

Prospect Ridge Advisors, LLC

Part 2A of Form ADV

The Brochure

888 7th Avenue, 30th Floor
New York, NY 10019

January 2, 2019

This brochure provides information about the qualifications and business practices of Prospect Ridge Advisors, LLC (“Prospect Ridge” or the “Adviser”). If you have any questions about the contents of this brochure, please contact us at (212) 655-7100. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority, and references in this Brochure to the Adviser as a “registered investment adviser” are not intended to imply a certain level of skill or training.

Additional information about Prospect Ridge is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Item 2: Material Changes

As this is Prospect Ridge’s initial Form ADV filing, there are no material changes to report. In the future, this item will indicate any material changes from prior versions of Prospect Ridge’s Part 2A filing.

Item 3: Table of Contents

Item 2: Material Changes	2
Item 3: Table of Contents	2
Item 4: Advisory Business.....	2
Item 5: Fees and Compensation	4
Item 6: Performance Based Fees and Side-by-Side Management.....	7
Item 7: Types of Clients	8
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss.....	8
Item 9: Disciplinary Information.....	23
Item 10: Other Financial Industry Activities and Affiliations.....	23
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading....	25
Item 12: Brokerage Practices.....	26
Item 13: Review of Accounts	29
Item 14: Client Referrals and Other Compensation	29
Item 15: Custody	29
Item 16: Investment Discretion	29
Item 17: Voting Client Securities	30
Item 18: Financial Information.....	30

Item 4: Advisory Business

Prospect Ridge, a Delaware limited liability company, was formed in 2018 to provide discretionary and non-discretionary investment advisory services to pooled investment vehicles organized as private real estate funds (each a “Fund” and together, the “Funds”) and certain separate accounts investing in real estate debt (together with the Funds, the “Clients”). Prospect Ridge was started by personnel that formerly comprised the equity real estate group of AllianceBernstein L.P. (“AB”), who have since established themselves as an independent company and registered investment adviser.

Prospect Ridge is primarily owned by its Co-Chief Investment Officers (“Co-CIOs”), Brahm Cramer and Jay Nydick, through various holding company entities. AB has a non-voting membership in Prospect Ridge pursuant to which AB shall be entitled to receive a portion of the proceeds of any direct or indirect sale in excess of certain thresholds within a specific period of time. AB has no management or control rights with respect to Prospect Ridge. Prospect Ridge’s on-going relationship with AB and its affiliates is described in more detail below under *Item 10: Other Financial Industry Activities and Affiliations* and *Item 14: Client Referrals and Other Compensation*.

Prospect Ridge specializes in providing advice regarding opportunistic equity real estate investments and commercial debt lending, although the Clients' applicable confidential offering and/or private placement memorandum, limited liability company agreements, individual limited partnership agreements, investment management agreements, and other governing documents for each such Client (the "Governing Documents") generally permit Prospect Ridge to invest in a wide array of other assets, including securities that are related to real estate and hedging instruments, such as interest rate caps or swaps.

Prospect Ridge serves as the investment adviser or subadviser to a number of pooled investment vehicles investing in real estate equity, including the following as well as any parallel or other vehicles established alongside such Funds and together comprising the "Equity Funds":

- AllianceBernstein Real Estate Partners I L.P. which, along with its parallel funds comprises "Equity Fund I," for which Prospect Ridge serves as subadviser pursuant to an agreement with AB;
- AllianceBernstein Real Estate Partners II L.P. which, along with its parallel funds, comprises "Equity Fund II," for which Prospect Ridge serves as subadviser pursuant to an agreement with AB;
- AB US REP GW Co-Invest II L.P. ("GW Co-Invest"), a co-investment vehicle for which Prospect Ridge serves as subadviser in a non-discretionary capacity; and
- AB ADM Syndicate Joint Venture LP ("ADM Syndicate JV"), a joint venture vehicle for which Prospect Ridge serves as subadviser in a non-discretionary capacity.

Prospect Ridge also provides certain non-discretionary advisory services (as summarized below) to certain vehicles managed by the AB commercial real estate lending platform ("ABCRED"). Prospect Ridge serves as subadviser to the following ABCRED funds, along with any successor debt funds established by ABCRED (together, the "Debt Funds" and together with the Equity Funds the "Funds"):

- AB Institutional Series B – AB Commercial Real Estate Debt Series Fund I-B
- AB Institutional Series B – AB Commercial Real Estate Debt Series Fund II-B
- AB Institutional Series B – AB Commercial Real Estate Debt Series Fund III-B
- AB Commercial Real Estate Debt Fund, SICAV-SIF S.C.Sp.
- AB Commercial Real Estate Debt Fund III, SICAV-SIF S.C.Sp.
- AB Commercial Real Estate Debt Secondary Market Fund III, SICAV-SIF S.C.Sp.

Prospect Ridge also provides certain non-discretionary advisory services (as summarized below) to one separately managed account established by ABCRED (the "Debt SMA" and, together with the Debt Funds, the "Debt Clients.")

In providing services to Equity Funds I and II, Prospect Ridge formulates Equity Fund I and II's investment strategies, directs and manages the investment of such Equity Fund's assets, and provides reports to investors. With respect to the Debt Clients, Prospect Ridge's principals participate in the Debt Clients' investment committee; analyze investment opportunities for the Debt Clients; assist in monitoring, evaluating, and making investment recommendations regarding investments; and provide other related services for the Debt Clients as requested by AB.

Prospect Ridge has established, and may in the future establish, certain partnerships, such as co-investment vehicles, that are designed to invest in one or more specific investments alongside the Funds. Typically, an investment is identified as a co-investment opportunity as a result of investment limitations, potential lack of available capital, or fund objectives such as diversification requirements, that would limit the amount the relevant Fund would otherwise invest in such investment opportunity as determined in good faith by Prospect Ridge in its sole discretion. In such cases, Prospect Ridge may offer one or more persons (including, but not limited to, Investors (as defined below) in the relevant Fund or consultants) the opportunity to participate in such co-investment vehicles. Typically, the opportunity to participate will be offered to any Investors who negotiated for such rights.

Prospect Ridge will determine the person(s) to whom it offers any such opportunity, and the relative amounts offered to each such person, taking into account such factors as Prospect Ridge determines appropriate based on the relevant facts and circumstances, which may include one or more of the following: (i) the ability of an investor to commit to invest in a short period of time, in light of the timing constraints applicable to such investment; (ii) the ability of an investor to commit to a significant portion of such opportunity; (iii) whether an investor provides strategic value in respect of such investment, such as by having relevant experience in the sector or existing relationships with management or other relevant parties; (iv) the size of an investor's commitment to the Fund; (v) whether and to what extent an investor has accepted prior co-investment opportunities offered to it; or (vi) such other factors as Prospect Ridge deems relevant, which may include subjective determinations such as working relationships and strategic benefits to Prospect Ridge or to the Funds. In all cases, allocation of co-investment opportunities will be subject to the provisions of the Governing Documents.

Investment advice is provided directly to the Debt SMA and the Funds but not individually to the limited partners or shareholders of the Funds (the "Investors" or "Limited Partners"). Prospect Ridge manages the assets of the Clients in accordance with the terms of each Client's Governing Documents.

As of the date of filing of the Form ADV, Prospect Ridge managed approximately \$1,531,000,000 million on a discretionary basis and \$505,000,000 on a non-discretionary basis. Based on the instructions to the Form ADV, Prospect Ridge does not include the assets of the Debt Clients in its regulatory assets under management ("RAUM").

Item 5: Fees and Compensation

General

Prospect Ridge typically receives compensation from fees based on capital commitments and/or invested capital, carried interest allocations, and certain other fees or expenses as described further below. Each Client pays fees and expenses in a specific manner pursuant to its Governing Documents and Clients and Investors are required to review the Governing Documents to understand all fees and expenses paid as the descriptions below provide only summary information about such fees and expenses and are qualified in their entirety by the Governing Documents.

Management Fees

An affiliate of AB receives the management fee paid by Investors in Equity Funds I and II and AB or an affiliate will pay Prospect Ridge or an affiliate of Prospect Ridge 100% of the management fees earned by such Funds. During the commitment period and prior to the accrual of a management fee for a Competing Fund (which is generally a successor fund in the same strategy, but is further described in the Governing Documents), management fees paid by Investors in Equity Funds I and II range from 0% to 1% per year based on an Investor's capital commitment and 0.5% to 2.10% per year based on invested capital. Subsequent to the earlier of the applicable commitment period expiring or the accrual of a management fee for a Competing Fund, management fees for Equity Funds I and II range from 1.5%-2.10% per year based on invested capital.

The management fees paid by the Debt Clients are documented in the Governing Documents for each such Debt Client. With respect to the services provided by Prospect Ridge and its principals to the Debt Clients, Prospect Ridge will receive a portion of the management fees paid to AB or an affiliate of AB by the Debt Clients.

Management fees for the Funds, to the extent applicable, are typically paid quarterly in arrears, and will either be paid from the respective Fund's cash flow or by calling capital from Investors. Management fees for the Debt SMA are paid pursuant to the arrangements such client has made with AB. For any periods that are less than a full quarter, the management fees for such quarter will be prorated.

Investors in the GW Co-Invest and the ADM Syndicate JV do not pay management fees.

Carried Interest Allocations

A portion of the distributable proceeds of Equity Funds I and II will be allocated as "carried interest," generally to the capital account of the general partner or managing member for each such Fund. An affiliate of AB will receive any carried interest allocation for Equity Funds I and II, but certain Prospect Ridge personnel are entitled to receive a portion of such allocation and will receive any corresponding payments or allocations due them from AB. The manner of calculation of carried interest for each Fund is disclosed in the Governing Documents, and varies by Fund. Generally, however, 20% of the investment profits, subject to a catch up, of the Funds are allocated as carried interest to such Fund's general partner or managing member after the Fund achieves a preferred return that is generally 9%. Incentive distributions to Prospect Ridge or its personnel or affiliates are at times subject to claw back provisions which include the return of any incentive-based distributions received by Prospect Ridge for re-distribution to Investors.

An affiliate of AB will earn carried interest from the ADM Syndicate JV of 7.5% of the investment profits, subject to a catch up, after Investors have received a 9% preferred return. Certain personnel of Prospect Ridge are entitled to receive a portion of the carried interest earned from ADM Syndicate JV and will receive such portion from AB or its affiliate.

An affiliate of AB will earn carried interest from the GW Co-Invest of 10% of the investment profits, subject to a catch up, after Investors have received a 9% preferred return. Certain

personnel of Prospect Ridge are entitled to receive a portion of the carried interest earned from the GW Co-Invest and will receive such portion from AB or its affiliate.

Other Fees

While the Governing Documents for Equity Funds I and II permit AB or an affiliate of AB to earn transaction or other similar fees in connection with investments or unconsummated transactions (“Other Fees”), AB (or its affiliate) and Prospect Ridge do not currently earn Other Fees. To the extent AB (or its affiliate) or Prospect Ridge does earn Other Fees, such Other Fees will be offset against the management fees in the manner described in the Governing Documents.

Joint Venture Partner Promote

Prospect Ridge typically invests the assets of the Equity Funds alongside other entities that specialize in particular real estate investments through a joint venture structure. Such entities are managed by unaffiliated third party managers (“JV Partners”), and the JV Partners receive management fees, performance-based profit sharing, and/or other compensation for their services that is paid by the property (and indirectly by the Funds). If applicable, performance-based profit sharing will only be paid to the JV Partner after realizing certain performance return thresholds.

Operating Expenses

The Funds will pay all expenses related to the operations of the Funds including, but not limited to, Organizational Expenses (as defined below), fees, costs and expenses directly related to identifying, investigating, purchasing, disposing of, financing, hedging, developing, insuring, negotiating and structuring investments, including costs of advisers, costs in connection with transactions not consummated and travel expenses, costs of appraisal services (including obtaining an independent valuation of investments or other assets), accountants and legal counsel, any brokerage commissions and custodial expenses, any insurance, indemnity or litigation expense, any taxes, fees or other governmental charges levied against the Funds, out-of-pocket expenses incurred in connection with the Funds’ legal and regulatory compliance, principal, interest on and fees and expenses arising out of all borrowings made by the Fund, expenses associated with portfolio and risk management including currency hedging, expenses of liquidating the Funds, expenses incurred in connection with any tax audit or investigation of the Funds, expenses associated with the Funds’ administrative and reporting costs including licensing fees for portal software, travel and accommodation expenses related to quarterly asset management meetings, the Funds’ annual meeting expenses, and expenses of the Limited Partner Advisory Committee (including any expenses relating to non-voting observers), financial statements and tax returns (including the cost of a third-party administrator that provides accounting and administrative services to the Funds), and the compensation and any costs, fees and expenses allocated to employees and controlled affiliates of the general partner related to performing information technology, legal and accounting services for the Funds and any parallel vehicle (at rates no higher than the general partner determines in good faith could be obtained on an arm’s-length basis). Out-of-pocket expenses associated with completed transactions will generally be reimbursed by the issuer of the investment or capitalized as part of the acquisition price thereof.

In connection with certain investments, the Funds will, at the general partner’s discretion, engage in hedging transactions designed to reduce the Funds’ exposure to interest rate and currency

fluctuations, tenant credit deterioration and/or declines in the public market price of such investment or other related risks. Any amounts paid by the Funds for or resulting from such hedging transactions will be considered an expense of the Fund relating to such investment. Additional details regarding brokerage selection can be found below under *Item 12: Brokerage Practices*.

Any expenses shared by more than one Fund will generally be allocated pro-rata based on each Fund's capital unless unusual circumstances apply, and expenses that are attributable to Prospect Ridge and one or more Funds will be allocated in a manner that is demonstrably fair and that is consistent with disclosures to all affected Funds.

Prospect Ridge and its affiliates will pay all of its respective ordinary administrative and overhead expenses in managing Fund investments, including compensation of officers and employees and general office overhead unless otherwise disclosed as an expense of the Funds.

Expenses attributable to the Debt SMA will typically be borne by Prospect Ridge unless otherwise established in the Governing Documents.

Organizational Expenses

Each Fund will bear all reasonable legal and other organizational and offering expenses incurred in the formation of each Fund and related entities (the "Organizational Expenses"). The Organizational Expenses will include travel and accommodation expenses, legal, accounting, filing and other organizational and offering expenses (including out-of-pocket expenses of any placement agent) incurred in the formation of the Fund and any parallel vehicles. Certain Funds limit the amount of Organizational Expenses payable by each respective Fund, as described in the respective Governing Documents.

Side Letters

Prospect Ridge or the Funds' general partners have and will continue to enter into side letter agreements or other similar agreements with one or more Investors in respect of their Fund investments that provide such Investors with terms different from (and, at times, preferential to) those set forth in the applicable Governing Documents. These differing terms may include, but are not limited to, the following: most favored nation status, immediate notification of certain material events, reduced fees, tax-related structuring and exclusions, co-investment rights, Limited Partner Advisory Committee representation, and more frequent reporting.

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

Subject to a claw back provision, Prospect Ridge, an affiliate of Prospect Ridge, or certain Prospect Ridge employees are eligible to receive performance-based compensation from Investors upon the distribution of investment proceeds as described in *Item 5: Fees and Compensation* above. Certain Clients, such as the Debt Clients, do not pay a performance-based fee, which could create a conflict of interest in that Prospect Ridge may have an incentive to favor accounts that pay a performance-based fee over those that do not pay a performance-based fee. Prospect Ridge has established procedures designed to ensure it is making investment decisions in the best interest of each Client, regardless of the existence of or the manner of payment of any performance-based compensation. The investment decision-making process, including the

composition of the respective Investment Committees, is described in more detail under *Item 8: Methods of Analysis, Investment Strategies and Risk of Loss*.

It should be noted that the receipt of performance-based compensation may give rise to a potential conflict of interest in that it may create an incentive to make investments that are riskier or more speculative than those that would be made in the absence of a performance-based fee. Investors are provided with clear disclosure in Governing Documents as to how the performance-based compensation is calculated and paid, to the extent applicable. Additionally, the structure of the performance-based compensation received by Prospect Ridge or its affiliate and/or employees is intended to create an alignment of interest between the Investors and Prospect Ridge and its investment professionals with respect to the management of Fund investments.

Item 7: Types of Clients

Prospect Ridge provides investment advisory services to its Clients, as described above in *Item 4: Advisory Business*. The Debt SMA Client and Investors in the Funds include, but are not limited to, high net worth individuals, employees, trusts, foundations, pension plans (corporate and government), endowments, pooled investment vehicles, insurance companies, foreign investors including government-sponsored entities, and corporate or business entities.

The Funds will offer interests only to certain Investors who meet qualification requirements under applicable securities laws. Details concerning applicable Investor suitability criteria are set forth in the respective Governing Documents and subscription materials, which are furnished to each Investor. Admission to the Funds is not open to the general public.

The minimum capital commitment of an Investor in each Fund is typically \$500,000, although lesser commitment amounts may be accepted in the discretion of Prospect Ridge or the general partner of a Fund.

Currently, Prospect Ridge sub-advises one Debt SMA Client that was established and is managed by ABCRED. While Prospect Ridge may sub-advise other Debt SMA Clients in the future, such accounts typically would be established by ABCRED according to its minimum account requirements.

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

Real Estate Equity Investments

Prospect Ridge's process for investing in real estate equity incorporates the following values:

- Prioritizing investments with deep value characteristics, attributes of downside risk reduction, and asymmetric risk/reward profiles;
- Seeking attractive risk-adjusted returns through resolution of distress or illiquidity;
- Seeking control-oriented positions throughout the capital stack: debt or equity;

- Creating a diversified portfolio across geography, sector, investment vintage, deal size, operating partner and counterparty concentration;
- Prudently using leverage;
- Fundamentally focusing on real estate underwriting;
- Emphasizing creating value throughout the lifecycle of an asset through proactive asset management; and
- Aligning interests between investors and managers.

Prospect Ridge's real estate equity investment strategy generally involves a focus on opportunistic investments that exhibit the following themes: (1) exploiting pockets of illiquidity; (2) value-add repositioning; and (3) micro-markets where Prospect Ridge's investment professionals believe assets have been mispriced.

Prospect Ridge typically seeks out proprietary deal flow and engages in detailed underwriting before acquisition. During the period that Prospect Ridge holds an investment, Prospect Ridge engages in hands-on and proactive management of the underlying assets. Additionally, Prospect Ridge usually identifies multiple exit strategies for a given investment and conducts rigorous and regular evaluation of the alternatives for holding an investment versus a sale of the investment.

Investment decisions for the Equity Funds are made by an Investment Committee that includes Prospect Ridge personnel as well three investment professionals from AB, and decisions are made with the approval of a supermajority of members of the Investment Committee, including the two Co-CIOs.

Real Estate Debt Investments

ABCRED originates and purchases senior whole loans secured by transitional commercial real estate assets in the United States.

Three of Prospect Ridge's investment professionals serve on the Investment Committee for the Debt Clients alongside AB personnel. While Prospect Ridge does not generally assist in proactively sourcing debt investments (although it may provide referrals upon occasion), Prospect Ridge personnel, along with other members of the ABCRED team, participate in ABCRED deal screening meetings on a weekly basis and assist in monitoring, evaluating, and making investment recommendations regarding investments for the Debt Clients.

Associated Risks

All investing involves a risk of loss and the investment strategy offered by Prospect Ridge could lose money over short or even long periods. An investment in the Funds or a Debt SMA should be deemed to be a speculative investment and is not intended as a complete investment program. It is designed for sophisticated investors who fully understand and are capable of bearing the risk of an investment in the Funds or a Debt SMA. No guarantee or representation is made that a Fund or

Debt SMA will achieve its investment objective or that Clients or Investors will receive a return of their capital.

The descriptions contained below are a brief overview of the material risks related to Prospect Ridge's significant investment strategies; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that will arise in connection with the management and operations of the Funds and Debt SMA. All Investors should review the risks listed in the Governing Documents prior to investing.

Economic Conditions

The real estate industry generally, and the success of the investment activities managed by Prospect Ridge in particular, will both be affected by general economic and market conditions, as well as by changes in applicable laws, currency exchange controls, and regional, national and international political and socioeconomic circumstances, some of which may also magnify the risks disclosed here and in the Governing Documents. These factors may, for example, affect the level and volatility of investment prices and the liquidity of Clients' investments, which could impair profitability or result in losses. In addition, general fluctuations in market prices of securities and interest rates may adversely affect the available investment opportunities and/or the value of and risks inherent in the investments made on behalf of Clients.

Prospect Ridge's financial condition may be adversely affected by a significant economic downturn and it may be subject to legal, regulatory, reputational and other unforeseen risks that could have a material adverse effect on Prospect Ridge's business and operations and could thereby impact its Clients' investments. A sustained downturn in the United States or global economy (or any particular segment thereof) could impede the ability of the Clients' portfolio entities to perform under or refinance their existing obligations, and impair Prospect Ridge's Clients' ability to effectively exit investments on favorable terms. Any of the foregoing events could result in substantial or total losses to the Clients in respect of certain investments, which losses will likely be exacerbated by the presence of leverage in an investment's capital structure.

Availability of Suitable Investments

Prospect Ridge will continue to select certain investments that it will make on behalf of those Clients who are still actively investing. The Debt SMA and Investors in the Equity Funds and Debt Funds will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding the investments to be made and, accordingly, will be dependent upon the judgment and ability of Prospect Ridge (and, with respect to the Debt Clients, AB) in investing and managing the capital of each Client. The activity of identifying, completing and realizing attractive investments has, from time to time, been highly competitive, and involves a high degree of uncertainty. The Clients may incur significant expenses in connection with the identification of investment opportunities and the investigation of other potential investments that are ultimately not consummated, including expenses relating to due diligence, travel and legal, accounting and other professional services as well as the fees of other third-party advisers. The Clients will be competing for investments with many other real estate investment vehicles, as well as individuals, publicly traded real estate investment trusts ("REITs"), financial institutions (such as mortgage banks, pension funds and real estate operating companies), hedge funds and other

institutional investors. Further, over the past several years, many real estate funds and publicly traded vehicles have been formed and others have consolidated (resulting in larger funds and vehicles). Additional funds and vehicles with similar investment objectives may be formed in the future by other unrelated parties and further consolidation may occur. These organizations and individuals may be able to accept more risk than the Clients can prudently accept and may invest in promising opportunities before the Clients are able to do so, or, their competitive offers to invest may drive up prices of prospective investments thereby lowering potential returns. There can be no assurance that investments of the type in which the Clients may invest will continue to be available for the Clients' investment activities, or that available investments will meet the Clients' investment criteria. As a result, there is no assurance that sufficient suitable investment opportunities will be identified, and the performance of the Clients may be adversely affected if Prospect Ridge is unable to identify or consummate an appropriate volume of investment opportunities on behalf of the Clients. Further, to the extent suitable investments are available, there can be no assurance that if such investments are made, the objective of the Clients will be achieved. Certain markets in which the Clients may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns.

Lack of Operating History

Although the investment professionals of Prospect Ridge have extensive real estate investment experience generally, Prospect Ridge has recently commenced operations and therefore has no operating history upon which prospective Clients or Investors may evaluate its performance.

Illiquid and Long-Term Investments

Prospect Ridge intends to invest in real estate properties and real estate businesses for which the number of potential purchasers and sellers, if any, may be very limited. This factor may have the effect of limiting the availability of these obligations for purchase by the Clients, and may also limit the ability of the Clients to sell such obligations at their fair market value prior to termination of the Fund or Client account or in response to changes in the economy or financial and real estate markets. Illiquidity may also result from legal or contractual restrictions on the resale of such obligations and other investments. Investment with Prospect Ridge is suitable only for certain sophisticated investors who have no need for liquidity in this investment, as an investment with Prospect Ridge requires a long-term commitment, with no certainty of return. Although investments by the Clients may generate current income, the return of capital and realization of gains, if any, from an investment will generally occur only upon the partial or complete disposition or refinancing of such investment. Clients and Investors should thus expect that they will not receive a return of capital for an extended period of time even if the investments made by Prospect Ridge on behalf of the Clients prove successful.

In particular, the Clients' investments in commercial real estate properties will be relatively illiquid in that there may not be ready buyers available and willing to pay fair value at the time a given Client desires to sell. Over the longer term, if the Clients were required to liquidate parts of their property portfolio for any reason, including in response to changes in economic or real estate market conditions, the Clients may not be able to sell any portion of their portfolio on favorable terms or at all.

Diversification

The Clients' focus on the real estate sector may increase the volatility of Client returns and expose the Clients to the risk of downturns in the real estate sector to a greater extent than if their portfolio also covered other sectors of the economy. In addition, although Prospect Ridge intends to have certain diversification limitations for Client accounts, to the extent that Prospect Ridge concentrates the Clients' investments in a particular geographic region, type of investment or market, the Clients' portfolios may become more susceptible to fluctuations in value resulting from adverse economic or business conditions, changes in governmental rules and fiscal policies, natural disasters, environmental disasters or acts of terrorism, and other factors affecting that particular region or market. A concentration of property types held by the Clients, or assets held by the Clients that are secured by a concentration of property types, can increase the risk that a decline in a particular industry or business would have a disproportionately large impact on the Clients' investment performance. For example, if there is a decline in tourism, the hotel industry might be adversely affected, leading to increased losses on hospitality properties and loans secured by hospitality properties as compared to other property types.

Hedging Policies / Risks

In connection with certain investments, on behalf of its Clients, Prospect Ridge may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices, and currency exchange rates. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks and it is generally impossible to fully hedge an investment given the uncertainty as to the amount and timing of estimated cash flows and investment returns, if any, on the investment. Thus, while the Clients may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, or currency exchange rates may result in a poorer overall performance for the Clients than if Prospect Ridge had not entered into such hedging transactions on their behalf. Conversely, at times Prospect Ridge may believe that it is not advisable to enter into hedging transactions and instead elect to remain unhedged against particular types of risks that in other cases Prospect Ridge hedged against on behalf of certain Clients; accordingly, the Clients may be exposed to fluctuations in interest rates or currencies and other market conditions specific to the underlying asset.

Contingent Liabilities on Disposition of Investments

In connection with the disposition of an investment held by a Client, Prospect Ridge may be required to make representations about such investment. Prospect Ridge or the Clients also may be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities for which Prospect Ridge or the Funds' General Partners may establish reserves or escrow accounts. In that regard, Investors may be required to return amounts distributed to them to fund obligations of the Funds, including indemnity obligations, subject to certain limitations set forth in the Funds' Governing Documents. Furthermore, under the Delaware Revised Uniform Limited Partnership Act, each Investor that receives a distribution in violation of such Act will, under certain circumstances, be obligated to re-contribute such distribution to the Funds.

Risks of Real Estate Investments Generally

Prospect Ridge will primarily invest in real estate properties and real estate businesses on behalf of its Clients. Deterioration of U.S. real estate fundamentals could negatively impact the performance of the Clients. Furthermore, because real estate, like many other long-term investments, historically has experienced significant fluctuation and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of the investments. The cash flow and value of the investments will depend on many factors beyond the control of Prospect Ridge including: changes in general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy and room rates for hotel properties, the financial resources of tenants, changes in the availability of debt financing which may render the sale or refinancing of properties difficult or impracticable, increases in property taxes and operating expenses, changes in environmental, building and zoning laws, casualty or condemnation losses, regulatory limitations on rents, changes in neighborhood values, changes in the appeal of properties to tenants, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, increase in interest rates and the availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, acts of God, terrorist attacks, war and other factors. The value of companies which service the real estate sector may also be affected by such risks.

Acquisitions of Real Estate-Related Businesses

On behalf of its Clients, Prospect Ridge may acquire real estate companies or other portfolio investments in order to acquire the underlying real property held by such companies. The Clients may effect such acquisitions through corporate transactions in which the Clients assume substantially all of the liabilities of the acquired company. Such liabilities may be unknown and could include potential environmental liabilities, tax liabilities, liabilities associated with employee claims, liabilities associated with claims by tenants, vendors, and other persons relating to the former owners of the properties, liabilities relating to state of title, physical condition, or compliance with zoning laws, building codes or other legal requirements, liabilities incurred in the ordinary course of business, and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties. As a result, if liability were asserted against the Clients based upon such properties, the Clients might have to pay substantial sums to dispute or remedy the matter, which could adversely affect the Clients' cash flow and returns.

Investments in Land / New Development

On behalf of its Clients, Prospect Ridge may acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing. To the extent that the Clients invest in such assets, the investment will be subject to the risks normally associated with such assets and development activities. Such risks include, without limitation, risks relating to the availability and timely receipt of entitlement zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of Prospect Ridge, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms, development costs incurred for projects that are not pursued to completion or negative publicity due to investments in

gentrifying neighborhoods. 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 Clients. Properties under development or properties acquired for development may receive little or no cash flow while costs and expenses continue to be incurred from the date of acquisition through the date of completion of development, and properties may 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. The Clients may commence construction, development or redevelopment activities prior to obtaining financing for such activities and there is no guarantee that financing will be available on favorable terms, or at all.

Risks Associated with Land Banking

In certain circumstances, the Clients may invest in transactions involving the acquisition of, or may otherwise hold interests in, undeveloped land for residential or commercial land banking purposes. In addition to risks associated with real estate development, due to the long-term investment holding period often associated with land banking investments, entitlement and other regulatory risks may be heightened. Further, until the disposition or development of such undeveloped land, an investment in undeveloped land would not realize any income from such land banking investment. Undeveloped land is also a highly illiquid investment, and the Clients may not be able to dispose of undeveloped land when desired due to various changes in market conditions.

Termination or Expiration of Leases

Properties held by the Clients may be subject to existing leases with major tenants occupying a substantial portion of the properties. Any such properties could become partially or completely vacant in the future and there can be no assurance that Prospect Ridge will be able to retain tenants in any of their respective properties upon the expiration of their leases. Upon the expiration or early termination of such leases, the availability of the large blocks of space they cover may have an adverse effect on Prospect Ridge's ability to achieve the lease terms and rents it might otherwise be able to achieve if space were to turn over in smaller portions, spread out over a period of time. If the space is suited to the particular needs of a former tenant, then Prospect Ridge may have difficulty finding a new tenant for the space or may need to redevelop such space. Further, if Prospect Ridge is unable to re-lease these properties and generate sufficient cash flow to replace or exceed that amount lost due to the vacancy, the Clients will be required to recognize a financial loss as to that property, which could reduce the Clients' operating results and ability to make distributions.

Ground Lease Investments

The Clients may invest from time to time in real estate properties that are subject to ground leases. As a lessee under a ground lease, the Clients may be exposed to the possibility of losing the property upon termination or an earlier breach by the Clients of the ground lease, which may adversely impact the Clients' investment performance. Furthermore, the terms of certain ground leases may impact the ability to sell properties that are subject to the lease. In order to assign or transfer rights and obligations under certain ground leases, the Clients may need to obtain consent

of the landlord of such property unless the acquirer meets certain criteria, which, in turn, could adversely impact the price realized from any such sale.

Volatility of Operating Income

The volatility of operating income for a property may also be influenced by matters such as: (i) the length of tenant leases; (ii) the creditworthiness of tenants; (iii) the level of tenant defaults; (iv) the ability to convert an unsuccessful property to an alternative use; (v) new construction in the same market as the subject property; (vi) rent control laws or other laws impacting operating costs; (vii) the number and diversity of tenants; (viii) the availability of trained labor necessary for tenant operations; (ix) the rate at which new rentals occur and (x) the property's operating leverage (which is the percentage of total property expenses in relation to revenue), the ratio of fixed operating expenses to those that vary with revenues, and the level of capital expenditures required to maintain the property and to retain or replace tenants. A decline in the real estate market or in the financial condition of a major tenant will tend to have a more immediate negative effect on the net operating income of properties with short-term revenue sources (such as short-term or month-to-month leases) and may lead to higher rates of delinquency or defaults under mortgage loans secured by such properties.

Market Impact on Commercial Tenants

A downturn in the economy may impact the success of the operations of tenants. Some tenants may experience declining revenues, vacate the premises early, or file for bankruptcy. Any reduction in a tenant's ability to pay base rent, percentage rent or other charges, will adversely affect the financial condition of the Clients' investment. Further, Prospect Ridge's ability to re-lease vacant spaces may be negatively impacted by the current economic environment. There may be an increase in vacancy that could have a negative impact on the Clients' returns.

Risks of Terrorism or Acts of War

With respect to properties acquired by the Clients, liability, fire, flood, extended coverage and rental loss insurance with insured limits and policy specifications that the General Partner or Prospect Ridge believes are customary for similar properties will be maintained. However, certain losses of a catastrophic nature, such as wars (generally uninsurable), natural disasters, terrorist attacks or other similar events, may be either uninsurable or, insurable at such high rates that to maintain such coverage would cause an adverse impact on the related investments. It is possible that a major event (such as a terrorist attack) or other circumstance could provoke immediate dramatic changes in general market psychology and could motivate widespread variation in the absolute and relative pricing of financial assets, real estate assets, and the availability of financing for such assets. Such an attack could have a variety of adverse consequences for the investments held by Clients, including risks and costs related to the destruction of property, inability to use one or more properties for their intended uses for an extended period, decline in rents achievable or property value, and injury or loss of life, as well as litigation related thereto, any of which could reduce the value of a property.

Risks Associated with Joint Venture Investments

Prospect Ridge intends to make investments in other entities and enter into partnerships or joint ventures with another person or entity. Although the Clients may not have control over these investments and, therefore, may have a limited ability to protect their positions therein, Prospect Ridge would seek to obtain appropriate rights to protect the Clients' interests. However, such rights will be subject to negotiation. In addition, these investments may involve risks not present in direct property investments, including, for example, the possibility that a co-venturer (i) might become bankrupt or have financial difficulties; (ii) might have a different term, investment objective or be subject to more or less leverage than the Clients and therefore dispose of an investment at a different time; or (iii) may at any time have economic or business interests or goals that are inconsistent with those of the Clients. In addition, such co-venturers may be in a position to take action contrary to the Clients' objectives. These co-venturers will generally not owe any fiduciary or other duties to the Clients or Investors in the Funds. In such an event, Prospect Ridge may not be in a position to unilaterally control such investments or exercise certain rights associated with such investments. Also, actions taken by bankrupt entities could subject the Clients to liabilities larger than, or other than, those anticipated. The Clients may in certain circumstances be liable for the actions of its third party partners or co-venturers. In the event a third-party co-venturer defaults on its funding obligations to an investment, the Clients may be required to make additional capital contributions to such investment to replace the shortfall caused by such third-party co-venturer. Similarly, the Clients and a co-venturer may provide joint guarantees or indemnities (or the Clients may seek a back-to-back guarantee or indemnity from a co-venturer) in connection with a joint venture and, to the extent that the co-venturer does not satisfy all or a portion of such obligations (or does not assume any such obligations), the Clients may be required to satisfy the entirety of such obligation or such shortfall.

In addition, Prospect Ridge, on behalf of the Clients, may rely upon the abilities, services or management expertise of an asset servicer, investment co-venturer, co-lender or loan participant. Prospect Ridge may encounter challenges or resistance to disposing of an interest in an asset that is subject to a servicing contract or a joint venture or loan participation transaction. A joint venture investment agreement or loan participation agreement may grant co-venturers, partners, co-lenders or loan participants veto powers with respect to major decisions concerning management or disposition of an investment, which could increase the risk of deadlocks that may adversely affect investment liquidity, values and returns. If the Clients and co-venturers have the ability to dispose of their interests in the co-investment separately, a disposition of a large position by one party may depress the market value of the continuing investment of the remaining co-venturers (possibly including the Clients), or may reduce the price available to other co-venturers (possibly including the Clients) which may also be disposing of their respective investments. If a co-venturer removes its general partner or manager or terminates prior to the Clients, the ability of the Clients to exercise certain rights associated with its investment may require the cooperation of a successor general partner/manager or other persons. It may not be practicable or possible to review the qualifications, condition or suitability of prospective co-venturers or partners.

In connection with joint ventures, investments with third parties or investments sourced by third parties, the Clients may bear a fee or carried interest. This fee or carried interest could be a flat fee or may be tied to the performance of the investment. In either case, this fee or carried interest will be considered an investment expense and will reduce the returns from the investment.

“Bad Boy” Guarantees

Generally, commercial real estate financings (other than construction loans) are structured as non-recourse to the borrower, which limits a lender's recourse to the property pledged as collateral for the loan, and not the other assets of the borrower or to any parent of the borrower, in the event of a loan default. However, lenders customarily will require that a creditworthy parent entity enter into so-called "recourse carveout" guarantees to protect the lender against certain bad-faith or other intentional acts of the borrower in violation of the loan documents. A "bad boy" guarantee typically provides that the lender can recover losses from the guarantors for certain bad acts, such as fraud or intentional misrepresentation, intentional waste, willful misconduct, criminal acts, misappropriation of funds, voluntary incurrence of prohibited debt and environmental losses sustained by lender. In addition, "bad boy" guarantees typically provide that the loan will be a full personal recourse obligation of the guarantor, for certain actions, such as prohibited transfers of the collateral or changes of control and voluntary bankruptcy of the borrower. It is expected that the financing arrangements with respect to the Clients' investments generally will require "bad boy" guarantees from the Clients and in the event that such a guarantee is called, the Clients' assets could be adversely affected. Moreover, the Clients' "bad boy" guarantees could apply to actions of the joint venture partners associated with the Clients' investments. While Prospect Ridge expects to negotiate indemnities from such joint venture partners to protect against such risks, there remains the possibility that the acts of such joint venture partner could result in liability to the Clients under such guarantees. The Funds may provide "bad boy" guarantees on behalf of a parallel vehicle, alternative investment vehicle or co-investment vehicle. The Funds may in certain circumstances, but shall not be required to, receive a fee or other consideration for providing guarantees for the benefit of a parallel fund, alternative investment vehicle or co-investment vehicle.

Risks of Real Estate Investment Trusts Investments

Since certain Clients may invest a portion of their assets in REITs, such Clients may also be subject to certain risks associated with direct investments in REITs. REITs may be affected by changes in the value of their underlying properties and by defaults by borrowers or tenants. Furthermore, REITs are dependent upon specialized management skills, have limited diversification and are, therefore, subject to risks inherent in financing a limited number of projects. REITs depend generally on their ability to generate cash flow to make distributions to shareholders, and certain REITs have self-liquidation provisions by which mortgages held may be paid in full and distributions of capital returns may be made at any time. In addition, the performance of a REIT may be affected by changes in the tax laws or by its failure to qualify for tax-free pass-through of income.

Availability of Financing

The Clients' investment strategy relies, in part, on the credit markets. To the extent that the Clients are unable to obtain favorable financing terms for equity investments, their investment returns may suffer. In addition, to the extent that such inability is due to general credit market conditions, such conditions may also adversely affect the portfolio entities in which the Clients have invested and may restrict the ability of the Clients to sell or liquidate investments at favorable times or for favorable prices. Under these circumstances, the value of the Clients' investments may not appreciate as expected or may suffer a loss.

Investments Subject to Interest Rate Fluctuation Risk

The Clients may acquire investments subject to financing that provide for adjustments in the interest rate at various monthly, annual or other intervals. An increase in the interest rate as a consequence of any such adjustment: (i) would result in less income to the Clients; (ii) may reduce distributions to the Client or Investors; (iii) may cause negative amortization; and (iv) may cause the sale of an investment prematurely or on less favorable terms than might otherwise be obtained. Similarly, with respect to debt held by the Clients that is based on variable interest rates, the Clients are subject to the risk that such interest rates may decline.

Property Taxes and Risk of Property Reassessments

Real property owned by the Clients or real property that secures (directly or indirectly) an investment of the Clients will likely be subject to real property taxes and, in some instances, personal property taxes. Such real and personal property taxes may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. An increase in property taxes on the Clients' real property could adversely affect the Clients' results from operations and could decrease the value of that real property. An increase in property taxes on real property that secures an investment of the Clients could adversely affect the ability of the borrower to make payments to the Clients, which in turn may also adversely affect the value of the relevant asset held by the Clients.

Risk of Eminent Domain

Municipalities and other government subdivisions may, in certain circumstances, seek to acquire certain assets of the Clients through eminent domain proceedings. While Prospect Ridge may seek to contest these proceedings which may be costly and may divert the attention of management from the operation of the Clients, there can be no assurance that a municipality or other government subdivision will not succeed in acquiring assets of the Clients. In such event, there is a risk that the Clients will not receive adequate compensation for the assets acquired, or that the Clients will not be able to recover all charges associated with divesting these assets.

Investments in Troubled Assets

On behalf of its Clients, Prospect Ridge may make investments in non-performing, sub-performing, distressed, undercapitalized or other troubled real estate and real estate-related assets and businesses, which may involve a high degree of financial risk. There may be little or no near-term cash flow available to the Clients or Investors. Since the Clients may only make a limited number of investments and since many of the investments may involve a high degree of risk, poor performance by few of the investments could severely affect the total returns to the Clients and Investors. There is no assurance that Prospect Ridge will correctly evaluate the value of such troubled assets purchased on behalf of Clients. In any reorganization or restructuring relating to an asset in which the Clients have invested, the Clients may lose their entire investment, may be required to accept cash or securities with a value less than the Clients' original investment, and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Clients' investments may not compensate the Clients and Investors

adequately for the risks assumed. As a result of the speculative nature of the Clients' investments, the possibility of partial or total loss of capital will exist.

Bankruptcy Considerations

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Clients. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Clients; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. A delay in the reorganization process could affect the ability of the Clients to acquire control of a portfolio company or result in the Clients' acquisition of control of such portfolio company taking longer than originally anticipated. In some cases, the company may not be able to reorganize and may be required to liquidate assets. The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

Prospect Ridge, on behalf of the Clients, may elect to serve on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of the Clients' position as creditors or equity holders. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If Prospect Ridge concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Clients, it may resign from that committee or group, and the Clients may not realize the benefits, if any, of participation on the committee or group. In addition, if the Clients are represented on a committee or group, Prospect Ridge may be restricted or prohibited under applicable law from disposing of its Clients' investments in such company while it continues to be represented on such committee or group. Investments made in assets operating in workout modes or under bankruptcy, insolvency or other debtor-protection codes could, if Prospect Ridge or the Clients inappropriately exercise control over the management and policies of the debtors, be subordinated or disallowed, and the Clients could be liable to third parties in such circumstances, which liabilities may in certain circumstances exceed the value of the Clients' original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, the sale and purchase of real property or trust beneficiary interests therein at fair market value may be cancelled or avoided by a trustee in bankruptcy, corporate reorganization, civil rehabilitation or similar procedure, or by the seller's creditors. Furthermore, distributions made to the Clients and Investors in respect of such investments could

be recovered if such distributions are found to be a fraudulent conveyance or preferential payment or the equivalent under the laws of certain jurisdictions. Even if the purchase price was set at the fair market value of such real property, the transaction may be cancelled under certain circumstances (e.g., if the seller intended to conceal, donate or otherwise dispose of the sale proceeds in a manner that would harm the seller's creditors, and the purchaser knew such intention at the time of the transaction). Non-U.S. jurisdictions may present analogous or different credit issues.

Litigation at the Property-Level

The acquisition, ownership and disposition of real properties carries certain specific litigation risks. Litigation may be commenced with respect to a property acquired by the Clients (including by a subsidiary entity) in relation to activities that took place prior to the Clients' acquisition of such property. In addition, at the time of disposition of an individual property, a potential buyer may claim that it should have been afforded the opportunity to purchase the asset, or alternatively that such potential buyer should be awarded due diligence expenses incurred or statutory damages for misrepresentation relating to disclosure made, if such buyer is passed over in favor of another as part of the Clients' efforts to maximize sale proceeds. Similarly, successful buyers may later sue the Clients under various damage theories, including those sounding in tort, for losses associated with latent defects or other problems not uncovered in due diligence.

Environmental Liabilities

The Clients may be exposed to substantial risk of loss arising from investments involving undisclosed or unknown environmental, health or occupational safety matters, or inadequate reserves, insurance or insurance proceeds for such matters that have been previously identified. 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 may impose joint and several liability, which can result in a party being obligated to pay for greater than its share, or even all, of the liability involved. Such liability may also be imposed 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 Clients' return from such investment. Environmental claims with respect to a specific investment may exceed the value of such investment, and under certain circumstances, subject the other assets of the Clients to such liabilities. In addition, some environmental laws create a lien on contaminated property in favor of governments or government agencies for costs they may incur in connection with the contamination.

The ongoing presence of environmental contamination, pollutants or other hazardous materials on a property (whether known at the time of acquisition or not) could also result in personal injury (and associated liability) to persons on the property and persons removing such materials, future

or continuing property damage (which may adversely affect property value) or claims by third parties, including as a result of exposure to such materials through the spread of contaminants.

In addition, the Clients' operating costs and performance may be adversely affected by compliance obligations under environmental protection statutes, rules and regulations relating to investments of such Clients, including additional compliance obligations arising from any change to such statutes, rules and regulations. Statutes, rules and regulations may also restrict development of, and use of, property. Certain clean-up actions brought by federal, state, country and local agencies and private parties may also impose obligations in relation to investments and result in additional costs to the Clients.

Further, even in cases where the Clients are indemnified by the seller with respect to an investment against liabilities arising out of violations of environmental laws and regulations, there can be no assurance as to the financial viability of the seller to satisfy such indemnities or the ability of Prospect Ridge or the Clients to achieve enforcement of such indemnities.

Prospect Ridge may receive engineering reports and environmental surveys with respect to its properties. The reports will make observations about the properties. There can be no assurance that the reports will reveal the full extent of repairs or remediation required or that the costs thereof, which the Clients will have to bear, will not exceed available funds.

Compliance with the Americans with Disabilities Act and Other Changes in Governmental Rules and Regulations

Under the Americans with Disabilities Act of 1990 (the "ADA"), all public properties are required to meet certain federal requirements related to access and use by disabled persons. In addition, changes in governmental rules and regulations or enforcement policies affecting the use or operation of the properties, including changes to building, fire and life-safety codes, may occur. Properties acquired by the Clients may not be in compliance with the ADA or other governmental requirements. If a property is not in compliance with the ADA or other governmental requirements, then the Clients may be required to make modifications to such property to bring it into compliance, or face the possibility of an imposition of fines or an award of damages to private litigants. In either case, the Clients may suffer losses, which would reduce amounts available for distributions to the Clients and Investors.

Risks of Debt Investments Generally

The Clients may invest in secured or unsecured loans or debt investments, including subordinated loans, mezzanine loans and other structured investments which may be subordinated to the senior obligations of the borrower. These investments generally will not be readily marketable, will be subject to restrictions on resale and may require lengthy negotiations in connection with disposition. Loans are often less liquid than other types of debt securities, particularly in times of significant market dislocation. Loans and other debt investments will subject the Clients to credit risk, i.e. the risk that a borrower will default in the payment of principal, interest or other obligations. There may be limits to enforceability or to legal and financial recourse upon a default under the terms of the loan or applicable laws. Loans that are fully secured may offer the Clients more protection than unsecured loans in the event of non-payment, however there is no assurance

that the liquidation of any collateral would satisfy the borrower's obligation, or that such collateral could be liquidated. Greater credit risks are usually attached to subordinated debt investments which will be limited by restrictions benefitting more senior lenders, will be subject to greater risk of default, may not be protected by financial or other covenants and may have limited liquidity. Exercise of foreclosure and other remedies may involve lengthy delays and unforeseen expenses in the face of declining property values. If a borrower becomes involved in bankruptcy proceedings, the Client may receive a lesser return on such investment than expected or no return at all. Additionally, various U.S. federal and state and non-U.S. laws enacted for the protection of creditors may apply to the Clients.

Fair Value Asset Valuation; Uncertain Asset Valuation

Assets held by the Clients will be presented in financial statements on a "fair value basis." In the case of many of the Clients' investments, it is unlikely that readily available price quotations will exist. Accordingly, Clients and Investors will need to rely on the judgment of the General Partner and Prospect Ridge for valuing the Clients' investments, both for financial statement purposes and in connection with disposing of such investments. A valuation is only an estimate of value and is not a precise measure of realizable value. Ultimate realization of the value of an asset depends to a great extent on economic and other conditions beyond the control of the General Partner and Prospect Ridge. Further, valuations do not necessarily represent the price at which an investment would sell since market prices of investments can only be determined by negotiation between a willing buyer and seller. If Prospect Ridge were to liquidate a particular investment on behalf of a Client, then the realized value may be more than or less than the appraised valuation of such investment. Unlike exchange listed and other readily available tradeable securities, many types of real estate assets cannot be marked to an established market. Therefore, certain actions by the General Partner and/or Prospect Ridge, such as the sale of investments, may be based on the General Partner's and/or the Prospect Ridge's estimate of the value of the Clients' investments.

Leverage

The Clients may borrow on a secured or unsecured basis for any purpose, including to make any investments and to increase investment capacity or pay fees and expenses. Although Prospect Ridge does not intend to employ significant leverage at the Fund or Client level, Prospect Ridge will seek to implement investment-level leverage in certain transactions, and such leverage may fluctuate depending on market conditions. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the investments purchased or carried. Gains realized with borrowed funds may cause the Clients' returns to be higher than would be the case without borrowings, however, the Clients' returns could also decrease faster than if there had been no borrowings. Further, such leverage will increase the exposure of an investment to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investment. If a Client defaults on secured indebtedness, the lender may foreclose and the Client could lose its entire investment in the security for such loan.

In addition, borrowings by the Funds may be secured by the Investors' capital commitments as well as by the Funds' assets. Indebtedness may be structured in a way that (i) the Funds and the parallel vehicles are jointly responsible on a cross-collateralized basis for the repayment of the

indebtedness and (ii) the capital commitments of the Investors in the Funds are pledged to secure indebtedness obtained for the benefit of the other parallel vehicles. Investors whose capital commitments have been pledged may be called upon to fund their entire capital commitment to repay indebtedness, and the failure of other Investors to honor their capital commitments may result in an Investor's payments exceeding its pro rata share of the indebtedness. An Investor may also be required to fund amounts to repay indebtedness incurred in connection with an investment even if such Investor did not participate in the relevant investment in connection with which such indebtedness was incurred. Further, to the extent income received from investments is used to make interest and principal payments on such borrowings, Investors may be allocated income, and therefore tax liability, in excess of cash received by them in distributions.

The presence of leverage substantially increases the risk profile of the Clients and their investments. The Clients' use of borrowings to create leverage may subject the Clients to additional risks. For example, depending on the type of facility, a decrease in the market value of the Clients' investments could increase the effective amount of leverage and could result in the possibility of a "margin call," pursuant to which the Clients must either deposit additional funds or securities with the lender or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden, precipitous drop in the value of the Clients' assets, the Clients might not be able to liquidate assets quickly enough to pay off their debt. The extent to which the Clients use leverage may have the following consequences to the Clients and Investors, including, but not limited to: (i) greater fluctuations in the net assets of the Clients, (ii) use of cash flow for debt service or other related purposes, and (iii) in certain circumstances the Clients may be required to prematurely harvest investments to service their debt obligations. There can also be no assurance that the Clients will have sufficient cash flow to meet debt service obligations. As a result, the Clients' exposure to losses may be increased due to the illiquidity of its investments generally.

Item 9: Disciplinary Information

Prospect Ridge and its employees have not been involved in any legal or disciplinary events that would be material to a Client's or prospective Client's evaluation of Prospect Ridge's advisory business or the integrity of its management.

Item 10: Other Financial Industry Activities and Affiliations

While Prospect Ridge and AB are not affiliates, there are a number of different arrangements between the two firms as a result of their historical relationship, which are described in more detail in this item as well as throughout the Brochure.

As described under *Item 4: Advisory Business*, AB has a non-voting membership in Prospect Ridge.

Prospect Ridge has also entered into a distribution arrangement for future Funds with an affiliate of AB that is described in more detail below under *Item 14: Client Referrals and Other Compensation*.

Prospect Ridge has entered into an agreement with AB for Prospect Ridge to serve as sub-adviser to Equity Fund I, Equity Fund II, GW Co-Invest, and ADM Syndicate JV, and to receive the

management fees earned by Equity Fund I and Equity Fund II, as further described above under *Item 5: Fees and Compensation*. As described above under *Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss*, certain AB investment personnel sit on the Investment Committee for the Equity Funds.

Additionally, Prospect Ridge has entered into an agreement to provide non-discretionary services to certain clients of ABCRED. Specifically, Prospect Ridge's principals participate in the Debt Clients' investment committee; analyze investment opportunities for the Debt Clients; assist in monitoring, evaluating, and making investment recommendations regarding investments; and provide other related services for the Debt Clients as requested by AB.

As described in *Item 5: Fees and Compensation*, certain Prospect Ridge personnel are entitled to receive a portion of the carried interest (to the extent applicable) for the Equity Funds that are sub-advised by Prospect Ridge.

Prospect Ridge's investment personnel will have access to investment research and input from a Real Estate Advisory Committee ("REAC") consisting of portfolio managers and research experts from AB's various and diverse business initiatives. The REAC will generally provide macro and micro economic perspectives, although information sharing on the REAC will be subject to applicable information-sharing policies and procedures established by AB.

Although unlikely, to the extent that Prospect Ridge personnel obtain material non-public information as a result of their participation on the Debt Clients' investment committee or involvement with the REAC, the receipt of such information will generally require Prospect Ridge to restrict employee personal and Client trading in any securities about which material non-public information is received.

Prospect Ridge and its management personnel and employees may have conflicts of interest in (i) allocating their time and activity among, (ii) allocating investments among, and (iii) effecting transactions for, Client accounts where Prospect Ridge or its management personnel, employees or affiliates may have a greater financial interest and other Client accounts. As described above in *Item 6: Performance Based Fees and Side-by-Side Management*, Prospect Ridge will act in good faith and in a fair and equitable manner in dealing with such conflicts, and has established allocation procedures so that Clients are treated fairly and equally on an overall basis.

AB is providing Prospect Ridge with back-office support, office space and certain other services in connection with Prospect Ridge's spin-out from AB. While many of these accommodations are intended to be temporary, their tenure is not yet known and some of these arrangements may remain in place indefinitely. Given the importance of these accommodations to its business, conflicts may arise in Prospect Ridge's dealings with AB.

AB will continue to manage the incentive compensation plans for Equity Fund I and Equity Fund II throughout the life of those Funds. The principals and key members of the Prospect Ridge team have significant interests in these incentive plans, and these interests could give rise to conflicts of interest in their dealings with AB.

Equity Fund II and future funds organized by Prospect Ridge may have opportunities to invest in properties in which a Debt Client is an existing investor. Conversely, a Debt Client may become an investor in a property owned by the Equity Funds. While Prospect Ridge and AB will have policies and procedures in place to seek to mitigate the conflicts that may arise in such cross fund investments, Prospect Ridge will not have the ability to control AB's investment, management or disposition decisions in respect of the Debt Clients. In managing a Debt Client, AB may take positions in respect of an investment in which an Equity Fund is also an investor that are adverse to the Equity Fund.

While the on-going relationships between AB and Prospect Ridge personnel as described in this Brochure could potentially create conflicts of interest, Prospect Ridge believes that such conflicts are mitigated by the lack of direct competition between the two firms' investment strategies, Prospect Ridge's policies and procedures to address such conflicts, and AB's fiduciary duty to all Clients that are sub-advised by Prospect Ridge.

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

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

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

Prospect Ridge will provide a copy of our Code of Ethics to Clients or prospective Clients, upon request. Please contact Prospect Ridge at the phone number on the cover page of this Brochure should you have any questions concerning our Code of Ethics or wish to obtain a copy.

Prospect Ridge, its related persons and/or affiliated entities will have an investment or economic interest in each Fund. For example, certain Prospect Ridge personnel are entitled to carried interest from the Equity Funds. Prospect Ridge and/or its employees have in the past and will in the future invest in the Funds by agreeing to commit a certain percentage of the respective Fund's total capital commitments or a certain amount as described in the Governing Documents.

Co-Investment Opportunities

Prospect Ridge and its employees will generally be permitted to participate in co-investment entities that invest in certain assets that are related to investments of the Funds, although they have not done so as of the time of filing of this Brochure. Any co-investment opportunities offered to Prospect Ridge or its employees will be on the same terms and in the same portion of the portfolio company's capital structure or on such terms and/or in such portion as may be otherwise disclosed to, or agreed upon with, Clients. Additionally, the extent to which Prospect Ridge or employee co-investments take away from the size of the investment opportunity available to Clients will be

properly disclosed and/or mitigated through limits on the size of the co-investments. Prospect Ridge and its employees will generally make and dispose of their co-investment at the same time as any Fund or other Investors, unless otherwise disclosed to, or agreed upon with, Prospect Ridge's Clients.

Employee Discounts

Prospect Ridge employees are eligible to receive "friends and family" discounts at certain hotels or hotel chains that are owned by the Equity Funds. While these discounts could reduce the revenue received by the property and, ultimately, the Fund that owns it, such discounts are no greater than what an employee of the hotel would receive, and are not expected to create a significant conflict of interest for Prospect Ridge or its employees.

Item 12: Brokerage Practices

Best Execution

To the limited extent Prospect Ridge transacts in public securities, debt investments, or other non-private equity investments (e.g., hedging transactions) that are traded through a broker-dealer, Prospect Ridge will seek to obtain best execution. While not defined by statute or regulation, "best execution" generally means the execution of Client trades at the best net price considering all relevant circumstances. Besides price, Prospect Ridge will consider several factors in its analysis of execution quality, such as the promptness and overall quality of execution, availability and liquidity of the desired security, maintenance of confidentiality, the broker-dealer's settlement capabilities, and the broker-dealer's financial condition. To the extent feasible, Prospect Ridge will seek competitive quotes on all trades.

Use of Real Estate Brokers

Prospect Ridge generally engages a real estate broker in connection with the disposition of a real estate asset held on behalf of the Clients. Prospect Ridge selects the brokerage company and the particular real estate broker that it believes will best represent the interest of the Clients.

Prospect Ridge receives real estate market data research from real estate brokers, and also uses the services of those real estate brokers to buy or sell real estate investments for the Funds. Prospect Ridge generally obtains market research from real estate brokers that is available to other market participants, and does not select real estate brokers for Client transactions based on the research provided.

Soft Dollars

Prospect Ridge does not intend to enter into any formal soft dollar arrangements to compensate broker-dealers for research or other benefits.

Investor Referrals

As described in further detail in *Item 14: Client Referrals and Other Compensation*, Prospect Ridge has entered into a placement agent arrangement with an affiliate of AB to refer prospective Investors to future Funds. Prospect Ridge notes that AB has affiliated broker-dealers, and Prospect Ridge may choose to use an AB affiliate as a broker-dealer for transactions in public securities, fixed-income investments, hedging transactions, or other non-private transactions, or may provide

compensation to AB or an affiliate for its assistance in identifying suitable non-public investments for the Clients. While Prospect Ridge may have an incentive to use AB or its affiliates to execute securities transaction based on Prospect Ridge's on-going placement agent relationship with an affiliate of AB, Prospect Ridge believes that any securities transactions made on behalf of the Clients will be infrequent and minimal and are not likely to create a conflict of interest with respect to Prospect Ridge's other relationships with AB. Additionally, to the extent Prospect Ridge does engage in securities transactions, the selection of the broker-dealer to use for each such transaction will be subject to best execution as described above, and Prospect Ridge will periodically review its selection of brokers for evidence of any conflicts of interest.

Principal or Cross Transactions

Prospect Ridge generally does not cause the Clients to engage in any principal or cross transactions. In the event that Prospect Ridge were to enter into a principal transaction involving securities, Prospect Ridge will first consider and determine that the transaction is in the best interests of both participating Clients. Additionally, to the extent consent is required for any such transaction, Prospect Ridge will obtain consent from the appropriate Client or Limited Partner Advisory Committee(s).

Although Prospect Ridge generally does not intend to do so, it may, subject to applicable law, effect transactions between certain of its Clients in which the applicable Client will purchase securities or assets from another Client (including a private fund or account in which Prospect Ridge, its affiliates, principals or employees may have a significant interest). Such transactions (i.e., cross trades) shall be effected only when Prospect Ridge believes that such transactions are in the best interest of the applicable Clients. To the extent such transactions involve traded securities, they will be placed through an unaffiliated broker-dealer or custodian. Any cross trade will not involve any accounts subject to ERISA, and shall be effected for cash consideration, at prices that reflect prevailing market conditions. In addition, no brokerage commission or transfer fee shall be paid to Prospect Ridge or its affiliates in connection with any such transaction. Any transaction costs incurred in connection with any such transaction will be shared pro rata between the applicable Clients.

Allocation of Investment Opportunities

Prospect Ridge is aware of the importance of treating all Clients fairly. Generally, as described further in the Governing Documents, Prospect Ridge only has one Fund that is investing at a given period of time in a given investment strategy, although Prospect Ridge is typically permitted to start marketing a Competing Fund at the earlier of the following: i) at least 75% of the prior Fund's capital commitments have been invested, called for contribution, or have been reasonably reserved for contribution, or ii) the end of the commitment period for the prior Fund has been reached. If Prospect Ridge organizes a Competing Fund while an earlier Fund is still making investments, the Limited Partner Advisory Committee must approve any allocation of an investment to the Competing Fund until 90% of the aggregate capital commitments of the prior Fund have been invested, called for contribution, or have been reasonably committed.

In the event that more than one Client is permitted to make an investment at a given time, Prospect Ridge will consider the appropriateness of any available investment opportunities for each of the available Clients. This consideration will be based on factors that Prospect Ridge

reasonably determines in good faith to be fair and reasonable, which may include one or more of the following (without limitation):

- Each Client's investment objectives and investment focus;
- The sourcing of such investment opportunity within Prospect Ridge;
- The Prospect Ridge personnel who will monitor and oversee such investment opportunity;
- The available liquidity and reserves;
- The expected amount of capital required for the investment as well as each Client's projected future capacity for investment;
- Each Client's targeted rate of return;
- The stage of development of the prospective investment;
- The existing portfolio of investments of each Client;
- The risk profile of the investment opportunity;
- The expected life cycle of each Client;
- The relative amounts of capital available for investment by each such Client;
- Any allocation targets (e.g., industry targets and size targets) of each Client;
- The ability of each Client to accommodate structural, timing and other aspects of the investment process;
- Contractual obligations Prospect Ridge has to each such Client;
- Legal, tax, contractual, regulatory or other considerations deemed relevant in good faith; and,
- Any other factors deemed relevant by Prospect Ridge.

While currently not the case, in the event that an asset would be appropriate for more than one Client mandate, Prospect Ridge will employ the use of a rotation policy and retain documentation to support the analysis of its allocation process rationale. The rotational ordering for allocations to eligible Clients will be awarded to the Client with available capital to deploy and with the longest elapsed time since being awarded an investment. A Client who is awarded an investment will lose its priority ranking under this rotational ordering (i.e., the Client will drop to the end of the

ranking list for the next investment opportunity), irrespective of whether the Client subsequently closes on the awarded investment.

Item 13: Review of Accounts

Prospect Ridge's investment professionals provide ongoing oversight and supervision of investments held by the Equity Funds. At least annually, Prospect Ridge's investment professionals review updated business plans and discuss significant operations and assumptions related to such business plans.

With respect to the Debt Clients, certain Prospect Ridge personnel regularly monitor the investments held by the Debt Clients.

Prospect Ridge's investment professionals periodically review the investments held by the Clients to ensure compliance with the applicable investment guidelines and restrictions. The appropriate Investment Committee must approve any acquisitions and any dispositions of Client investments as specified in the Governing Documents.

Investors in the Equity Funds receive audited financial statements on an annual basis. On a quarterly basis, Investors in the Equity Funds also receive unaudited financial statements and written Fund-level and property-level performance reports, to the extent applicable. When applicable, Prospect Ridge provides certain other reports and analyses to Investors and prospective Investors in the Equity Funds upon request.

As investment adviser to the Debt Clients, AB provides written reports to such Clients as disclosed in the Governing Documents and/or AB's Brochure.

Item 14: Client Referrals and Other Compensation

Prospect Ridge does not directly or indirectly compensate any person for Client referrals. Prospect Ridge has entered into a distribution agreement with Sanford C. Bernstein LLC ("Distributor"), an affiliate of AB, where the Distributor will refer Investors to future Funds in exchange for a portion of the management fees paid by the Investors referred to those future Funds.

Item 15: Custody

Due to Prospect Ridge's ability to withdraw Client funds or securities, Prospect Ridge is deemed to have custody of the Equity Funds' assets for purposes of Rule 206(4)-2 under the Advisers Act. Those Funds for which Prospect Ridge has custody are subject to an annual audit by an independent public accountant and the audited financial statements are distributed to each Limited Partner. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of each Fund's fiscal year end. Equity Fund Investors should carefully review the Fund's audited financial statements.

Item 16: Investment Discretion

In accordance with the terms and conditions of the Governing Documents, and subject to the direction and control of the general partner of each Fund, Prospect Ridge generally has

discretionary authority to determine, without obtaining specific consent from the Funds or Limited Partners, the investments to be bought or sold on behalf of the Equity Funds, and to perform the day-to-day investment operations of the Equity Funds. Approval is required of the respective Fund's Limited Partner Advisory Committee for certain major actions specified in the respective Governing Documents.

Pursuant to the agreement between Prospect Ridge and AB with respect to the Debt Clients, Prospect Ridge does not have discretionary authority over investment transactions effected by the Debt Clients, although Prospect Ridge personnel do provide recommendations regarding such investments through the appropriate Investment Committee.

Item 17: Voting Client Securities

The Equity Funds and Debt Clients invest in equity and debt interests in real estate related assets which do not issue proxies. In the event that a Client for which Prospect Ridge has proxy voting authority acquires equity positions or other positions that solicit proxies in the future, Prospect Ridge will submit votes in what Prospect Ridge considers to be the best interest of the Clients and may, in certain instances, determine that abstaining from voting is in the best interest of the Clients. To the extent that a conflict of interest arises in the proxy voting process for the Equity Funds, Prospect Ridge will consult with the Chief Compliance Officer and/or the appropriate Limited Partner Advisory Committee on how to proceed as applicable. Clients and Investors cannot direct the votes of Prospect Ridge but may request information regarding votes submitted by Prospect Ridge in the past on behalf of the Clients or a copy of Prospect Ridge's proxy voting policies by sending a written request to the address on the first page of this document.

Due to the nature of Prospect Ridge's subadvisory relationship with the Debt Clients, Prospect Ridge does not anticipate having proxy voting authority for such Clients in the event a proxy vote arises for the Debt Clients. Investors in the Debt Funds and Debt SMA Client can refer to the Governing Documents and AB's Brochure for further information on AB's proxy voting policies and procedures.

Prospect Ridge will determine on a case-by-case basis whether an Equity Fund will participate in class actions.

Item 18: Financial Information

Prospect Ridge has never filed for bankruptcy and is not aware of any financial condition that is reasonably likely to affect its ability to meet contractual commitments to Clients.