

Item 1 Cover Page

**GEM Capital, L.P.
Part 2A of Form ADV
The Brochure**

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This brochure (this “Brochure”) provides information about the qualifications and business practices of GEM Capital, L.P. (the “Investment Adviser”) The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

The Investment Adviser is registered as an investment adviser with the SEC. Registration with the SEC does not imply a certain level of skill or training.

If you have any questions about the contents of this Brochure, please contact us at 312-915-2900. Additional information about the Investment Adviser is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Item 2 Material Changes

Since our initial filing of the Part 2 of Form ADV in February 2012, there have been no material changes to report. If the Investment Adviser makes any material changes to this Brochure, this section will be revised to include a summary of such changes.

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Item 4 Advisory Business

GEM Capital, L.P., a Delaware limited partnership, commenced operations in 1994 with an office in Chicago, Illinois. Barry Malkin, Norman Geller and Michael Elrad (each, a “Principal Owner”), along with their families and affiliated estates and trusts are the principal owners of the Investment Adviser and control the Investment Adviser.

Wholly owned subsidiaries of the Investment Adviser serve as the management companies with discretionary investment authority to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a “Fund” and collectively, the “Funds”). The Funds sponsored by the Investment Adviser (or its affiliates) include private pooled investment vehicles that make long and short investments in publicly traded securities (collectively, the “Hedge Funds”); and private pooled investment vehicles that make opportunistic and value-added investments in real estate assets (collectively, the “Private Equity Funds”). Affiliates of the Investment Adviser serve as investment advisers of the Private Equity Funds and the Hedge Funds.

Throughout this Brochure references to “GEM Realty Properties” relate to the management companies of the Private Equity Funds, while references to “GEM Realty Securities” relate to the management companies of the Hedge Funds. References to “GEM” include the Investment Adviser, GEM Realty Properties, GEM Realty Securities and their affiliates. As used herein, the term “client” generally refers to each Fund.

GEM is a real estate investment company with two distinct lines of business. GEM Realty Properties invests in private-market real estate assets through the Private Equity Funds and GEM Realty Securities invests in publicly traded real estate securities through the Hedge Funds. Investment recommendations are reviewed to ensure that they are consistent with each Fund’s stated investment objectives and any investment restrictions, but are not tailored to reflect the investment objectives of individual investors in the Funds. For a more detailed description of the Funds’ investment strategies, please refer to Item 8.

As of December 31, 2014, GEM Realty Securities managed Hedge Fund assets worth \$1,861,799,190 and GEM Realty Properties managed Private Equity Fund assets worth \$2,956,691,078 GEM has discretionary investment authority over these assets.

Item 5 Fees and Compensation

This Brochure is intended to be provided only to “qualified purchasers” as that term is defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (with the exception of certain persons who qualify as “knowledgeable employees” under Rule 3(c)-5 of the U.S. Investment Company Act of 1940, as amended). As such, this Brochure does not contain a detailed fee schedule. The fees applicable to each Fund are set forth in detail in each Fund’s offering documents. Generally, each Fund is subject to management fees and performance-based compensation. Management fees are calculated and paid quarterly in arrears. In certain cases, management fees will be reduced for investments made by an investor in a Fund above a specified

dollar amount or for investors participating in a Private Equity Fund's initial closing. Fees and compensation paid to GEM by the Funds are generally deducted from the assets of such clients.

In addition to the management fees and performance-based compensation, each client bears its own expenses, as more fully described in each Fund's offering documents. Generally, such expenses include, among other things, investment-related expenses, operational expenses and certain tax, regulatory and legal expenses as more fully described in the Hedge Funds' and Private Equity Funds' offering documents.

Item 6 Performance-Based Fees and Side-by-Side Management

The Investment Adviser and its affiliates accept performance-based fees from every client other than its Private Equity Fund co-investment opportunity clients. A potential conflict of interest could arise when an investment adviser accepts performance-based fees from some clients, but not from other clients. However, in this case, the potential for any such conflict of interest is limited by the terms of each Private Equity Fund's offering documents which provide that GEM may offer to investors or qualifying groups of investors that made specified minimum commitments to a Private Equity Fund the right to invest *pro rata* alongside that Private Equity Fund in certain real estate investments. GEM earns management fees from such co-investment vehicles but is not currently entitled to earn performance-based compensation from any co-investment clients. While there could be a perceived conflict of interest that GEM would have an incentive to favor Funds that could be obligated to pay performance-based compensation over those Fund that are not, there is no actual conflict in this case due to the fact that co-investment opportunities always invest alongside the investors in the Private Equity Funds. Further, as a fiduciary, GEM recognizes its duties to act in good faith and with fairness in all of its dealings with the Private Equity Funds and any co-investment clients.

Item 7 Types of Clients

GEM generally provides investment advice to Funds, as described above. GEM may in the future provide investment advice to managed accounts for institutional and other investors.

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

GEM has one Investment Committee, which is comprised of the Principal Owners and three other senior executives, that oversees major investment strategies for GEM Realty Properties and GEM Realty Securities. Members of the Investment Committee provide real estate market perspective regarding private-market real estate assets and publicly traded real estate securities. The Investment Committee monitors valuations, transactions, capital flows, demographics, key economic indicators, interest rates, and other factors that drive the private and public real estate markets. As a result, the Investment Committee develops investment themes and refines investment strategies to capitalize on investment trends. This perspective allows GEM to synthesize various market viewpoints into comprehensive investment decisions. The Investment Committee is supported by dedicated investment teams in each line of business who coordinate due diligence and underwriting.

GEM Realty Properties

GEM Realty Properties sponsors a series of Private Equity Funds that make opportunistic and value-add investments in real estate properties, debt and operating companies. GEM Realty Properties pursues various investment strategies, including asset repositioning, property redevelopment and distressed debt investing, among others, with the objective of creating a diversified portfolio by property type and geographic location for each Private Equity Fund. Each investment by GEM Realty Properties is approved by the Investment Committee.

Risk Factors with Respect to the Private Equity Funds

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by GEM Realty Properties. These risk factors include only those risks GEM Realty Properties believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed GEM Realty Properties.

General Risk of Real Estate Investment

Real property investments are subject to varying degrees of risk. Real estate values are affected by a number of factors, including: (i) changes in the general economic climate or in national or international economic conditions; (ii) local conditions (such as an oversupply of space or a reduction in demand for space); (iii) the quality and philosophy of management; (iv) competition based on rental rates; (v) attractiveness and location of the properties and changes in the relative popularity of commercial properties as an investment; (vi) financial condition of tenants, buyers and sellers of properties; (vii) quality of maintenance, insurance and management services; (viii) changes in real estate tax rates and other operating costs and expenses; (ix) energy and supply shortages; (x) changes in interest rates and the availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable; (xi) uninsured losses or delays from casualties or condemnation; (xii) government regulations (including those governing usage, improvements, zoning and taxes) and fiscal policies; (xiii) potential liability under changing environmental and other laws; (xiv) risks and operating problems arising out of the presence of certain construction materials; (xv) structural or property level latent defects; (xvi) acts of God; and (xvii) other factors beyond the control of GEM Realty Properties. Investments in existing entities (*e.g.*, buying out a distressed partner or acquiring an interest in an entity that owns a real property) could also create risks of successor liability.

Risk of Investments in Real Estate Debt

The Private Equity Funds may invest in a variety of real estate-related debt investments. In addition to the risks of borrower default (including loss of principal and nonpayment of interest) and the risks associated with real property investments, the Private Equity Funds will be subject to a variety of risks in connection with such debt investments, including the risks of illiquidity, lack of control, mismanagement or decline in value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury laws and the

imposition of common law or statutory restrictions on the Private Equity Funds' exercise of contractual remedies for defaults of such investments.

Risk of Mortgage Investments

The Private Equity Funds may originate, participate in and/or acquire real estate loans that are non-recourse to the borrower. Mortgage investments have special inherent risks relative to collateral value. To the extent the Private Equity Funds make or acquire subordinated or "mezzanine" debt investments, the Private Equity Funds do not anticipate having absolute control over the underlying collateral as the Private Equity Funds will be dependent upon third-party borrowers and agents and will have rights that are subordinate to those of senior lenders. In certain circumstances, the Private Equity Funds' loans may not be secured by a mortgage, but instead by partnership interests or other collateral that may provide weaker rights than a mortgage. In any case, in the event of default, the Private Equity Funds' source of repayment will be limited to the value of the collateral and may be subordinate to other lienholders. The collateral value of the property may be less than the outstanding amount of the Private Equity Funds' investments; in cases in which the Private Equity Funds' collateral consists of partnership or similar interests, the Private Equity Funds' rights and level of security may be less than if they held a mortgage loan. Returns on an investment of this type depend on the borrower's ability to make required payments, and, in the event of default, the ability of the loan's servicer to foreclose and liquidate the mortgage loan.

Non-Performing Loans; Foreclosure Process

The Private Equity Funds may purchase whole or partial interests in non-performing loans, which by their nature are risky. Not only are such loans non-performing, but by purchasing partial interests and debt interests, the Private Equity Funds may not have control over the workout process and the management of the real estate assets. There can be no assurance that such acquisitions will be successful.

Real estate loans acquired by the Private Equity Funds may be at the time of their acquisition, or may become after acquisition, non-performing for a wide variety of reasons. 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. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that GEM Realty Properties may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Private Equity Funds. The foreclosure process can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a real estate loan including lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In some states, foreclosure actions can take up to several years or more to conclude. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, staying the foreclosure action and further delaying the

foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

Investments in Other Troubled Assets

The Private Equity Funds may make substantial investments in nonperforming or other distressed assets which involve a degree of financial risk and are experiencing or are expected to experience severe financial difficulties, which may never be overcome. Investments in properties operating under the close supervision of a mortgage lender or under bankruptcy or other similar laws are, in certain circumstances, subject to certain additional potential liabilities which may exceed the value of the Private Equity Funds' original investment therein. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to the Private Equity Funds and distributions by the Private Equity Funds to the investors may be required to be returned if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Securities Backed by Mortgages

The Private Equity Funds may acquire CMBS (including subordinated and/or unrated tranches of CMBS) and CMBS-related derivative instruments. In general, subordinated tranches of CMBS are entitled to receive repayment of principal only after all required principal payments have been made to more senior tranches and have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of nonpayment, are relatively illiquid and may be subject to restrictions on rights to realize upon or control underlying collateral.

Investments in Land; Development and Redevelopment

The Private Equity Funds may acquire direct or indirect interests in undeveloped land or underdeveloped real property (which may often be non-income-producing), real estate developments or redevelopments and/or businesses that engage in real estate development or redevelopment. To the extent that the Private Equity Funds invest in such assets or activities, they will be subject to the risks normally associated with such assets and development activities. Such risks include risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of the Private Equity Funds, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the Private Equity Funds. Properties under development or properties acquired for development may receive little or no cash flow from the date of acquisition through the date of completion of development and may continue to experience operating deficits after the date of completion. In addition, market conditions may change during the course of development that make such development less attractive than at the time it was commenced.

Operating Improvements

In some cases, the success of the Private Equity Funds' investment strategy will depend, in part, on the ability of the Private Equity Funds to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that the Private Equity Funds will be able to successfully identify and implement such restructuring programs and improvements.

Debt Financing; Leverage

The Private Equity Funds' investments will involve material amounts of indebtedness. The Private Equity Funds expect to leverage their investments with debt financing at the property or operating company level. Debt service requirements may deplete cash flows and relatively small changes in the overall value of investments will have a magnified impact on the value of the equity of the Private Equity Funds. If a portfolio investment were unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of the Private Equity Funds' investments in such portfolio investment would be significantly reduced or even eliminated. In addition, debt financing may restrict the amount of funds available for distribution to the investors. Certain tax-exempt investors may be subject to unrelated business income taxation because of the Private Equity Funds' use of leverage.

The use of leverage involves a high degree of financial risk and will increase the exposure of the investments to adverse economic factors such as rising interest rates, downturns in the economy or deterioration in the condition of the investments. In addition, borrowings by the Private Equity Funds under a credit facility may be secured by the investors' commitments to make capital contributions as well as by the Private Equity Funds' assets.

Usury Limitations

Interest charged on loans owned by the Private Equity Funds may be subject to state and foreign usury laws imposing maximum interest rates and penalties for violation, including restitution of excess interest and unenforceability of debt.

Interest Rate Risks

The Private Equity Funds have exposure to interest rate risks, meaning that changes in prevailing interest rates could negatively affect the value of the Private Equity Funds (*e.g.*, interest rate changes may affect, among other items, the cash flows of an investment directly and the cost of leverage).

Potential Restrictive Covenants

The Private Equity Funds may enter into a credit facility with one or more lenders in order to finance their operations (including the acquisition of the Private Equity Funds' investments). It is anticipated that any such credit facility will contain a number of common covenants that, among other things, might restrict the ability of the Private Equity Funds to: (i) acquire or dispose

of assets or businesses; (ii) incur additional entity level indebtedness; (iii) make capital expenditures; (iv) make cash distributions; (v) create liens on assets; (vi) enter into leases, investments or acquisitions; (vii) engage in mergers or consolidations; (viii) make capital calls to the investors; or (ix) engage in certain transactions with affiliates, and otherwise restrict corporate activities of the Private Equity Funds (including their ability to acquire additional investments, businesses or assets, certain changes of control and asset sale transactions) without the consent of the lenders. In addition, such a credit facility would likely require the Private Equity Funds to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements. The Private Equity Funds may incur indebtedness under such credit facility that bears interest at a variable rate. Economic conditions could result in higher interest rates, which could increase debt service requirements on variable rate debt and could reduce the amount of cash available for various Private Equity Funds purposes.

Risky and Illiquid Investments

The investments made by the Private Equity Funds will be risky and illiquid. The investments may be unsecured and subordinated to material amounts of senior indebtedness. The investments may not be protected by financial covenants or limitations upon additional indebtedness. Illiquidity may result from the absence of an established market for the investments, as well as legal or contractual restrictions on their sale by the Private Equity Funds. Dispositions of investments may be subject to contractual and other limitations on transfer (including prepayment penalties with respect to property-level debt) or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. The possibility of partial or total loss of capital will exist and prospective investors should not subscribe for interests in the Private Equity Funds unless they can readily bear the consequences of such loss. Even if the investments of the Private Equity Funds are successful, they may not produce a realized return for an unspecified duration of time.

Insurance May Not Cover All Losses

Comprehensive casualty insurance will be maintained on the Private Equity Funds' investments, including liability and fire and extended coverage, in amounts sufficient to permit replacement in the event of a total loss, subject to applicable deductibles. GEM Realty Properties will endeavor to obtain coverage of the type and in the amount customarily obtained by owners of properties similar to the real property that it acquires in the future. There are certain types of losses, however, generally of a catastrophic nature, resulting from, for example, earthquakes, floods, hurricanes, pollution, environmental matters, wars, riots, nuclear reactions and terrorist acts, which may be uninsurable or not economically insurable. In general, losses related to terrorism are becoming harder and more expensive to insure against. Most insurers are excluding terrorism coverage from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts for additional premiums which can greatly increase the total costs of casualty insurance for a property. As a result, the Private Equity Funds' investments might not be insured against terrorism. Inflation, changes in building codes and ordinances, environmental considerations, provisions in loan documents encumbering the portfolio properties pledged as collateral for loans, and other factors also might make it

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economically impractical to use insurance proceeds to replace improvements on a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds received, if any, might not be adequate to restore the investment with respect to the affected property. If a major uninsured loss occurs, the Private Equity Funds could lose both invested capital in and anticipated profits from the affected Private Equity Fund's investments.

Americans with Disabilities Act and Similar Laws

Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations in the United States must meet federal requirements related to access and use by disabled persons. If one or more of the properties in the Private Equity Funds' portfolios do not comply with the ADA, then the Private Equity Funds may be required to incur costs to bring the property into compliance, which may or may not have been foreseen at the time of acquisition. Future changes to federal, state and local laws also may require modifications to the Private Equity Funds' properties, or restrict the Private Equity Funds' ability to renovate their properties. The Private Equity Funds cannot predict the ultimate cost of compliance with the ADA or other legislation. If the Private Equity Funds incur substantial costs to comply with the ADA and any other similar legislation, the Private Equity Funds' financial condition, results of operations, cash flow, cash available for distribution and ability to satisfy its debt service obligations could be materially adversely affected.

Harmful Mold and Other Air Quality Issues

When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to radon, airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of the Private Equity Funds' properties could require the Private Equity Funds to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose the Private Equity Funds to liability from their tenants, employees of their tenants and others if property damage or health concerns arise.

Potential Environmental Liability

Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property are generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability

to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on the Private Equity Funds' return from such investment.

Litigation

In the ordinary course of their business, the Private Equity Funds may be subject to litigation from time to time. The outcome of such proceedings may adversely affect the value of the Private Equity Funds and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of GEM Realty Properties' time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

Regulation

Governmental authorities at the federal, state and local levels are actively involved in the promulgation and enforcement of regulations relating to land use and zoning restrictions. Regulations may be promulgated which could have the effect of restricting or curtailing certain uses of existing structures or requiring that such structures be renovated or altered in some fashion. The establishment of such regulations could have the impact of increasing the expenses and lowering the profitability of any of the properties affected thereby. Increased costs resulting from increases in real estate, income or transfer taxes or other governmental requirements generally may not be passed through directly to residents, tenants or lessees, inhibiting the ability of GEM Realty Properties to recover such costs.

Due to recent highly-publicized financial scandals, the on-going financial turmoil and related recently enacted government bailout measures, investors, regulators and the general public have expressed concerns over the integrity of both the U.S. financial markets and the regulatory oversight of these markets and their participants. The regulatory environment in which GEM Realty Properties and the Investment Advisor will operate has become subject to heightened regulation as a result. With respect to alternative asset management funds, in recent years, in both U.S. and non-U.S. governments, there has been debate regarding and implementation of new rules and regulations applicable to hedge funds, private equity funds or other alternative investment products and the advisers thereto. It is impossible to determine the scope and extent of the impact of any new laws, regulations or initiatives. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which GEM Realty Properties, and the Investment Advisor operate. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the investment activities of alternative asset management funds, including the Funds, GEM Realty Properties, and the Investment Advisor. Such investigations may impose additional expenses on GEM Realty Properties, may require the attention of senior management and may result in fines if GEM Realty Properties or the Investment Advisor is deemed to have violated any regulations.

Additionally, Congress has recently considered proposed legislation that would treat certain income allocations to service providers by partnerships such as the Funds (including any Carried Interest) as ordinary income for U.S. federal income tax purposes that under current law is treated as an allocation of the partnership's income, which may be taxed at lower rates than ordinary income. Enactment of any such legislation, could adversely affect the senior

management, employees or other individuals associated with GEM Realty Properties, the Investment Advisor or any of their respective affiliates who were or may in the future be granted direct or indirect interests entitling such persons to benefit from Carried Interest. This may reduce such persons' after-tax returns from Private Equity Funds, which could make it more difficult for the GEM Realty Properties and its affiliates to incentivize, attract and retain individuals to perform services for Private Equity Funds.

The EU Alternative Investment Fund Managers Directive (the "AIFMD"), comes into effect on July 22, 2013. The AIFMD regulates the activities of private fund managers undertaking fund management activities or marketing fund interests to investors within the European Union (the "EU"). If a Fund is marketed to EU-based investors from July 22, 2013: (i) such Fund will be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which may result in the Funds incurring additional costs and expenses; and (ii) the AIFMD will also restrict certain activities of the Funds in relation to EU portfolio companies including, in some circumstances, a Fund's ability to recapitalize, refinance or potentially restructure an EU portfolio company within the first two years of ownership. In addition, it is possible that some EU jurisdictions will elect to restrict or prohibit the marketing of non-EU funds to investors based in those jurisdictions, which may make it more difficult for the Funds to raise its targeted amount of commitments.

Market Conditions

The Private Equity Funds' strategy in some investments may be based, in part, upon the premise that real estate businesses and assets will be available for purchase by the Private Equity Funds at prices that GEM Realty Properties considers favorable. Further, the Private Equity Funds' strategy relies, in part, upon local market recoveries continuing during the term of the Private Equity Funds. No assurance can be given that real estate businesses and assets can be acquired at favorable prices or that the market for such assets will recover or continue to improve, as the case may be since this will depend, in part, upon events and factors outside the control of GEM Realty Properties.

Financial Market Fluctuations

General fluctuations in the market prices of securities may affect the value of the investments held by the Private Equity Funds. Instability in the securities markets may also increase the risks inherent in the Private Equity Funds' investments. The ability of companies or businesses in which the Private Equity Funds may invest to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise.

Market Dislocation

Recent events in the sub-prime mortgage market and other areas of the fixed income markets have caused significant dislocations, illiquidity and volatility in the structured credit, leveraged loan and high-yield bond markets, as well as in the wider global financial markets. These forces resulted in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions. These factors, combined with volatile commodity prices and foreign exchange rates, have contributed to recessionary economic

conditions globally and a resultant loss of investor confidence in the financial system, which has resulted in a historically unprecedented lack of liquidity and decline in asset values. The deterioration of the global credit markets has made it more difficult for sponsors to obtain favorable financing for their investments. The Private Equity Funds' ability to generate attractive investment returns may be adversely affected to the extent the Private Equity Funds are unable to obtain favorable financing terms for their real estate investments. These conditions have had an adverse impact on the availability of credit to businesses generally and have led to an overall weakening of the U.S. and global economies. The global recession could adversely affect the financial resources of the Private Equity Funds and their investments and their ability to make principal and interest payments on, or refinance, outstanding debt when due. Similarly, the global recession could also adversely affect the financial resources of tenants of the Private Equity Funds' investments and their ability to make rent payments. In the event of such circumstances, the Private Equity Funds could lose both invested capital in and anticipated profits from the affected investments.

Risk of Bridge Financing

If the Private Equity Funds make an investment with the intent of subsequently financing a portion of that investment, there is a risk that the Private Equity Funds will be unable to successfully complete such a financing. This could lead to the Private Equity Funds having a larger amount of capital invested in an investment than anticipated and reduced diversification.

Non-U.S. Investments

Non-U.S. real estate-related investments involve certain factors not typically associated with investing in real estate-related investments in the United States, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which the Private Equity Funds' investments may be made, and costs associated with conversion from one currency into another, (ii) differences between U.S. and foreign real estate markets and (iii) certain economic and political risks, including potential exchange-control regulations, potential restrictions on non-U.S. investment and repatriation of capital and the possibility of expropriation or confiscatory taxation.

Controlling Person Liability

The Private Equity Funds are expected to have controlling interests in some of their investments in real estate companies. The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, the Private Equity Funds might suffer a significant loss.

Possible Lack of Diversification; Limited Number of Investments

The Private Equity Funds are subject to certain restrictions on the size, location and type of their investments. Other than such restrictions, prospective investors have no assurance as to the degree of diversification that will actually be achieved in the Private Equity Funds'

investments, either by location, asset size or asset type. The Private Equity Funds may participate in a limited number of investments and, as a consequence, the aggregate return of the Private Equity Funds may be substantially affected by the unfavorable performance of even a single investment. If the Private Equity Funds make an investment in a single transaction with the intent of refinancing or selling a portion of the investment, there is a risk that the Private Equity Funds will be unable to successfully complete such a financing or sale. This could lead to increased risk as a result of the Private Equity Funds having an unintended long-term investment and reduced diversification.

Third Party Involvement

The Private Equity Funds may co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests in certain investments. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that: (i) the Private Equity Funds and such co-venturer may reach an impasse on a major decision that requires the approval of both parties; (ii) a co-venturer or partner of the Private Equity Funds may at any time have economic or business interests or goals that are inconsistent with those of the Private Equity Funds; (iii) the co-venturer or partner may encounter liquidity or insolvency issues or may become bankrupt; (iv) the co-venturer or partner may be in a position to take action contrary to the Private Equity Funds' investment objective; (v) the co-venturer or partner may take actions that subject the property to liabilities in excess of, or other than, those contemplated; or (vi) in certain circumstances the Private Equity Funds may be liable for actions of their co-venturers or partners. In addition, the Private Equity Funds may rely upon the abilities and management expertise of a co-venturer or partner. It may also be more difficult for the Private Equity Funds to sell their interests in any joint venture, partnership or entity with other owners than to sell their interests in other types of investments. The Private Equity Funds may grant co-venturers or partners joint approval rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks. A deadlock could delay the execution of the business plan for the investment or require the Private Equity Funds to engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment. As a result of these risks, the Private Equity Funds may be unable to fully realize their expected return on any such investment.

Contingent Liabilities on Disposition of Investments; Investor Giveback

In connection with the disposition of an investment, the Private Equity Funds may be required to make representations about such investment. The Private Equity Funds also may be required to indemnify the purchaser of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities for which GEM Realty Properties may establish reserves or escrow accounts. These reserves or accounts (if any) may be insufficient to cover the liability. Furthermore, under the Delaware Revised Uniform Limited Partnership Act, each investor that receives a distribution in violation of such law will, under certain circumstances, be obligated to recontribute such distribution to the Private Equity Funds.

Failure to Meet Targeted Returns

Prospective investors should bear in mind that past or targeted performance is not a guarantee, projection or prediction and is not necessarily indicative of future results. There can be no assurance that a Fund will achieve comparable results, that targeted returns will be met or that a Fund will be able to implement its investment strategy and investment approach or achieve its investment objectives. Actual gross and net returns for Funds may vary significantly from targeted returns. A Fund's target returns are expected to be realized from current income and capital appreciation, using leverage where GEM Realty Properties deems it is appropriate. The target returns are also based on models, estimates and assumptions about performance believed to be reasonable under the circumstances, but actual realized returns on a Fund's investments will depend on, among other factors, the ability to consummate attractive investments, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the targeted returns are based.

GEM Realty Securities

GEM Realty Securities sponsors a long/short hedge fund that invests primarily in the publicly traded equity and debt securities of real-estate related companies, including real estate investment trusts ("REITs"), real estate operating companies and homebuilders. Additionally, GEM Realty Securities may invest in derivative instruments, including options and swap contracts, in connection with or as a complement to its investments in equity and debt instruments. Investment strategies employed by GEM Realty Securities include, among others, paired-trading, capital structure arbitrage and catalyst investing. Asset allocations, risk exposures, and other portfolio information are reviewed by GEM's Investment Committee, GEM's Risk Committee and by various senior executives within the GEM Realty Securities division.

Risk Factors with Respect to the Hedge Funds

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by GEM Realty Securities. These risk factors include only those risks GEM Realty Securities believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by GEM Realty Securities.

Market Risks

GEM Realty Securities' investment strategies are subject to market risk. There can be no assurance that what is perceived as an investment opportunity will not, in fact, result in substantial losses as a result of one or more of a wide variety of factors. Certain general market conditions—for example, a reduction in the volatility or pricing inefficiencies of the markets in which the Hedge Funds are active—could materially reduce the Hedge Funds' profit potential. While GEM

Realty Securities might develop new investment strategies in the future, any such strategies may not be thoroughly tested before being employed and may not, in any event, be successful. In addition, any new investment strategy or technique developed by the Hedge Funds may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Hedge Funds. The Hedge Funds can only be successful if GEM Realty Securities is able to trade and invest successfully, and there can be no assurance that this will be the case.

Systemic Risk

Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Hedge Funds interact on a daily basis.

Lack of Liquidity in Markets and Investments in Thinly-traded or Illiquid Instruments

Despite the heavy volume of trading in securities, the markets for some securities and investment instruments have limited liquidity and depth. This lack of depth could disadvantage the Hedge Funds, both in the realization of the prices which are quoted and in the execution of orders at desired prices.

The Hedge Funds may invest a significant portion of their assets in instruments that are thinly traded or that have limited liquidity. As a result, the Hedge Funds may be required to hold such instruments despite an adverse price movement. In addition, to the extent the Hedge Funds make a short sale of an illiquid security, they may have difficulty in covering the short sale.

Leverage

The Hedge Funds may borrow amounts in the normal course of their trading, on both a secured basis, using the securities that they own as collateral, and an unsecured basis. The Hedge Funds, by virtue of their use of borrowed funds and the significant degree of leverage typically embedded in derivative instruments such as swaps, may therefore trade on a highly leveraged basis. Additionally, losses incurred on the Hedge Funds’ leveraged investments will be increased in magnitude in direct proportion to the degree of leverage used, and may exceed the amount of capital invested. Leverage may also be used in connection with short sales.

The instruments and borrowings utilized by the Hedge Funds to leverage investments may be collateralized by the Hedge Funds’ portfolios. Accordingly, the Hedge Funds may pledge their securities in order to borrow or otherwise obtain leverage for investment or other purposes. Should the securities pledged to brokers to secure the Hedge Funds’ margin accounts decline in value, the Hedge Funds could be subject to a “margin call”, pursuant to which the Hedge Funds must either deposit additional funds or securities with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. The banks and dealers that provide financing to the Hedge Funds can apply essentially discretionary margin, haircut, financing and collateral

valuation policies. Changes by banks and dealers in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that the Hedge Funds will be able to secure or maintain adequate financing.

Hedging Transactions

The Hedge Funds may utilize securities both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of the Hedge Funds' investment portfolios resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Hedge Funds' unrealized gains in the value of their investment portfolios; (iii) facilitate the sale of any securities; (iv) enhance or preserve returns, spreads or gains on any security in the Hedge Funds' portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the Hedge Funds' securities; (vii) protect against any increase in the price of any securities the Hedge Funds anticipate purchasing at a later date; or (viii) act for any other reason that GEM Realty Securities deems appropriate. The Hedge Funds will not be required to hedge any particular risk in connection with a particular transaction or their portfolios generally. While the Hedge Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Hedge Funds than if they had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that may not be hedged.

Institutional Risks

The Hedge Funds expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Hedge Funds to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Hedge Funds will be able to maintain such relationships or establish such relationships. An inability to establish or maintain such relationships could limit the Hedge Funds' trading activities, could create losses, could preclude the Hedge Funds from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and could prevent the Hedge Funds from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Hedge Funds establish additional relationships could have a significant impact on the Hedge Funds' business due to the Hedge Funds' reliance on such counterparties.

Some of the markets in which the Hedge Funds may effect transactions are not "exchange-based", including "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Hedge Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Hedge Funds to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Hedge Funds have concentrated their transactions with a single or small group of counterparties. Generally, the Hedge Funds will not be restricted from dealing with any particular counterparties. GEM Realty Securities' evaluation of the creditworthiness of the Hedge Funds' counterparties may not prove sufficient. The lack of a

complete and “foolproof” evaluation of the financial capabilities of the Hedge Funds’ counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Hedge Funds.

Credit Risks

The stability and liquidity of over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transactions. It is expected that the Hedge Funds will monitor on an ongoing basis the creditworthiness of firms with which they will enter into over-the-counter derivatives. If there is a default by the counterparty to such a transaction, the Hedge Funds will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Hedge Funds being less than if the Hedge Funds had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Hedge Funds’ counterparties were to become insolvent or the subject of insolvency proceedings, there exists the risk that the recovery of the Hedge Funds’ securities and other assets from such counterparty will be delayed or be of a value less than the value of the securities or assets originally entrusted to such counterparty.

In addition, the Hedge Funds may use counterparties, located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in foreign jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Hedge Funds’ assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the Hedge Funds and their assets. Investors should assume that the insolvency of any counterparty would result in a loss to the Hedge Funds, which could be material.

Competition; Availability of Investments

Certain markets in which the Hedge Funds may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that GEM Realty Securities will be able to identify or successfully pursue attractive investment opportunities in such environments.

Volatility Risk

The Hedge Funds’ investment program may involve the purchase and sale of relatively volatile instruments such as derivatives, which are frequently valued based on implied volatilities of such derivatives compared to the historical volatility of underlying securities. Fluctuations or prolonged changes in the volatility of such securities, therefore, can adversely affect the value of investments held by the Hedge Funds.

Global Market Exposure

The Hedge Funds may invest on a global basis in both developed and emerging markets. In investing outside of the United States, the Hedge Funds are subject to: (i) currency exchange-rate risk; (ii) the possible imposition of withholding, income or excise taxes; (iii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and little or potentially biased government supervision and regulation; and (iv) economic and political risks, including expropriation, currency exchange control and potential restrictions on foreign investment and repatriation of capital.

GEM Realty Securities may, but will be under no obligation to, hedge the Hedge Funds' exchange rate risk. Moreover, any hedging may itself be costly and reduce returns. Prospective investors must recognize that an investment in the Hedge Funds will be subject to foreign exchange risk as well as hedging costs. Furthermore, currency fluctuations may have a material impact on the volatility of the issuers in which the Hedge Funds invest, in addition to affecting the value of the gains and losses recognized on the Hedge Funds' trading.

Long/Short Investment Strategy

The success of the Hedge Funds' long/short investment strategy depends upon the GEM Realty Securities' ability to identify and purchase financial instruments that are undervalued and identify and sell short financial instruments that are overvalued. The identification of investment opportunities in the implementation of the Hedge Funds' long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the Hedge Funds' positions were to fail to converge toward, or were to diverge further from values expected by GEM Realty Securities, the Hedge Funds may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Hedge Funds to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with GEM Realty Securities' long/short strategies may become outdated and inaccurate as market conditions change.

Investments in Emerging Markets

GEM Realty Securities may invest the Hedge Funds' assets in emerging countries which it believes offer superior capital appreciation. Investors in the Hedge Funds should note that changes in regulatory, tax or economic policy in a country could significantly affect the market in that country, and, therefore, the return on the Hedge Funds' investments in such country. Additionally, many foreign markets are more concentrated than the U.S. market, with a small number of companies making up a large percentage of the local market. As a result, the performance of one company, or a relatively small number of companies, could have a significant effect on the performance of the Hedge Funds' investments in a country. In determining whether to invest in a particular emerging market, GEM Realty Securities may consider such factors as economic growth, expected inflation, governmental policies, and currency relationships among other factors.

Capital Structure Arbitrage

The success of this strategy will depend on the ability of GEM Realty Securities to identify and exploit the relationships between movements in different financial instruments within an issuer's capital structure (including, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. There can be no assurance that GEM Realty Securities will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing inefficiency of the markets in which the Hedge Funds will seek to invest will reduce the scope for the Hedge Funds' investment strategies. In the event that the perceived mispricings underlying the Hedge Funds' positions fail to materialize, these investment strategies could be unsuccessful or result in losses.

Activist Role of GEM Realty Securities

The Hedge Funds may invest in debt and equity securities of companies that GEM Realty Securities believes are undervalued by the marketplace and are likely to appreciate, including as a result of a change in ownership, corporate direction or management, or as a result of operational improvements. This activist investment strategy may require, among other things: (i) that GEM Realty Securities properly identify portfolio companies whose securities prices can be improved through corporate and/or strategic action; (ii) that the Hedge Funds acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) that the Hedge Funds avoid triggering anti-takeover and regulatory obstacles while aggregating their positions; (iv) that management of portfolio companies and other security holders respond positively to GEM Realty Securities' proposals; and (v) that the market price of a portfolio company's securities increases in response to any actions taken by portfolio companies. There can be no assurance that any of the foregoing will succeed.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or investors of the subject company, which may result in litigation and may erode, rather than increase, the value of the interests; (ii) intervention of a governmental agency; (iii) efforts by the subject company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in securities prices; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; (vi) the necessity for compliance with applicable securities laws; and (vii) no guarantee can be made that there will be sufficient liquidity in the markets to allow the Hedge Funds to dispose of all or any of their securities therein or to realize any increase in the price of such securities. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of investors and others with an interest in the subject company. Some investors may have interests which diverge significantly from those of the Hedge Funds, and some of those parties may be indifferent to the proposed changes.

Event-Driven Investing

Event-driven investing requires the investor to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt

reduction programs by a company may not be valued as highly by the market as GEM Realty Securities had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value and fail to implement it, resulting in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the Hedge Funds of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a Federal or state regulatory agency; (iii) efforts by the target company to pursue a “defensive” strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable Federal or state securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event-driven investing, the results of the Hedge Funds’ operations may be expected to fluctuate from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

Relative Value Trading

GEM Realty Securities may use “relative value” investing strategies, which attempt to exploit relative mispricings among interrelated instruments (securities/securities; securities/derivatives; securities/futures; derivatives/futures; futures/futures), rather than making directional “bets” on absolute price movements. Mispricings, even if correctly identified, may not be corrected by the market, at least within a timeframe over which it is feasible for the Hedge Funds to maintain a position. Even pure arbitrage positions can result in significant losses if GEM Realty Securities is not able to maintain both sides of the position until expiration, for example, in circumstances where the Hedge Funds are forced to prematurely return a borrowed security. GEM Realty Securities may utilize a high degree of leverage and could be forced to liquidate positions prematurely in order to meet margin calls, causing an otherwise “pure” arbitrage position to result in major losses.

The success of GEM Realty Securities’ relative value investment strategy depends on GEM Realty Securities’ ability to identify and exploit perceived inefficiencies in the pricing of securities, financial products, or markets. Identification and exploitation of such discrepancies involve uncertainty. There can be no assurance that GEM Realty Securities will be able to locate investment opportunities or exploit pricing inefficiencies in the securities markets. A reduction in the pricing inefficiency of the markets in which GEM Realty Securities seeks to invest will reduce the scope for GEM Realty Securities’ investment strategies. In the event that the perceived mispricings underlying the Hedge Funds’ positions were to fail to converge toward, or were to diverge further from, relationships expected by GEM Realty Securities, the Hedge Funds may incur losses. Even if GEM Realty Securities’ relative value investment strategy is successful, it may result in high portfolio turnover and, consequently, high transaction costs.

Distressed Debt

The Hedge Funds may acquire performing, subperforming or nonperforming debt secured by real estate. The Hedge Funds may also acquire unsecured debt interests that are issued by real estate companies, REITs or that pertain to the owners of the underlying real estate. In addition to the risks of borrower default, the collateral may be mismanaged or otherwise decline in value during periods in which the Hedge Funds do not have control of the underlying real estate. In addition, borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement and/or bring claims for lender liability in response to actions to enforce mortgage or other debt obligations. If any of the above occurs, the value of the Hedge Funds' investments could be adversely affected. As a lender, the Hedge Funds may be subject to penalties for violations of state usury limitations, which penalties may be triggered by contracting for, charging or receiving usurious interest. It is anticipated that a portion of the Hedge Funds' debt investments will not be rated by any nationally recognized rating agency. Generally, the value of unrated classes is more subject to fluctuation due to economic conditions than rated classes. Overall credit quality may move up or down frequently within this category. The Hedge Funds' acquisition of credit support classes of securitizations (which may be first loss classes) which are unrated at the time of acquisition and which have lower ratings incrementally increase the risk of nonpayment or of a significant delay in payments on these classes. Should assets be downgraded, it may adversely affect their value and may adversely affect the value of the Hedge Funds.

Risks Associated with Commercial Mortgage Loans

The Hedge Funds may invest in commercial mortgage loans. The value of the Hedge Funds' commercial mortgage loans will be influenced by the historical rate of delinquencies and defaults experienced on the commercial mortgage loans and by the severity of loss incurred as result of such defaults. The factors influencing delinquencies, defaults and loss severity include (i) economic and real estate market conditions by industry sectors (*e.g.*, multifamily, retail, office, etc.); (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (*i.e.*, the ability of tenants or operators to make lease payments or generate revenue from the operation of a property, the ability of a property to attract and retain tenants or guests, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning and laws) rather than upon the existence of independent income or assets of the borrower. Most commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Commercial mortgage loans generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining "balloon" amount at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans (as well as CMBS, as

defined below) bear the risk that the borrower will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation.

Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

Illiquid Strategies

The Hedge Funds may invest in securities, such as structured products, derivatives and other types of unregistered securities, that are illiquid. Generally, there is no public or over-the-counter trading market for these securities, and the Hedge Funds might only be able to liquidate these positions at highly disadvantageous prices. There may be limited information available about the issuers of the securities which may make valuation of such securities difficult or uncertain. The market prices, if any, for such illiquid securities tend to be volatile and the Hedge Funds may not be able to sell them when they desire to do so or to realize what they perceive to be their fair value in the event of a sale. Even those markets which GEM Realty Securities expects to be liquid can experience periods, possibly extended periods, of illiquidity.

Vulnerability to Interest Rate Changes

Many of the investments in which the Hedge Funds will invest will be fixed rate debt or similar securities or instruments, and therefore will decline in value when interest rates rise. Also, because the value of real estate often declines when interest rates rise, the value of the collateral underlying the investments in which the Hedge Funds invest may decline at the same time. Therefore, rising interest rates could substantially affect the value of the Hedge Funds' investments.

Investment in Partnerships and Other Entities

The Hedge Funds may make investments through partnerships, joint ventures or other entities. Such investments may involve risks not present in direct investments, including, for example, the possibility that a co-venturer or partner of the Hedge Funds might become bankrupt, or may at any time have economic or business interests or goals which are inconsistent with those of the Hedge Funds, or that any such co-venturer or partner may be in a position to take action contrary to the Hedge Funds' objectives. Furthermore, if such co-venturer or partner defaults on its funding obligations, it may be difficult for the Hedge Funds to make up the shortfall from other sources. The Hedge Funds may be required to make additional contributions to replace such shortfall, thereby reducing the diversification of their investments. Any default by such co-venturer or partner could have an extremely deleterious effect on the Hedge Funds, their assets and the interests of the investors. In addition, the Hedge Funds may be liable for the actions of their co-venturers or partners. While GEM Realty Securities will attempt to limit the liability of the Hedge Funds by reviewing the qualifications and previous experience of co-venturers or partners, it does not expect to obtain financial information from, or to undertake private investigations with respect to, prospective co-venturers or partners.

Investments with Co-Lenders

The Hedge Funds may make debt investments where the Hedge Funds are co-lenders with other lenders. Such investments may involve risks not present in debt investments where a Hedge Fund is the sole lender, including, for example, the possibility that a co-lender might become bankrupt, or may at any time have economic or business interests or goals which are inconsistent with those of the Hedge Funds, or that any such co-lender may be in a position to take action contrary to the Hedge Funds' objectives. Furthermore, to the extent such investment requires additional funding or protective advances, if any such co-lender defaults on its funding obligations, it may be difficult for the Hedge Funds to make up the shortfall from other sources. The Hedge Funds may be required to advance additional funds to replace such shortfall, thereby reducing the diversification of their investments. Any default by such co-lender could have an extremely deleterious effect on the Hedge Funds, their assets and the interests of the investors. In addition, the Hedge Funds may be liable for the actions of their co-lenders.

Risks of Litigation

Investing in distressed securities can be a contentious and adversarial process. Different investor groups may have qualitatively different, and frequently conflicting, interests. The Hedge Funds' investment activities may include activities that are hostile in nature and will subject them to the risks of becoming involved in litigation by third parties. The expense of defending claims against the Hedge Funds by third parties and paying any amounts pursuant to settlements or judgments would be borne by the Hedge Funds and would reduce net assets and could require the partners to return distributed capital and earnings to the Hedge Funds. GEM Realty Securities will be indemnified by the Hedge Funds in connection with such litigation, subject to certain conditions.

Derivative Instruments

The Hedge Funds may make use of various derivative instruments, such as warrants, options, convertible securities and equity swaps. The use of derivative instruments involves a variety of material risks. These risks include the extremely high degree of leverage which can be embedded in such instruments, a risk which can be materially increased by the limited liquidity which frequently characterizes the derivatives markets. The pricing relationships between derivatives and the underlying instruments on which they are based also may not conform to anticipated or historical correlation patterns, resulting in unanticipated losses. In addition, some of the derivatives that may be traded by GEM Realty Securities are over-the-counter instruments (contracts) between the Hedge Funds and third parties. The risk of counterparty nonperformance can be significantly greater in the case of these over-the-counter instruments as opposed to exchange-traded instruments. Furthermore, "bid-ask" spreads may be unusually wide in the substantially unregulated over-the-counter markets.

Short Sales

The Hedge Funds may engage, from time to time, in short selling of securities or other investment products.

Short selling, and especially short selling on margin, is considered a risky trading strategy. When they make a short sale, the Hedge Funds may sell securities or other investment instruments that they do not own. To make delivery of the security or other investment instruments sold, the Hedge Funds will be required to borrow the security or other investment instruments. An investment manager will make a short sale when it anticipates it will be able to purchase and return the securities to the lender after the securities have declined in value. The gain realized will be the difference between the sale price for the securities and the price at which the securities are purchased. However, in the event the market price of the security or other investment instrument has increased, the Hedge Funds may be forced to cover the short position at a price higher than the sale price and, if the interest earned on the proceeds of the short sale is insufficient to offset the price differential, this will result in a loss. Since there is theoretically no limit to how high the price of a security will sell for, a short sale involves the theoretically unlimited risk of an increase in the market price of the securities involved.

The borrowed securities or other investment instruments in a short sale are subject to call from the lender at any time at its discretion, which would require the Hedge Funds to cover their positions at that time. A lender may call a security for a variety of reasons, some of which may be rather arbitrary. In the event the call is made when the security has increased in price or is, in fact, rapidly increasing in price, the Hedge Funds will be required to cover at the higher price, thus realizing a loss. The Hedge Funds may be required to attempt to borrow the called security from a different broker. However, under certain circumstances, the Hedge Funds may have difficulty in finding the security to borrow. The call feature of short selling takes control over the decision to cover short positions out of the hands of the investment manager.

It is possible that where the number of short sellers of a security is large, the Hedge Funds will have difficulty in finding the security to borrow. In such event, the cost of borrowing the security will increase. In situations where it is difficult to borrow a security, the Hedge Funds' ability to meet their investment objectives may be limited.

Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Hedge Funds may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes.

Options

The Hedge Funds may utilize options. There is no assurance that a liquid secondary market on an options exchange will exist for any particular exchange-traded option or at any particular time. If the Hedge Funds are unable to effect a closing purchase transaction with respect to covered options they have written, the Hedge Funds will not be able to sell the underlying securities or dispose of assets held in a segregated account until the options expire or are exercised. Similarly, if the Hedge Funds are unable to effect a closing sale transaction with respect to options they have purchased, they would have to exercise the options in order to realize any profit and will incur transaction costs upon the purchase or sale of underlying securities. The

Hedge Funds may purchase and sell both options that are traded on exchanges and options traded over-the-counter. The market for over-the-counter options is more limited than with exchange-traded options and may involve the risk that brokers, dealers or other counterparties participating in such transactions will not fulfill their obligations.

Synthetic Assets; Credit Default Swaps

The Hedge Funds may enter into credit default swaps or acquire or sell credit-linked notes secured by credit default swaps for, among other reasons, the purpose of implementing GEM Realty Securities' view that a particular credit, or group of credits, will experience credit improvement or credit deterioration, or to pursue other investment strategies. In the case of expected credit improvement, the Hedge Funds may "write" or "sell" credit default protection in which they receive spread income. The Hedge Funds may also "purchase" credit default protection even in the case in which they do not own the referenced obligation if, in the judgment of GEM Realty Securities, there is a high likelihood of credit deterioration. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the underlying Reference Obligation (as defined below), and potential loss upon default, among other factors. As such, there are many factors upon which market participants may have divergent views.

Specifically, the Hedge Funds may acquire exposure to the risk of CMBS, debt securities and loans synthetically through products such as credit default swaps (including, without limitation, CMBX contracts), total return swaps, credit linked notes, structured notes, trust certificates and other derivative instruments (each, a "Synthetic Asset"). A Synthetic Asset could take many forms, including a credit derivative transaction that references a CMBS, debt security loan, or a credit derivative transaction that references a portfolio or index of reference obligations consisting of CMBS, debt securities, bonds or other financial instruments (each, a "Reference Obligation").

Selling credit default protection creates a synthetic "long" position which may replicate credit exposure to the Reference Obligation. However, there can be no assurance that the price relationship between the Reference Obligation and the Synthetic Asset will remain constant (as, among other reasons, the pricing of each may be based upon different factors), and events unrelated to the Reference Obligation (such as those affecting availability of borrowed money and liquidity) can cause the price relationship to change. This risk is often referred to as "basis risk," and it may cause the Hedge Funds to realize a greater loss on a Synthetic Asset than might otherwise be the case with a direct investment in a Reference Obligation.

As a "seller" of credit default protection, the Hedge Funds will generally receive a fixed rate of income throughout the term of the contract, which generally is between six months and ten years (depending on the maturity of the underlying Reference Obligation); provided that there is no credit event. If a credit event occurs, the Hedge Funds (as the seller of protection) will be required to pay the notional value of the Reference Obligation and, depending on the terms of the contract, either may receive in return a security representing the Reference Obligation, which will have a heavily discounted value or perhaps little or even no value, or may receive nothing in return other than the right to receive reimbursements of recoveries from the counterparty to the extent that the Reference Obligation subsequently performs.

Exposure to Reference Obligations through Synthetic Assets presents risks in addition to those resulting from direct purchases of the assets referenced. The Hedge Funds will have a contractual relationship only with the Synthetic Asset counterparty, and not with the issuer(s) (the “Reference Entity”) of the Reference Obligations unless a termination (in whole or in part) of the contract prior to such contract’s scheduled maturity date (in the event of a credit event) occurs with respect to any such Reference Obligation, physical settlement applies and the Synthetic Asset counterparty delivers the Reference Obligation to the Hedge Funds. Other than in the event of such delivery, the Hedge Funds generally will have no right directly to enforce compliance by the Reference Entity with the terms of any such Reference Obligation and the Hedge Funds will not have any rights of set-off against the Reference Entity. In addition, the Hedge Funds generally will not have any voting or other consensual rights of ownership with respect to the Reference Obligation. The Hedge Funds also will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

If the Hedge Funds are “purchasers” of credit default protection and no credit event occurs, the Hedge Funds will lose their investments and recover nothing. However, if a credit event occurs, the Hedge Funds (as purchasers) may receive the notional value of the Reference Obligation from the Synthetic Asset counterparty even if the Reference Obligation has little or no value.

In the event of the bankruptcy or insolvency of the Synthetic Asset counterparty, the Hedge Funds will be treated as a general unsecured creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Hedge Funds will be subject to the credit risk of the Synthetic Asset counterparty, as well as that of the Reference Entity. As a result, concentrations of Synthetic Assets entered into with any one Synthetic Asset counterparty will subject the Hedge Funds to an additional degree of risk with respect to defaults by such Synthetic Asset counterparty as well as by the respective Reference Entities. Where the Hedge Funds are the purchasers of credit default protection, the Hedge Funds are exposed to the risk that the Synthetic Asset counterparty may fail to satisfy its payment obligation to the Hedge Funds following a credit event. The failure of a Synthetic Asset counterparty to perform may cause the Hedge Funds’ hedging strategies, to the extent that they involve the purchase of credit default protection, to be less effective or ineffective.

Foreign Exchange Contracts

The Hedge Funds may engage in foreign exchange trading. Trading in foreign exchange spot or forward contracts is not regulated and such contracts are not traded on or guaranteed by an exchange or its clearinghouse. Rather, banks and dealers act as principals in the forward contract markets. Consequently, there are no requirements with respect to recordkeeping, financial responsibility, or segregation of customer funds and positions. In connection with their spot and forward contract trading, the Hedge Funds will be subject to the failure, inability or refusal to perform a spot or forward contract by a counterparty to such spot or forward contract. The default of a party with which the Hedge Funds had entered into a spot or forward contract could deprive the Hedge Funds of any profit potential or force the Hedge Funds to cover their commitments for resale, if any, at the market price then current.

Equity Securities

The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, the Hedge Funds may suffer losses if they invest in equity instruments of issuers whose performance diverges from GEM Realty Securities' expectations or if equity markets generally move in a single direction and the Hedge Funds have not hedged against such a general move. The Hedge Funds also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

In addition, common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer. Warrants and stock purchase rights are securities permitting, but not obligating, their holders to subscribe for other equity securities, and they do not represent any rights in the assets of the issuer. As a result, warrants and stock purchase rights may be considered more speculative than other types of equity investments.

Lower Rated Securities

The Hedge Funds may invest in debt securities that are unrated or rated the lowest rating category by Standard & Poor's or Moody's. The Hedge Funds may have difficulty disposing of lower quality debt securities because there may be a thin trading market for such debt securities. There may be no established secondary market for many of these debt securities, and the Hedge Funds anticipate that such securities could be sold only to a limited number of dealers or institutional investors. The lack of a liquid secondary market also may have an adverse impact on market prices of such instruments and may make it more difficult for the Hedge Funds to obtain accurate market quotations for purposes of valuing their portfolio securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, also may decrease the values and liquidity of lower rated debt securities, especially in a thinly traded market. The Hedge Funds also may incur additional expenses to the extent they are required to seek recovery upon a default in the payment of principal or interest on their portfolio securities.

Exchange-Traded Funds

The Hedge Funds may invest in Exchange Traded Funds ("ETFs"), which are shares of publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying securities they

are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. In addition, the Hedge Funds may bear, along with other shareholders of an ETF, their *pro rata* portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the Hedge Funds' expenses (*e.g.*, management fees and operating expenses), investors may also indirectly bear similar expenses of an ETF.

Swaps

The Hedge Funds may enter into swap agreements. Swap agreements are individually negotiated between the Hedge Funds and a counterparty and can be structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Hedge Funds' exposure to instruments issued by certain countries (*i.e.*, geographic exposure), long-term or short-term interest rates (in the United States or abroad), foreign currency values, mortgage securities, corporate borrowing rates, credit events, or other factors such as security prices, baskets of equity securities, or inflation rates. In addition, swaps also can utilize leverage that could create additional volatility risks for the Hedge Funds. Swap agreements can take many different forms and are known by a variety of names. The Hedge Funds are not limited to any particular form of swap agreement if GEM Realty Securities determines it is consistent with the Hedge Funds' investment objective and policies. Among other types of swap agreements, the Hedge Funds may enter into credit default swaps.

Swap agreements tend to shift the Hedge Funds' investment exposure from one type of investment to another. For example, under the terms of a swap, the Hedge Funds may receive from a swap counterparty all positive returns earned on a notional investment amount in a particular security or basket of securities in exchange for the Hedge Funds' periodic payments to the swap counterparty reflecting the costs of the swap (*i.e.*, a "total return swap"). In such instance, the Hedge Funds would pay to the swap counterparty the absolute value of all negative returns earned on the notional investment represented by the swap. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Hedge Funds' portfolios. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Hedge Funds. If a swap agreement calls for payments by the Hedge Funds, the Hedge Funds must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Hedge Funds. Further, a counterparty to a swap could default on the swap and expose the Hedge Funds to additional losses.

Long-Term Investments

The Hedge Funds may pursue investment opportunities that seek to maximize asset value or create market opportunities on a long-term basis. In pursuing such long-term strategies, the Hedge Funds may forego value in the short-term or temporary investments in order to be able to avail the Hedge Funds of additional and/or longer-term opportunities in the future. Consequently, the Hedge Funds may not capture maximum available value in the short-term, which may be

disadvantageous, for example, for investors who withdraw all or a portion of their capital accounts before such long-term value may be realized by the Hedge Funds.

Short-Term Market Considerations

GEM Realty Securities' trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

Undervalued Securities

The Hedge Funds may invest in securities of companies which GEM Realty Securities believes to be undervalued. However, the identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Hedge Funds' investments may not adequately compensate for the business and financial risks assumed.

Debt Securities Generally

Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated or unrated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

Bonds or other fixed-income securities that are "higher yielding" (including non-investment-grade) debt securities are generally not exchange traded and, as a result, these securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing. In addition, the Hedge Funds may invest in bonds of issuers that do not have publicly-traded equity securities, making it more difficult to hedge the risks associated with such investments.

CMBS

The Hedge Funds' portfolios may invest in commercial mortgage-backed securities ("CMBS"). CMBS are, generally, securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, rental apartments, nursing homes, senior living centers and self-storage properties. CMBS are subject to particular risks, including lack of standardized terms, shorter maturities than residential mortgage loans and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. Because commercial mortgage loans are often structured so that all or a substantial portion of the loan principal is not amortized over the life of the loan but is instead payable at maturity, repayment of commercial mortgage loans depends significantly upon the availability of real estate financing at the time of maturity from the existing or an alternative lender and/or upon the current value and ability to sell the related real estate. Therefore, the lack of real estate financing may lead to default under a commercial mortgage loan and may adversely affect the related CMBS.

In addition, commercial property values and net operating income are subject to volatility, which may result in net operating income becoming insufficient to cover debt service on the related mortgage loan. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property is subject to various risks, including changes in general or local economic conditions and/or specific industry segments; the solvency of the related tenants; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; terrorist threats and attacks and social unrest and civil disturbances.

Property-specific issues with respect to the underlying mortgaged property, such as significant government regulation of a particular industry, reliance on franchise, management or operating agreements, transferability on purchase or foreclosure of related valuable assets such as liquor and other licenses and ease of conversion of a commercial property to an alternative use, will impact both risk of loss and loss severity with respect to the underlying mortgage loan pool and the CMBS. Additional risks may be presented by the type and use of a particular commercial property. Special risks are presented by nursing homes, hospitality properties and certain other property types.

At any one time, a portfolio of CMBS may be backed by commercial mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the commercial mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Certain of the commercial mortgage loans underlying a CMBS may bear interest at adjustable rates based on the London Interbank Offered Rate for one-month dollar deposits or

other established interest indices. Accordingly, debt service for any such commercial mortgage loan will increase as interest rates rise. In contrast, rental and other income on the related mortgaged properties is not expected to rise significantly as interest rates rise. Accordingly, debt service coverage ratios of the underlying floating rate commercial mortgage loans generally will be adversely affected by rising interest rates, and a borrower's ability to make all payments due on such floating rate commercial mortgage loans may be adversely affected.

Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related CMBS. Revenues from the assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

The exercise of remedies and successful realization of liquidation proceeds relating to CMBS may be highly dependent on the performance of the servicer or special servicer. There may be a limited number of special servicers available, particularly those that do not have conflicts of interest.

Currencies

A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by the Hedge Funds are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

Limited Formal Diversification Policies

The Hedge Funds have not adopted fixed guidelines for diversification of its investments among issuers, industries, instruments or markets and may be heavily concentrated, at any time, in a limited number of positions. In attempting to maximize the Hedge Funds' returns, GEM Realty Securities may concentrate the holdings of the Hedge Funds in those industries, companies, instruments or markets which, in the sole judgment of GEM Realty Securities, provide the best profit opportunity in view of the Hedge Funds' investment objectives. This limited diversity could expose the Hedge Funds disproportionate to market movements in general if there are disproportionately greater adverse price movements in those securities.

Nature of Portfolio Investments

It is possible that the issuers of some of the securities in which the Hedge Funds may invest may be more vulnerable than larger companies to adverse business or market developments, may have limited markets or financial resources and may lack experienced management. In addition, many small and medium size companies are not well-known to the investing public, do not have significant institutional ownership and are followed by relatively few, if any, securities analysts, with the result that there may tend to be less publicly available information concerning such companies compared to what is available for exchange-listed or larger capitalization over-the-counter securities. Finally, some securities traded in the over-the-counter market may have fewer market makers, wider spreads between their quoted bid and asked prices and lower trading volumes, resulting in comparatively greater price volatility and less liquidity than the securities of companies that have larger market capitalizations and/or that are traded on United States or foreign exchanges or the market averages in general. Thus, an investment in the Hedge Funds involves considerably more risk than investments in more liquid equity securities of companies traded on United States or foreign exchanges and the over-the-counter market.

Each Fund's confidential offering materials include a more detailed description of the relevant risks and investment strategies of each Fund. Each prospective investor in a Fund must acknowledge in writing that he or she has read and understood the Fund's confidential offering materials before an investment in the Fund by such investor is accepted by GEM.

Item 9 Disciplinary Information

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of GEM's advisory business or the integrity of GEM's management.

Item 10 Other Financial Industry Activities and Affiliations

GEM and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

GEM and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

Barry Malkin, a Principal Owner of GEM, owns, indirectly through family trusts, interests in JMB Realty Corporation ("JMB Realty") and his father and siblings also own indirectly through family trusts, interests in JMB Insurance Agency, Inc. ("JMB Insurance"). JMB Realty owns, JMB Financial Advisors, LLC ("JMB Financial"), and 900 Financial Management Services, LLC ("900 FMS") (JMB Financial and 900 FMS are collectively hereinafter referred to as the "JMB Realty Entities") and together with JMB Insurance collectively hereinafter referred to as, the "JMB Entities"). GEM does not believe that a conflict exists between GEM Realty Properties and JMB Realty because, at this time, JMB Realty does not engage in new real estate investments unrelated

to its existing assets. However, a conflict could be presumed to exist between GEM and the JMB Entities because Mr. Malkin or his father and siblings could personally benefit if the Funds' engage the services of the JMB Entities. GEM has and in the future may engage the JMB Entities to provide insurance brokerage, capital market and treasury management services to the Funds for compensation and such compensation shall be no greater than the prevailing market rates for such services. The Private Equity Funds annually report to the Investor Advisory Committee of each Private Equity Fund the total fees and other compensation paid by the Private Equity Funds to the JMB Realty Entities.

GEM does not recommend or select other investment advisers for its clients.

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

GEM strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, GEM has adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold:

- Put the interests of clients ahead of GEM's interests and its employees, and fully disclose all material conflicts of interest;
- Comply with all applicable laws and regulations;
- Abstain from trading personally in stocks and bonds of real-estate related companies in the universe of securities the Hedge Funds may invest in, as well as associated derivatives;
- Deliver or cause their brokers to deliver duplicate copies of trade confirmations and periodic account statements to the Compliance Department, and obtain pre-clearance before personally trading securities in initial public offerings or private placements; and
- Annually certify compliance with the Code and policies and procedures set forth therein
- Promptly report any suspected violations of the Code to the Chief Compliance Officer.

All employees must acknowledge their receipt of, understanding of, and agreement to adhere to the Code. Further, GEM supplements the Code with training upon hire and periodically thereafter. A copy of GEM's Code is available to current and prospective investors in the Funds upon request.

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to GEM on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. GEM, its affiliates and its employees may invest on behalf of themselves in securities and other instruments, although they are not permitted to invest in securities or other instruments that would be within a client's investment universe.

GEM, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for clients. These activities may adversely affect the prices and availability of other securities or instruments held by

or potentially considered for one or more clients. Potential conflicts also may arise due to the fact that GEM, its affiliates and its employees may have investments in some Funds but not in others or may have different levels of investments in the various Funds.

GEM has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

From time to time, but in no event when the assets of a Fund are treated as “plan assets” for purposes of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”) GEM may cause a Fund to enter into a transaction that would be considered a principal transaction subject to Section 206(3) of the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). In such circumstances, GEM will either: (i) make disclosure to and obtain the prior written consent of the affected clients or (ii) appoint an independent third-party professional services firm selected by GEM as the investor representative to confirm that a particular transaction brought to such party’s attention is effected on an arm’s-length basis prior to settling the transaction.

Please refer to Item 12 below for a description of GEM’s trade allocation policy and cross trades policy.

Item 12 Brokerage Practices

GEM Realty Securities select broker-dealers for the Hedge Funds on the basis of seeking best execution and in consideration of relevant factors, including, but not limited to, commission rates, reliability, financial responsibility, strength of the broker and the ability of the broker to efficiently execute transactions and the broker’s facilities. GEM Realty Securities need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread.

If GEM Realty Securities concludes that the commissions charged by a broker or the spreads applied by a dealer are reasonable in relation to the quality of services rendered by such broker or dealer (including, without limitation, the value of the brokerage and research products or services provided by such broker or dealer), it may cause the Hedge Funds to pay commissions to or be subject to spreads applied by such broker-dealer in an amount greater than the amount another broker-dealer might charge or apply.

In addition, brokers may provide other services that are beneficial to GEM Realty Securities, but not necessarily beneficial to the Hedge Funds, including, without limitation, capital introduction, marketing assistance, consulting with respect to technology, operations or equipment, and other services or items. Such services and items may influence GEM Realty Securities’ selection of brokers.

Any use of commissions or “soft dollars” generated by the Hedge Funds to pay for brokerage and research products or services will fall within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Where a product or service obtained with commission dollars provides both research and non-research assistance to the Hedge Funds, GEM Realty Securities will make a reasonable allocation of the cost that may be paid for with commission dollars.

The Hedge Funds have entered into a commission sharing agreement whereby the Hedge Funds pay a broker-dealer for trade execution and requests that the broker-dealer allocate a portion of excess commissions to third-party providers of research or other products or services.

Research and brokerage services obtained by the use of commissions arising from the Hedge Funds’ portfolio transactions may be used by GEM in its other investment activities and thus, the Hedge Funds may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided.

When appropriate, GEM Realty Securities may, but is not required to, aggregate orders for the Hedge Funds to achieve more efficient execution or to provide for equitable treatment among accounts. Clients participating in aggregated trades will be allocated securities based on the average price achieved for such trades or any other method deemed fair and equitable by GEM Realty Securities.

Typically only one Private Equity Fund is actively investing capital at any given time, so GEM does not need to allocate Private Equity Fund investments between multiple Funds. Also, there is generally little overlap between investments that are suitable for the Hedge Funds and investments that are suitable for Private Equity Funds, so GEM need not allocate investments between a Private Equity Fund and the Hedge Funds. If an investment was suitable for the Hedge Funds and Private Equity Funds then the Investment Committee upon consultation with the Chief Compliance Officer would determine the proper allocation of such investment among the Funds.

The Private Equity Funds do not normally invest in publicly traded securities, so GEM Realty Properties typically does not allocate trades to broker-dealers. To the extent that the Private Equity Funds do engage in transactions involving publicly traded securities, GEM will seek best execution for all such trades.

From time to time, but in no event when the assets of a Fund are treated as “plan assets” for purposes of ERISA, cross transactions may be effectuated by GEM as long as such trade is expected to result in the best price and execution for both accounts. No commissions may be charged by GEM to either Fund. In addition, the cross trades must comply with the investment objectives of each Fund and when necessary after obtaining any required advisory committee approvals.

Item 13 Review of Accounts

GEM performs various daily, weekly, monthly, quarterly and periodic reviews of each client's portfolio.

For the Hedge Funds, these reviews include analyses of performance, exposures to various industry sectors and geographic regions, and the competitive positions of current and prospective holdings. Reviews are quantitative and qualitative in nature, and may involve written research reports and models. Particularly intensive reviews may be triggered by significant political, economic, or industry developments, or by unanticipated company announcements or performance. Reviews are overseen by GEM's senior management.

For the Private Equity Funds, the scope and nature of ongoing monitoring is tailored to reflect each investment. Reviews are quantitative and qualitative in nature, and may include site visits, income and expense analyses, and evaluations of local market conditions, among other things. Particularly intensive reviews are most likely to be triggered by asset-specific developments. Reviews are overseen by GEM's Principal Owners.

In addition to the ongoing reviews described above, GEM's Investment Committee meets periodically to monitor the Funds' investments and risk exposures. The Investment Committee is comprised of GEM's Principal Owners and three other senior executives, and it reviews reports, analyses and other inputs provided by GEM's other investment professionals.

GEM distributes to Private Equity Fund investors quarterly reports which generally include a schedule of current investments, asset management summaries and unaudited financial statements. GEM distributes to Hedge Fund investors monthly portfolio summary reports and accounts statements and quarterly letters. Also, on a weekly basis performance estimates are posted to the Hedge Funds' administrator's website.

GEM will also distribute special written reports to investors in the Funds, upon specific request provided that such reporting may be delivered without unreasonable effort or expense. Investors that request and receive such information may possess information regarding the business and affairs of the Funds that may not be known to other investors.

Item 14 Client Referrals and Other Compensation

A Private Equity Fund has made an investment in an asset alongside a third party. That third party pays GEM an advisory management fee for overseeing the investment on their behalf. GEM believes there are no conflicts of interests in this arrangement as such advisory management fee is immaterial to the asset management fees paid by the Private Equity Funds and Hedge Funds to GEM. Otherwise GEM does not receive economic benefits from non-clients for providing investment advice and other advisory services.

GEM does not directly or indirectly compensate any person who is not a supervised person, including placement agents, for client referrals.

Item 15 Custody

GEM is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to the clients of the Hedge Fund and Private Equity Funds are sent by qualified custodians to GEM.

GEM is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

Item 16 Investment Discretion

GEM Realty Securities and GEM Realty Properties serve as the management companies with discretionary investment authority to each Fund.

GEM Realty Securities and GEM Realty Properties' investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents.

GEM Realty Securities and GEM Realty Properties entered into investment management agreements or similar agreements, with the Funds for which they serve as management company, pursuant to which the GEM was granted discretionary investment authority.

Item 17 Voting Client Securities

In compliance with Advisers Act Rule 206(4)-6, GEM has adopted proxy voting policies and procedures.

GEM Realty Securities has the authority and responsibility to vote proxies in the best interests of the Hedge Funds. GEM Realty Securities has retained a third party service provider to help facilitate the voting process. In general, GEM Realty Securities votes in favor of routine matters such as the election of directors and the ratification of auditors, and against proposals that restrict the rights of shareholders. Non-routine proposals are evaluated on a case-by-case basis with the goal of maximizing the value of the Hedge Funds' investments. To the extent that GEM Realty Securities identifies a material conflict of interest associated with a proxy proposal, the Chief Compliance Officer will carefully review the issue and work with the Investment Committee to determine an appropriate course of action.

The Private Equity Funds tend to not hold interests in publicly traded securities, so GEM Realty Properties rarely has the opportunity to vote proxies. To the extent that voting opportunities do

arise, the Investment Committee or a designee determines the appropriate way to vote. The Chief Compliance Officer works with the Investment Committee to evaluate and appropriately resolve any conflicts of interest that may arise.

GEM has adopted written policies and procedures governing the proxy voting process, which are available to current and prospective investors upon request. Information about the specific ways in which GEM voted proxies is also available to investors upon request. Current and prospective investors may contact GEM's Chief Compliance Officer, Jonathan Romick, at (312) 915-2900 for more information about proxy voting.

Item 18 Financial Information

GEM is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.