

## Item 1 – Cover Page

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July 5, 2018

CRD 290312

This brochure provides information about the qualifications and business practices of Hardwood Natural Resources Group, LLC (the “Adviser”). If you have any questions regarding the contents of this brochure or would like to request an additional copy of this brochure, please contact C. Glenn Wallace, the chief compliance officer for the Adviser, at (919) 929-2497 or via electronic mail at [glenn@forestlandgroup.com](mailto:glenn@forestlandgroup.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. The Adviser is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information with which you may determine to hire or retain an adviser. Additional information about the Adviser is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s website also provides information about any persons affiliated with the Adviser who are registered, or are required to be registered, as investment adviser representatives of the Adviser, if applicable.

## **Item 2 – Material Changes**

This brochure dated July 5, 2018 is the Adviser's first ADV filing. We will ensure that you receive a summary of any material changes to this and subsequent brochures within one hundred twenty (120) days of the close of our fiscal year. We may also provide other ongoing disclosure information about material changes as necessary and provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

### Item 3 -Table of Contents

Item 1 – Cover Page .....	1
Item 2 – Material Changes .....	2
Item 3 -Table of Contents .....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	5
Item 6 – Performance-Based Fees and Side-By-Side Management .....	6
Item 7 – Types of Clients.....	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	6
Item 9 – Disciplinary Information .....	13
Item 10 – Other Financial Industry Activities and Affiliations.....	13
Item 11 – Code of Ethics .....	14
Item 12 – Brokerage Practices .....	14
Item 13 – Review of Accounts .....	14
Item 14 – Client Referrals and Other Compensation .....	15
Item 15 – Custody .....	15
Item 16 – Investment Discretion.....	15
Item 17 – Voting Client Securities .....	15
Item 18 – Financial Information .....	15

*Brochure Supplement(s)*

#### Item 4 – Advisory Business

The Adviser was established on September 14, 2017. The Adviser offers the investment advisory services described below to Heartwood Natural Resources Fund Limited Partnership (the “Fund”). The Fund is the primary investment of Heartwood Natural Resources REIT, LLC, a privately offered real estate investment trust (the “REIT”). The Adviser is owned by Hardwood Resources Partners, LLC (“HRP”) and Kendall Partners, LLC (“Kendall Partners”). HRP is principally owned by the senior management team of the Adviser, including Dr. F. Christian Zinkhan, Mr. Blake H. Stansell III, Mr. Hunter R. Jenkins and Mr. Linwood C. Thornton, II. Kendall Partners is principally owned indirectly by Louis Moore Bacon.

The Adviser is generally managed through a management committee consisting of Dr. F. Christian Zinkhan, Mr. Blake H. Stansell III, Mr. Hunter R. Jenkins, and Mr. Linwood C. Thornton, II. The Adviser provides investment advice to the Fund through an Investment Committee consisting of Dr. F. Christian Zinkhan, Mr. Blake H. Stansell III, Mr. Hunter R. Jenkins, Mr. Michael A. Hinchey, Mr. Linwood C. Thornton, II, Ms. Kaarsten Turner Dalby, Dr. Alex J. Finkral, and Mr. Benjamin R. Tarbuton. As of July 5, 2018, the Adviser had no assets under management pending the initial closing of the private offering of membership interests in the REIT, which initial closing is conditioned on a minimum of \$100 million and a maximum of \$300 million of capital commitments being accepted from Class A Members in the REIT (provided up to \$350 million of capital commitments may be accepted in the event of oversubscriptions). The Adviser will manage all of the assets of the Fund as discretionary client assets. The Adviser will not manage non-discretionary assets.

While the Adviser serves as the investment adviser for the Fund, Heartwood Natural Resources GP-Manager, LLC (the “REIT Manager/General Partner”) serves as the REIT’s manager (in such capacity, the “REIT Manager”) and the Fund’s general partner (in such capacity, the “General Partner”). Subject to the supervision and control of the REIT Manager/General Partner, the Adviser shall have discretionary power to manage all assets of the Fund and shall have the following duties: identifying and evaluating investment opportunities, structuring and negotiating potential investments, making decisions with respect to the acquisition and disposition of investments by the Fund, monitoring investments post-acquisition, and providing day-to-day managerial and administrative services and other advisory services that may be required by the Fund from time to time. The REIT Manager/General Partner will manage all of the assets of the REIT.

Generally, the Fund will invest in a diversified portfolio of commercial forestlands, forestland interests and other related investments for current income and capital appreciation. The investment focus of the Fund is on direct and indirect investing in naturally regenerating hardwood and softwood forestlands located in the United States (“U.S.”) and, to a lesser extent, other North and Central American countries. Unlike previously established investment vehicles managed by affiliates of the Adviser, the Fund may invest in minority interests in any entity the principal purpose of which is to own, manage, develop or sell forestlands, provided that the Fund’s aggregate investments in such interests do not exceed 20% of capital commitments to the REIT without approval of the advisory committee of the Fund (the “Advisory Committee”). Excluding certain permitted short term investments described below, the Fund may not acquire securities that are traded on an established public securities market except in connection with a “going private” transaction.

Other than the REIT’s investment in the Fund, the only investments of the REIT itself will be in cash, cash equivalents, and U.S. government obligations (“Permitted Short Term Investments”). The Fund may also make Permitted Short Term Investments. Where relevant, an investment shall be considered a Permitted Short Term Investment only if the underlying obligation is a short-term obligation (i.e., an obligation upon which all interest and principal is due and payable in full within ninety (90) days).

As of the date of this brochure, the Fund is the only client of the Adviser. Therefore, the advisory services are tailored to the needs of the Fund and are dependent upon the circumstances facing the Fund at the time. After consultation with its legal and tax advisors and the Adviser, if the REIT Manager/General Partner determines in good faith it is in the best interests of the Class A Members to do so for legal, tax, regulatory or other reasons, the REIT Manager will be permitted to require Class A Members to make capital contributions directly to an alternative investment vehicle. In addition, side funds may be established with Advisory Committee approval to make co-investments with the Fund if such investments by the Fund would exceed the limitations on investments that could be made without Advisory Committee approval, or because there are not sufficient remaining capital commitments to fully fund certain investments. The REIT Manager/General Partner also may, in its sole discretion following consultation with its legal and tax advisors and the Adviser, form one or more additional vehicles that will own limited partnership interests in the Fund in order to accommodate needs of certain non-U.S. investors. Any such alternative investment vehicles, side funds or other vehicles may become clients of the Adviser.

For a more detailed description of the Adviser's strategies and associated risks, please see the section titled Method of Analysis, Investment Strategies and Risk of Loss.

#### **Item 5 – Fees and Compensation**

Asset management fees are paid by the Fund to the REIT Manager/General Partner and the REIT Manager/General Partner pays a portion of these fees to the Adviser as compensation for its services. These asset management fees are determined by the size of the Fund's assets. During the Fund's Investment Period (as defined below), the asset management fee is one percent (1%) per annum of the aggregate capital commitments of the Class A Members of the REIT. After the Investment Period, the asset management fee is one percent (1%) per annum of the total invested equity capital of Class A Members of the REIT. Asset management fees are reduced proportionately based on reductions after the Investment Period of acreage of forestlands owned directly or indirectly or with respect to which the Fund holds rights to harvest and remove timber and reductions of the percentage ownership interests in a forestland interest held by the Fund. Asset management fees will not be reduced upon the full or partial disposition of any other investment or Permitted Short Term Investment, and there will be no adjustments in the asset management fee for appraised value changes. The "Investment Period" is the period of time that begins on the initial closing date of the sale of Class A Membership interests in the REIT and continues until the earlier of (i) four years from the initial closing date, or (ii) one year following all capital contributions of Class A Members having been invested (but in no event less than three years from the initial closing date).

In addition to a portion of the management fee, the REIT Manager/General Partner may also receive performance based compensation (commonly referred to as a "carried interest"). Specifically, distributions by the Fund will initially be apportioned among the General Partner and the limited partners of the Fund (including the REIT) in accordance with their percentage interests. The amount apportioned to the General Partner will be distributed to the General Partner, and the amount apportioned to the limited partners will be distributed to the limited partners until the Class A Members have recovered all capital contributions plus a real (inflation-adjusted) preferred internal rate of return equal to 5% per annum (adjusted for the CPI-U) of such capital. Thereafter, the General Partner is entitled to performance based compensation whereby distributions are made 80% to the limited partners (including the REIT) and 20% to the General Partner.

The Adviser will comply with Rule 205-3 of the Investment Advisers Act of 1940 with respect to performance-based compensation. Each member of the REIT and each limited partner of the Fund must qualify as a "qualified client" (as defined in Rule 205-3) and agree to furnish certain information to the REIT and the Fund in order to ascertain such status.

In addition to the asset management and performance-based fees described above, the Fund and the REIT bear certain costs and expenses which include: (i) fees and charges, including incentive fees to non-affiliated persons and direct expenses (legal, accounting, environmental, engineering and otherwise),

in connection with the acquisition, ownership, management and disposition of investments; (ii) consulting fees and expenses; (iii) travel expenses in connection with the acquisition, ownership, operation, management, and disposition of investments; (iv) fees for overseeing the security of the forestlands; (v) all ad valorem property taxes and assessments imposed in connection with the investments, including any federal, state or local tax; (vi) fees and expenses of certified public accountants in connection with reviewing and preparing financial statements for the Fund and the REIT; (viii) charitable contributions, dues and other supporting payments to volunteer fire departments, forest product trade groups and forestry education and research groups; (ix) all legal and accounting fees; (x) costs associated with investor meetings, (xi) costs of appraisals by third-party valuation firms; (xii) costs incurred in connection with pursuing, obtaining, and maintaining Forest Stewardship Council (FSC) or similar certifications for Investments; (xiii) costs incurred in connection with the implementation of and compliance with the Adviser's responsible investment policy; (xiv) the fees and expenses of carbon developers and consultants in conjunction with the development, issuance, and verification of forest-carbon offset projects for the Fund; (xv) costs incurred in connection with forest management summit meetings and forest planning sessions; and (xvi) all other expenses incurred by the Fund and the REIT in the ordinary and necessary course of operating the business of the Fund and the REIT. These costs and expenses are in addition to the asset management and performance-based fees assessed to the Fund.

Investors should refer to the Confidential Offering Memorandum of the REIT for a further description and list of costs and expenses that the Fund and the REIT may bear.

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

As mentioned in Item 5, affiliates of the Adviser may participate in the profits of the Fund through carried interest distributions and the Adviser's personnel may benefit from any such distributions. This arrangement may create an incentive for the Adviser to recommend investments that may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also could create an incentive to favor any higher fee paying clients over other clients in the allocation of investment opportunities. During the Investment Period, investment opportunities that the REIT Manager/General Partner reasonably determines are suitable for the Fund and that are within the purpose and investment limitations of the Fund will be allocated to the Fund (for so long as there are remaining capital commitments), except for any follow-on investments for previously existing investment funds affiliated with the Adviser and/or any investments that were in process for acquisition by such a prior affiliated fund prior to the initial closing date of the sale of Class A Membership interests in the REIT. The REIT Manager/General Partner and the Adviser have designed and implemented these procedures to ensure that the REIT and the Fund are treated fairly and equally as compared to these prior affiliated funds, and to prevent these conflicts from influencing any decisions regarding allocation of investment opportunities.

#### **Item 7 – Types of Clients**

As described above, the Fund is the only client of the Adviser.

The underlying members of the REIT, while not considered clients of Adviser under the Investment Advisers Act of 1940, must reasonably demonstrate that they are "accredited investors" within the meaning of Regulation D of the Securities Act of 1933, as amended, "qualified purchasers" under Section 2(a)(51) of the Investment Company Act of 1940, and "qualified clients" under Rule 205-3 of the Investment Advisers Act of 1940.

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

Investing involves risk of loss that clients should be prepared to bear.

## Methods of Analysis and Investment Strategies

The Adviser provides investment advice to the Fund, subject to its investment limitations, in connection with the Fund acquiring for investment a diversified portfolio of commercial forestlands, forestland interests and related investments for current income and capital appreciation. The Fund may employ leverage in the Fund's acquisition of investments. The Fund will pursue the following strategies:

- The Fund's primary target will be productive natural (not planted) forests with substantial stocking of high-value standing hardwood. Natural softwood forests represent a secondary target. Softwood and hardwood plantations are a tertiary target. The Fund will concentrate on forestlands in the eastern United States.
- Natural pines and mixed natural pine-hardwood forests in the southern United States will represent the primary softwood target. If presented with superior expected return-to-risk opportunities, the Fund may invest in non-U.S. investments. The primary international targets for the Fund will be planted and natural hardwood forests in other countries in North and Central America.
- To the extent consistent with fiduciary duties of the REIT Manager/General Partner and the Adviser, the Fund will rely on the concept of sustained yield management to seek continual financial returns while safeguarding biological diversity, aesthetic quality, wildlife habitat, and soil productivity in forest ecosystems.
- Forestland interests acquired by the Fund may include interests in any entity the principal purpose of which is to own, manage, develop or sell forestlands. Excluding Permitted Short Term Investments, the Fund will not acquire securities that are traded on an established public securities market except in connection with a "going private" transaction.
- The Fund may also make mortgage loans in the U.S. for which forestland represents the underlying collateral.
- The Fund will seek, whenever possible, portfolio diversification by varying locations, forest types, age classes, product mixes and tract sizes.

## Risks

It is possible that some of the investments selected by the Adviser will not meet all of the above criteria, and that some or all of the investments selected by the Adviser will not perform as anticipated. The summary above is based upon numerous assumptions and opinions of the Adviser concerning forestlands and other matters, the accuracy of which cannot be assured. There can be no assurance that the Fund's investment strategy will achieve profitable results, and results may vary substantially over time.

The risks below are summaries of the material risks of the Fund's primary investment strategies. For more detailed information regarding the Fund's risks, refer to the Confidential Offering Memorandum of the REIT.

### *Risks in Forestland/Real Estate Ownership*

Prospective investors should be aware that all forestland and real property investments are subject to various risks. Such investments are subject to the risk of adverse change in general economic conditions and local conditions which could adversely affect the marketability and value of the investments of the Fund.

### *Management and Control*

The REIT Manager, the General Partner, the Adviser and their affiliates will manage and control all the activities of the REIT and the Fund including, without limitation, the acquisition and disposition of investments, which will result in the payment of fees to them. The Class A Members will have only extremely limited rights to take part in certain narrowly defined aspects of the management and control of the business of the REIT. The Class A Members will have only a limited right to remove the REIT Manager or the General Partner. Accordingly, no investment should be made in the REIT unless the investor is willing to entrust all aspects of administration and management of the REIT and the Fund to the REIT Manager, the General Partner, the Adviser and their affiliates.

### *Risk of Unspecified Investments*

As of the date of this brochure, the Fund has not purchased, or contracted for purchase, any investments. Investors must rely solely on the General Partner and the Adviser with respect to the selection, purchase price and economic merits of investments acquired. A substantial period of time may lapse before the capital commitments in full or in part are called upon for investments.

### *Availability of Suitable Forestlands and Forestland Interests*

The General Partner and the Adviser anticipate encountering competition in connection with the purchase of forestlands and forestland interests, primarily from forest products companies and institutional investors, many of which have greater financial, managerial and other resources than the REIT and the Fund. There can be no assurance that there will be a sufficient number of suitable forestlands and forestland interests available for acquisition by the Fund or that the forestlands and forestland interests acquired by the Fund will generate sufficient available cash to provide a competitive rate of return on invested capital. To compete for forestland interests, the Adviser may determine that it is desirable to use acquisition techniques that entail greater complexity, transaction costs and delays and a greater degree of risk than is generally experienced in the direct acquisition of forestlands.

The Adviser may be unable to obtain accurate data on the volume and quality of standing timber with respect to a forestland to be acquired by the Fund. Data on species, volumes, and quantities of timber on a particular property is collected by conducting "cruises" through the property. During these cruises, timber is sampled at specified intervals and locations. A poorly executed or designed cruise, or errors in compiling data, can result in misleading estimates of the volume and quality of the timber on a particular property. If the data obtained by the Adviser for a particular forestland proves to be inaccurate, the Fund may not be able to realize the anticipated returns from such forestland.

Also, the Fund may invest in forestlands that are intermingled with sections of federal land managed by the USDA Forest Service, or other private or public owners. In such cases, access to the forestlands might be achieved only through a road or roads built across the adjacent public or private land, and the Fund would need to obtain temporary or permanent access rights to such roads. Any difficulties in accessing the Fund's forestlands or increases in the price for such access could have a material adverse effect on the Fund.

### *Diversification of Risk*

The ability of the Fund to diversify the risks of owning and operating forestlands and forestland interests will depend upon the size, production characteristics, type and age class of each stand of timber within the forestlands, and location of the forestlands acquired. The amount of capital commitments and available cash that may be called upon by the REIT and applied at the time the Fund seeks to purchase forestlands, forestland interests and related investments will also affect its ability to diversify holdings. The Fund may not be able to acquire a sufficient number and class of forestlands and forestland interests to accomplish the desired level of diversity.



### *Non-Forestland Returns*

The Fund may attempt to supplement traditional timber harvest revenue with revenues from non-timber sources (for example, by selling carbon credits). No assurances can be made that any of the Fund's investments will be suitable for such purposes, or that the Fund will be able to find purchasers, participants or operators to generate such returns. In addition, any non-timber returns generated by granting access or rights to a third party on any forestlands of the Fund may be offset or exceeded by any losses or damages created by such third party. No assurances can be made that such third party or the Fund will have adequate insurance or resources to cover any losses or damages that might be incurred.

### *Loans*

The Fund may also make mortgage loans in the U.S. for which forestland represents the underlying collateral. It is anticipated that loan repayment will be in cash. If the borrower entity is unable to make payments to the Fund as they are due, the REIT and the Fund's financial condition could be adversely affected. In the event of a default by a borrower entity, the Fund may have the ability to foreclose on property securing the mortgage loan, but there is no assurance that the Fund would be able to sell such property for an attractive price.

### *Minority Interests*

The Fund is permitted to own minority interests in certain forestland interests. Consequently, prior to and after the acquisition of these investments, the Fund may have limited access to the management and documentary records of these forestland interests and have limited legal rights to influence the management of these forestland interests. The inability of the Fund to exercise significant influence over the operations, strategies and policies of the forestland interests in which it will have a minority interest means that decisions could be made with respect to such forestland interests that could adversely affect the Fund's results and its ability to generate cash and pay distributions. Excluding Permitted Short Term Investments, the Fund will not acquire securities that are traded on an established public securities market except in connection with a "going private" transaction.

### *Joint Ventures*

The Fund is permitted to participate in joint ventures, including, but not limited to, joint ventures involving the ownership and management of forestlands. Any joint venture involves risks including, but not limited to, the risk that one or more of the Fund's joint venture partners takes actions that are contrary to the terms agreed upon by the Fund, the instructions given by the General Partner or the Adviser or to the policies or objectives of the Fund, any one of which could cause adverse consequences for the Fund.

### *Natural Hazards*

The value of a specific forestland or forestland interest may be affected by natural hazards such as fire, lightning, insect infestation and disease, as well as destructive losses arising out of severe weather conditions and natural disasters. Typically, damage from any of such causes is localized and affects only a limited percentage of the timber

Damage to and disease in a forest may result in an acceleration of a given forest's harvesting program, thereby temporarily increasing supply, possibly at reduced prices. The Adviser believes that these natural hazards will be mitigated by proper forestry management programs and, if deemed desirable, by geographic diversification. Except under unusual circumstances, the Fund will not maintain insurance against loss to standing or cut timber on its forestlands.

### *Environmental Matters*

The activities of the Fund with respect to its forestlands, and the harvesting and processing of timber from forestlands owned by the Fund or forestlands that are the subject of forestland interests owned by the Fund, will be subject to environmental laws, regulations and administrative rulings of federal, state and possibly non-U.S. governments and governmental agencies that, among other things, impose limitations on the discharge of pollutants into the air and water and establish standards for the treatment, storage and disposal of solid and hazardous waste.

As a U.S. landowner, the Fund will be subject to the Federal Comprehensive Environmental Response, Compensation and Liability Act and comparable state laws. Under the U.S. environmental laws, past and present owners and users of real property can incur absolute liability for hazardous substance remediation and removal costs. Similar laws exist in many non-U.S. countries.

The Fund also may own forestlands that are subject to mineral interests. The Fund may permit mineral lessees to conduct mineral extraction operations within the forestlands, or such mineral interests may already be leased out or severed from the forestlands. In its capacity as owner of the forestlands, as noted above, the Fund could potentially be held responsible for liabilities resulting from such mineral extraction operations.

The Adviser anticipates that increasingly strict laws and regulations relating to the environment (including climate-related initiatives), natural resources, forestry operations and health and safety, as well as increased social concern with respect to environmental issues, will result in additional restrictions with respect to forestry activities within the forestlands which, in turn, could increase operating costs, require additional capital expenditures, reduce operating flexibility and, in general, adversely affect forestland and forestland interest values.

### *Ecological Matters*

Public concern in recent years over protection of the environment and natural resources has brought about increased regulation and control of the U.S. timber industry by federal and state governments. Among the stated objectives of environmental groups are maximizing the land protected from commercial management and protecting endangered, threatened and sensitive species of plants and animals, thereby restricting timber harvesting on public and private lands. The Adviser intends to remain proactive and forward-thinking in their approach to managing risks regarding ecological matters. For example, prior to any harvesting activity, the Adviser will seek to identify High Conservation Value Forests (as defined by the Forest Stewardship Council (FSC)) through consultation and partnerships with the environmental organizations and the natural heritage database. The Adviser will also participate in habitat mapping and camera trapping through research programs with local organizations and universities. While the Adviser hopes that this active and preemptive approach will prepare the Fund for regulatory changes and position the Fund well to mitigate the risk of surprise, there can be no assurance that future legislation, governmental or judicial decisions or activities of environmental groups in the U.S. or elsewhere will not adversely affect the Fund and its ability to harvest its forestlands.

### *Forestland Regulations*

In addition to environmental and natural resource laws, the Fund's forestland operations will be subject to specialized statutes and regulations of the various states and other jurisdictions in which its forestlands are located. For example, many U.S. states have enacted Forest Practices Acts that address many growing, harvesting and processing activities on forestlands. In general, given the Fund's emphasis on natural forest management, the Adviser expects that adherence to forestry laws and regulations will not require the expenditure of substantial incremental funds. However, compliance with these various laws and regulations could increase the Fund's operating costs and capital expenditures, reduce operating flexibility and affect forestland and forestland interest values.

### *Transportation*

The Fund's timber production activities will depend on the availability of logging contractors and providers of transportation of wood products, and may be materially affected by the cost of these service providers. Therefore, an increase in the cost of fuel could negatively impact the Fund's financial results by increasing the cost associated with logging activities and transportation services, and could also result in an overall reduction in the availability of these services. Further, a shortage of logging contractors and trucking contractors could hamper timber production, which could have a material adverse effect on the Fund's financial results.

### *Competition and Markets*

The value of forestlands, forestland interests and forest products varies from time to time by local, national and international wood product supply and demand factors and economic conditions. The forest products industry is highly competitive in terms of price and quality. For example, markets for timber and related wood products historically have been, and are likely to continue to be, characterized by periods of over-supply or under-supply, resulting in fluctuating prices.

The demand for and prices of logs and manufactured wood products depend upon international and domestic market forces, inflationary and recessionary conditions, the value of the U.S. dollar and other currencies in foreign exchange markets, competition, proximity to sawmills and processing plants, recycling efforts, and other factors. In particular, the demand for logs and various commodity wood products, including dimension lumber, studs and boards, is affected by the level of new residential construction and remodeling activity in the domestic and international markets. New construction activities, both domestic and international, are subject to changes in economic conditions, interest rates, population growth and other economic and demographic factors. The demand for high-quality hardwood logs is especially sensitive to the volume of shipments by the domestic and international furniture industries, which, in turn, has over time been closely aligned with consumer confidence levels and housing starts. The supply of wood products is affected by U.S. private and public as well as international supply, natural hazards, weather conditions, trade agreements, tariffs and other factors.

The Adviser intends to pursue FSC certification for forestlands owned by this Fund, which the Adviser believes increases the value of forestlands. However, competition could arise from different certification standards groups. If a different type of forest certification becomes a customer preference in the marketplace, there could be reduced demand and lower prices associated with FSC-certified forestlands relative to forestlands certified under a different standard. If the Fund seeks to comply with a different certification standard, it could incur materially increased costs for its operations.

Wood products are also subject to significant competition from a variety of substitute products, including non-wood and engineered wood products. To the extent that there is a significant increase in competitive pressure from substitute products, the value of forestlands and forestland interests could be adversely affected.

### *Leverage*

The REIT and the Fund may utilize material leverage which will increase exposure of the REIT to adverse economic factors such as rising interest rates, economic downturns and deterioration in markets for forestlands, timber and related wood products. In addition, there can be no assurance that refinancing debt will be available when required. Borrowings by the REIT or the Fund may be secured by the capital commitments of Class A Members and their obligations to make capital contributions pursuant thereto. Borrowings by the Fund may be secured by investments acquired by the Fund. Any inability of the REIT or the Fund to repay its borrowings could enable a lender to take action against any Class A Member with respect to its Class A Membership Interest, as well as against the REIT, the Fund and/or assets securing

the borrowings. Such actions could result in the loss of equity invested in investments and may have adverse tax consequences.

Changes in market conditions in the real estate finance market for the investments are likely to change over the term of the REIT and the Fund. Such changes, including higher interest rates and lenders' underwriting criteria, may adversely affect the ability of the REIT and the Fund to obtain financing or refinancing and may also adversely affect cash flow from investments. In addition, debt financings often involve prepayment penalties that could have an adverse impact on net realized proceeds if market or other considerations dictate the sale of investments prior to maturity of the debt financing.

Changes in the financial markets could also adversely affect the ability of potential purchasers of forestlands, forestland interests, and timber products to obtain financing to support their operations and activities, which could in turn adversely affect the ability of the Fund to sell its assets at the times and for the prices deemed desirable by the Fund.

#### *No Market For Class A Membership Interests and Limited Partner Interests*

There are restrictions on transfers of the Class A Membership Interests in the REIT, the shares that represent such Membership Interests, and the limited partner interests of the Fund. Even if all or any part of a Class A Membership Interest or limited partner interest in the Fund could be sold, one cannot predict what price the seller could obtain. Therefore, it is unlikely that a Class A Member will be able to liquidate his investment prior to the dissolution of the REIT and the Fund. There is no market for Class A Membership Interests in the REIT nor the limited partnership interests in the Fund and none is expected to develop.

#### *Risks of International Investments*

If the Fund invests in non-U.S. investments, the Fund will be subject to the risks of investing outside the United States and no assurance can be given that such factors will not adversely affect the Fund's financial performance or operations in the future or require the Fund to modify its anticipated business practices. For example, such risks would include fluctuations in exchange rates which may negatively affect the Fund's operating results; costs associated with conversion of investment principal and income from one currency into another; the possible inability to repatriate the earnings of investments outside the United States; the possible imposition of non-U.S. taxes on overseas income and gains recognized; difficulty and expense in complying with a wide variety of unfamiliar foreign laws, regulations and other factors beyond the Fund's control; unexpected changes in, or impositions of, legislative or regulatory requirements; trade barriers and restrictions; adverse consequences to the Fund's business arising from delays due to the difficulty in obtaining export and similar licenses; the challenge of managing and administering an international operation; economic, political or social instability in some international markets; the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and differences in government supervision and regulation; changes in diplomatic, trade or business relationships, which could result in the forfeiture of some foreign assets and the loss of sums invested in such assets; and other differences between U.S. and non-U.S. markets, including potential price volatility in and relative illiquidity of some non-U.S. markets. In addition, crime and corruption (including extortion and fraud) continue to be operational risks in many emerging market economies in which the Fund may make investments. In certain countries, the threat of kidnapping for senior executives can create additional costs, which will be borne by the Fund, for the provision of adequate security for company personnel. Threats or incidents of crime and corruption may force the Adviser to cease or alter certain activities or to liquidate certain investments, which may cause losses or have other negative impacts on the Fund and the REIT.

### *Canadian Aboriginal Rights*

Many of the Canadian forestlands are subject to the constitutionally protected treaty or common-law rights of aboriginal peoples of Canada. Most of British Columbia is not covered by treaties, and as a result the claims of British Columbia's aboriginal peoples relating to forestlands and forestland interests have been largely unresolved. In June 2014 the Supreme Court of Canada ruled that the Tsilhqot'in Nation holds aboriginal title to approximately 1,900 square kilometers in British Columbia. This was the first time that the court has declared title to exist based on historical occupation by aboriginal peoples. Many aboriginal groups continue to be engaged in treaty discussions with the governments of British Columbia and other provinces of Canada. Final or interim resolution of claims brought by aboriginal groups may be expected to result in additional restrictions on the sale or harvest of timber, potential increase in operating costs, and impact to timber supply and prices in Canada. Such claims may affect the Fund's total harvest of timber or production of forest products in the future.

### *Risks Associated with Permitted Short Term Investments*

The REIT and the Fund are authorized to make certain Permitted Short Term Investments. While the REIT Manager, the General Partner, and the Adviser seek to invest cash in investments that are highly unlikely to lose any of the amount invested, there can be no guarantee that any such investments will not lose part or all of the value invested. This is true even for relatively safe investments such as U.S. government securities.

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

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

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

The Forestland Group LLC ("TFG") is an affiliate of the Adviser and the REIT Manager/General Partner. The REIT is the ninth private commingled timberland investment fund organized and managed by TFG and/or its affiliates. Together with two side funds and one separate account, the eight prior commingled funds and related alternative investment vehicles managed by affiliates of TFG (collectively with the side funds and the separate account, the "Prior Affiliated Funds") have the same investment focus on naturally regenerating forestlands as the Fund. The Prior Affiliated Funds currently own directly or indirectly a total of approximately 3.0 million acres of Forestlands in 24 different states throughout the United States, and in Belize, Canada, Costa Rica and Panama. Unlike the Fund, the Prior Affiliated Funds were not authorized to make minority investments in forestland interests.

TFG, its employees and the managers and the general partners of its Prior Affiliated Funds are subject to a separate Code of Ethics similar to the Adviser's Code of Ethics described below. Neither the Adviser nor any of its affiliates or personnel are registered, nor have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, or as a futures commission merchant, commodity pool operator, commodity trading advisor, or associated person thereof.

In furtherance of the Fund's investment strategy, persons affiliated with the Adviser may serve as directors and officers of certain portfolio companies in which the Fund invests. In that capacity, such persons may be required to make decisions that consider the best interests of the portfolio company over the interests of the Fund. Persons affiliated with the Adviser may also have certain conflicts of interest in connection with the allocation of investment opportunities. See Item 6.

### **Item 11 – Code of Ethics**

The Adviser has adopted a code of ethics and professional standards and guidelines designed to detect and prevent prohibited acts and mitigate potential conflicts of interest between the Adviser or its personnel or affiliates and any investor in the REIT or the Fund. The Adviser has adopted procedures reasonably necessary to prevent its access persons from violating its Code of Ethics (the “Code”). The REIT Manager/General Partner is under common control and will be subject to the Adviser’s Code and compliance programs adopted pursuant to the requirements of the Investment Advisers Act of 1940, as amended.

Violations of the Code by an access person may result in various sanctions, including possible termination. However, investors should be aware that no set of rules or procedures could possibly anticipate or relieve all potential conflicts. The Adviser will provide a copy of the Code to any investor in the REIT or the Fund upon written request.

### **Item 12 – Brokerage Practices**

Subject to the limitations and restrictions set forth in the Confidential Offering Memorandum of the REIT, the Adviser has authority to determine, without obtaining the consent of a client, any investment to be bought and sold, any broker or dealer used, and commissions to be paid to a broker or dealer.

The Fund may not acquire securities that are traded on an established public securities market except in connection with a “going private” transaction and certain temporary investments in Permitted Short Term Investments. If the Fund ever trades public securities, the Adviser will seek to obtain best execution for these transactions. The Adviser will routinely review the accounts of the REIT and the Fund and the underlying investments. Additionally, on a quarterly basis, management estimates the value of the Fund’s assets, calculated in accordance with its valuation policy. Further, mark-to-market value of the forestlands and forestland interests are established by an independent third-party appraiser at acquisition and upon each three-year reappraisal cycle. All valuations are reviewed and approved by the Adviser’s Investment Committee.

The Adviser does not utilize research, research-related products and other brokerage services on a soft dollar commission basis, nor does the Adviser receive referrals from broker-dealers with respect to its advisory business.

### **Item 13 – Review of Accounts**

The Adviser routinely reviews the investments of the Fund no less frequently than quarterly and the related forest management plans for each underlying property no less frequently than annually. The reviews of investments are conducted by the Adviser’s Investment Committee and consist of reviews of current valuations and performance. The reviews of forest management plans are conducted by the Adviser’s management committee and consist of the review of forest growth, harvesting, and other related data with respect to the Fund’s properties.

Class A Members of the REIT will be provided with annual audited reports (within 120 days of the end of the fiscal year) and quarterly unaudited reports of the REIT (within 45 days of the end of each quarter). Reports will be provided via an online document portal with hard copies delivered upon request. Each report includes the comments of the REIT Manager/General Partner and the Adviser regarding market or investment developments relating to the Fund’s investments that the REIT Manager/General Partner and the Adviser consider most significant. The REIT Manager/General Partner and the Adviser will make an effort to provide to Class A Members of the REIT any Fund-related tax information necessary for the preparation of such Class A Members’ income tax returns in conjunction with delivery of annual audited financial statements. The aforementioned reports will be provided to Class B Members of the REIT upon request.

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

Neither the Adviser nor its affiliates and personnel receive any economic benefit from any outside parties for providing investment advice to the Fund.

The REIT Manager/General Partner, the Adviser or an affiliate may, from time to time, enter into arrangements in which third parties will assist in the capital raising efforts of the REIT and Fund in exchange for a fee (such person, a “placement agent”). The fee paid to a placement agent may be calculated as a percentage of funds raised by the placement agent, as specifically negotiated with the placement agent and memorialized in a written agreement. These types of arrangements and any similar arrangements are disclosed in the Confidential Offering Memorandum of the REIT.

#### **Item 15 – Custody**

The Adviser serves as the investment adviser to the Fund. Under the SEC’s custody rule applicable to investment advisers, the Adviser is deemed to have custody of the assets belonging to the REIT and the Fund. To comply with the SEC’s custody rule, the Adviser will engage an independent public accountant to perform an annual audit for the REIT and the Fund, and to distribute the resulting audited financial statements, to all investors of the REIT and the Fund within 120 days of the end of each fiscal year. Additionally, the Adviser manages cash deposits for the Fund through a segregated account held on deposit at a registered and regulated commercial bank.

Clients are urged to compare the information received from the Adviser with information provided by independent third parties such as the independent auditor providing the same or similar information.

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

Subject to the supervision and control of the REIT Manager/General Partner, the Adviser has discretionary authority from the Fund to select the identity and amount of investments to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives, guidelines and restrictions set forth in the Confidential Offering Memorandum of the REIT.

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

Given the nature of the investments made on behalf of the Fund, the Adviser does not vote proxies on behalf of investors. The investments of the REIT and the Fund typically have no proxies.

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

A registered investment adviser is required to provide you with certain financial information or disclosures about its financial condition. The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.