in the Fund. The conflicting interests of individual Limited Partners may relate to or arise from, among other things, the nature of Investments made by the Fund, the structuring or the acquisition of Investments and the timing of disposition of Investments. As a consequence, conflicts of interest may arise in connection with decisions made by the General Partner and the Manager, including with respect to the nature or structuring of Investments that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for the Fund, the Manager and the General Partner will consider the investment and tax objectives of the Fund and its Partners as General Partner will consider the investment and tax objectives of the Fund and its Partners as a whole, not the investment, tax, or other objectives of any Limited Partner individually.

In the future, the General Partner may also sponsor other funds formed to conduct business similar to that of the Fund. However, the General Partner will not manage another multi-Limited Partner fund with the same objectives of the Fund until no less than 80% of the Fund's capital is invested per the objectives of the Fund. The General Partner may engage for its own account, or for the account of others, in other business ventures, similar to that of the Fund or otherwise, and neither the Fund nor any Limited Partner shall be entitled to any interest therein. The Fund will not have independent management and it will rely on the General Partner for the operation of the Fund.

The Fund has not been represented by independent legal counsel to date. The use by the General Partner, and the Fund of the same counsel in the preparation of this Private Placement Memorandum and the organization of the Fund may result in the lack of independent review. Additionally, counsel for the General Partner, and the Fund has not represented the interests of individual Limited Partners and will not do so in the future. Prospective investors who desire legal advice in connection with this investment must consult with their own attorney for legal advice.

## **Item 11 - Code of Ethics**

---

### **Code of Ethics**

SRI has adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under Rule 204A-1 under the Advisers Act.

This Rule requires SRI to adopt a Code of Ethics that sets forth a standard of business conduct and compliance with federal securities laws by all of our employees. Our Code of Ethics contains policies and procedures that require the following: (i) pre-clearance before purchasing real estate related securities, or any securities in initial public offerings or private placements; (ii) periodic reporting of employees' personal securities transactions and holdings; and (iii) prompt internal reporting of any violations of the Code of Ethics.

SRI will provide a copy of our Code of Ethics to clients or prospective clients, upon request. Please contact Maxwell Yuichi Hoshino by telephone at (888) 590-9687 should you have any questions concerning our Code of Ethics or wish to obtain a copy.

### **Co-Investment Opportunities**

Employees and/or related persons of SRI may participate in co-investment entities that invest in real estate assets, which are also invested in by the Fund. The Limited Partnership Agreement for the Fund provides for the terms by which the partners may be allowed to co-invest with that Fund in real estate assets. Those terms generally provide that to the extent SRI elects to offer any opportunity to co-invest with a Fund to the partners of that Fund (including affiliates of SRI), SRI must first offer any such co-investment opportunities to persons pursuant to the terms of such Fund's Limited Partnership Agreement. The Fund Limited Partnership Agreements generally provide that a co-investment opportunity is one SRI elects to offer to such persons because investment limitations, lack of available capital, applicable law or Fund objectives (such as diversification requirements) limit the amount the Fund would otherwise invest in such investment opportunities as determined in good faith by SRI in its sole discretion.

## **Investments in Management or Service Companies**

A Fund investment or an investment by the principals of SRI may consist of an interest in a property management or other service company. A Fund may engage such property management or Service Company to provide services on behalf of a related Fund investment on terms that SRI determines in good faith are not less favorable than those reasonably available from other third-party property management or other service companies within the same geographic region. Any such transaction will be disclosed to the Fund Management Team.

## **Personal Investments**

SRI and its principals have made personal investments in the Fund alongside the investors. As previously described, General Partners receive incentive compensation from the Funds. Employees of SRI may make personal investments in real estate related securities subject to the restrictions of SRI's Code of Ethics, as described above.

## **Insider Trading**

We shall not buy or sell securities for our personal portfolio(s) where this decision is substantially derived, in whole or in part, from our role as Representatives of SRI, unless the information is also available to the investing public on reasonable inquiry. In no case, shall we put our own interests ahead of yours.

## **Item 12 - Brokerage Practices**

---

### **Best Execution**

When selecting a real estate broker, SRI will consider numerous factors and criteria with the overall objective of selecting a broker who will efficiently and effectively market the asset for sale and maximize returns for the Fund. Examples of the criteria used include the following: the broker was helpful or instrumental during the acquisition and/or consulting process during the asset management phase; the broker represented the seller during the purchase of the asset and is already familiar with the property and/or the structure of ownership; access to decision makers for a likely capital source; ability to run the bidding process to maximize the return on investment to the Fund; knowledge and experience with the local market, type of asset and/or structure; complexity and size of the transaction; past performance in representing SRI or others on similar deals; presence of a strong local investment sales team assigned to the engagement; venture partner input or predisposition to use a particular broker; the broker's efficiency and professionalism in the preparation and distribution of marketing materials relevant to the engagement; overall allocation of business to a variety of qualified brokers that can meet SRI's needs; and the fee structure for the engagement.

The Fund is responsible for paying all expenses associated with executing transactions in securities and hedging transactions. While the use of a third party vendor to obtain quotes and negotiate transactions will increase the cost of the transaction in excess of the amount that the Fund might be able to achieve directly, these services along with other account related or accounting assistance services are considered by SRI to be a valuable service for the Funds.

## **Soft Dollars**

SRI receives real estate market data research from real estate brokers. SRI also uses the services of those real estate brokers to buy or sell real estate investments for the Fund. SRI and/or the General Partners do not have any formal soft dollar arrangements to compensate the brokers for the research that is provided. SRI and/or the General Partners may receive real estate-related research and market data from third party service providers. The Fund will bear the expense for the research obtained from such third parties.

## **Allocation of Investment Opportunities**

SRI recognizes its fiduciary duty to act in the best interests of the Fund. In instances when SRI may be in a position to allocate investment opportunities to more than one Fund at a time, it will use reasonable efforts to ensure that each Fund is treated in a fair and equitable manner.

## **Cross Transactions**

SRI generally does not cause the Fund to engage in any cross transactions. In the event that SRI does so, it will first consider and determine that the transaction is in the best interests of both participating Funds.

## **Transactions with Limited Partners and Affiliates**

The Fund may in the future, enter into transactions with a limited partner or its affiliates (whether as a buyer, seller, lessor, lessee, manager, broker, agent, trustee, provider of services, or otherwise). Neither the Fund nor any partner shall have, as a consequence of this relationship, any rights in or to any income or profits derived from such transaction or relationship.

## **Item 13 - Review of Accounts**

---

### **1. Reviews**

The only accounts managed by SRI are the Funds, SPA and any potential co-Investment opportunities. SRI's Investment Management Team meets on a periodic basis to discuss new investment opportunities that should be presented. The investment positions and assets within the Fund's portfolios are monitored and reviewed by personnel of SRI on a daily and/or weekly basis. The general partners meet whenever needed to review and approve of new investment opportunities or the divestment of existing Fund assets. The Accounts of the limited partners and investors are reviewed annually by Chief Compliance Officer Maxwell Hoshino and the accounting firm.

### **2. Reports**

The Limited Partnership Agreements of the Funds provide for certain written reports to investors. The Funds will provide each Share Holder and Limited Partner with Quarterly Summaries, Annual Reports, and annual income tax information. As soon as reasonably practicable after the end of each calendar quarter, the Funds will provide each Share Holder and Limited Partner with a quarterly report containing, but not limited to, the results of the Fund's operations and the list of each of the Properties. As soon as reasonably practicable after the end of each fiscal year, the Funds will provide each Share Holder and Limited Partner with an annual report containing, but not limited to, the results of the Fund's

operations. The Funds will also provide the relevant tax information to each Share Holder and Limited Partner.

These written reports, contain the following information: (i) statement of changes in the Funds' Unaudited Net Asset Value ("UNAV"); (ii) a schedule and summary description of each Fund asset; and (iii) a description of the performance of each asset. Investors also receive a capital account statement to show the value of their interests in the applicable Fund.

Investors in the Funds will also receive copies of annual audited financial statements that include the following information: (i) auditors opinion, (ii) balance sheet, (iii) statement of income or loss, (iv) statement of partners' capital, (v) statement of cash flows, and (vi) notes to the financial statements.

As soon as reasonably practicable after the end of each Fiscal Year, the General Partner will prepare and transmit to each person who was a Partner during such Fiscal Year a written report containing information in sufficient detail to enable such person to prepare its income tax return and other applicable governmental filings.

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

---

The Funds may act in conjunction with developers or outside investors for competitive or strategic reasons or for other reasons that SRI determines will benefit the Funds, including forming joint ventures or other arrangements. Such third parties may venture with the Fund and SRI and may receive compensation in connection with arranging and managing such ventures. Any compensation received by SRI in connection with joint ventures between the Fund and such third parties will be distributed to the Fund. SRI will retain any acquisition, financing and management fees received in connection with joint ventures between the Fund and such third parties.

### **Client Referrals**

SRI may periodically engage third party placement agents and/or solicitors to introduce prospective investors for the Fund. The fees and expenses of any third-party placement agents and/or solicitors will be paid by the Fund, but will be reimbursed by SRI by offsetting its fees.

### **Business Relationships**

In order to provide the quality of services that the Funds and investors expect, it is necessary for SRI to establish, maintain and enhance relationships with Fund investors and prospective Fund investors, as well as various professionals in the real estate investment and management business, such as attorneys, consultants, investment brokers, investment bankers, building leasing agents and tenant representatives, lenders, developers, venture and operating partners and other service providers and investment professionals (together, the "Real Estate Industry"). Establishing meaningful and long-term relationships in these and other areas within the Real Estate Industry are critical to SRI in identifying diverse strategies and sourcing investment opportunities for the Fund, as well as efficiently underwriting, financing, leasing, managing and disposing of Fund assets.

SRI may participate in events to enhance these relationships. The meals, travel and accommodations for many, but not all, Events may be paid by SRI or some third-parties including private airfare and accommodations at upscale locations.

SRI's subsequent selection and retention of such service providers could be viewed as a form of reimbursement for attending such Events. SRI recognizes and acknowledges our fiduciary duty to the Fund. As such, no such Events or activities sponsored or received by SRI are permitted to influence our due diligence process in the acquiring, underwriting, financing, managing, leasing and selling of real estate investments or fulfilling our fiduciary duty to the Fund.

## **Item 15 - Custody**

---

The Funds' General Partners are affiliates of SRI and therefore SRI is considered to have custody of client assets. The Fund is audited annually and the audited financial statements, which are prepared in accordance with generally accepted accounting principles, are distributed to the Funds' investors within 180 days of the Funds' fiscal year end. Fund investors should carefully review the Funds' audited financial statements.

The Fund will establish and maintain a capital account for each Partner to which shall be credited its capital contributions to the Fund and its allocable share of net income (and items thereof), and from which shall be deducted distributions by the Fund to such Partner of cash or other property and such Partner's allocable share of net losses (and items thereof). Items of the Fund income, gain, loss, and deduction generally will be allocated among the Partners in a manner intended to produce for each Partner a capital account that equals the amount of cash distributions to which such Partner would be entitled if the Fund disposed of all of its assets for their "book value," satisfied all of its liabilities in accordance with their terms and distributed its remaining assets per the PPM.

## **Item 16- Investment Discretion**

---

SRI has investment discretion over the Fund's assets, in accordance with the Fund's respective offering documents and Limited Partnership Agreement. In all cases, however, this discretion is exercised in a manner consistent with stated investment objectives in accordance with the Private Placement Memorandum for the Fund.

SRI has investment discretion over assets of SRA, which is exercised in accordance in a manner consistent with SRA's respective stated investment objectives in the management agreement between SRA and SRI and consistent with stated investment objectives of the Client.

## **Item 17- Voting Client Securities**

---

In accordance with its fiduciary duty to the Funds and Rule 206(4)-6 of the Investment Advisers Act, SRI has adopted and implemented written policies and procedures governing the voting of the Fund I and Fund II securities. SRI does not vote any proxies for SPA.

If there are any proxies that require SRI to vote, SRI will vote them in the best interest of the Funds and in accordance with our fiduciary duty to the Funds. If SRI determines that it is facing a material conflict of interest in voting a proxy, SRI will obtain recommendations from the Fund's Management Team, or an independent third-party, to provide an independent recommendation on the direction in which SRI should vote. The determination by the third-party will be binding on SRI.

SRI maintains a record of any proxy votes executed on behalf of the Funds. The Funds and their investors may contact Maxwell Hoshino by telephone, at (888) 590-9687 to obtain a copy of SRI's proxy voting policy or to obtain information with respect to any specific proxy votes submitted on behalf of the Fund(s).

## **Item 18 - Financial Information**

---

We are required to provide investors with certain financial information or disclosures about our financial condition. We have no financial commitment that would impair our ability to meet any contractual and fiduciary commitments to investors, and our clients. We have not been the subject of any bankruptcy proceedings.