



INVESTOR - LENDER - PARTNER

HILLCREST CREDIT AND INCOME FUND II MANAGER, LLC
aka Hillcrest Finance LLC
12 East 49th Street, 17th Floor
New York, NY 10017
Disclosure Brochure
December 10, 2019

This brochure provides information about the qualifications and business practices of Hillcrest Credit and Income Fund II Manager LLC (aka “Hillcrest Finance LLC” or “Hillcrest”). If you have any questions about the contents of this brochure, please contact Sharon Ann Miller or Annie Waldemar via telephone at (646) 889-2690 or via email at samm@hillcrestfinancelc.com or awaldemar@hillcrestfinancelc.com.

Hillcrest is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Our oral and written communications are intended to provide you with information which you may use to determine to hire or retain us to provide investment advice.

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

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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.

ITEM 2: MATERIAL CHANGES

This document is part of the initial application by Hillcrest to register as an investment adviser with the SEC. Accordingly, this is the first Brochure produced by Hillcrest. Hillcrest encourages all recipients of this Brochure to read it carefully in its entirety.

Item 2 is intended to assist clients and investors by making them aware of certain information that has changed materially since the prior year's Brochure. In the future, this Item 2 will identify and discuss any material changes since this filing or, subsequently, the most recent annual updating amendment.

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ITEM 4: ADVISORY BUSINESS

A. Description of the Firm

Hillcrest Credit and Income Fund II Manager, LLC (aka Hillcrest Finance, LLC and collectively with the related activities of our affiliates referred to as “Hillcrest” or the “Firm”), founded in 2013, is a New York City-based, real estate investment management firm focused on investing in middle-market U.S. assets through all phases of the economic cycle and delivering risk-adjusted returns to its investors. Our leadership team offers years of experience in originating, acquiring, financing, operating, developing, leasing, managing, and selling real estate-related investments across multiple economic and real estate investment cycles dating back to the mid-1980s. Since inception, the Firm has launched and managed various types of investment vehicles representing approximately \$200.0 million equity commitments. Through these vehicles, we have invested in office, hotel, retail, residential, and mixed-use commercial real estate-related debt and equity. Kathleen Corton and Sharon Ann Miller are the managing partners/principals of Hillcrest and each currently hold 49.08% of the equity interest in Hillcrest Finance LLC which owns 100% of Credit and Income Fund II Manager, LLC. Additional information about Hillcrest’s structure and directors is provided on Part 1 of Form ADV which is available online at www.adviserinfo.sec.gov.

B. Types of Advisory Services

We specialize in real estate investment advisory and management services. We are not involved in investments which are not related to real estate. We will provide real estate related investment advisory services to investment vehicles set up as private funds (“Funds”) as well as to investment vehicles established for separately managed accounts (“SMA”) (together Funds and SMA’s are referred to as “Clients”). Our investment advice is tailored to meet the investment objectives and restrictions of each Client, as set out in each Client’s investment management agreement and/or, as applicable, private placement memoranda and limited partnership agreements (together “Governing Documents”) and, as a general matter, is not tailored to the individualized needs of any particular Fund investor. Hillcrest sponsored Funds are commingled, pooled real estate funds over which Hillcrest maintains broad investment discretion, subject to certain investment guidelines and restrictions set forth in the Funds’ Governing Documents and investor side letters. SMA’s are typically organized as special purpose vehicles with one principal outside investor, subject to participation by Hillcrest or its affiliates. Separate Account Vehicles have negotiated investment guidelines.

SMA’s are open to investors with qualifications substantially similar to investors in the Funds. Each Fund is open for investment only by qualified institutional or high net worth investors that meet the investor restrictions as set forth in the applicable Fund’s Governing Documents. See Item 8 for more information with respect to the investment strategies of Hillcrest.

The Funds are not registered as investment companies under the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”) and are, therefore, not subject to various provisions of the Investment Company Act. Shares or interests in the Funds are not registered for sale under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and are instead sold to qualified investors on a private placement basis. The services we provide to a Client, in the capacity as the investment manager,

general partner, and/or managing member, may include: organizing and managing an investment vehicle's business affairs; acquiring, financing and disposing of investments; preparing financial statements; preparing tax related schedules; and providing investor relations functions such as drafting, printing, and distributing correspondence to investors and prospective investors.

Our senior management team, consisting of Kathleen Corton and Sharon Ann Miller (the "Senior Management Team"), is actively involved in the investment decisions for each Client. The Senior Management Team assists in the development of each Client's investment objectives; identifying potential investments which are consistent with each Client's investment objectives; evaluating specific real estate investments; analyzing, structuring and negotiating investments; providing ongoing asset management of real estate investments; identifying opportunities to enhance investor return; developing strategy relative to investment holding periods and dispositions; and overseeing the marketing of investments identified for sale.

C. Client Tailored Services and Client Tailored Restrictions

We manage each Client- based on the investment objectives and investment restrictions set forth in the applicable Governing Documents of each such Client.

Typically, pursuant to the Governing Documents of certain Clients, we are prohibited from investing more than a certain percentage of such Client's assets in any single investment. Further, we may enter into side letters with certain limited partners of the Funds which impose further restrictions on our discretionary authority. Limited partners are not investment advisory clients of the firm and do not impose restrictions on how we invest our Funds, other than through negotiation of the Partnership Agreement, Management Agreement, their subscription agreement, and side letter entered into with us, if any.

Substantially all of Hillcrest's revenues are expected to be related to real estate investment advisory and management services provided to real estate Clients, SMAs, or joint venture arrangements. Outside of investment advice related to real estate-related investments, the Firm currently does not offer other investment services.

D. Wrap Programs

We do not participate in wrap fee programs.

E. Assets Under Management

As of September 30, 2019, we had \$ 29.9 million of real estate investments and minimal cash invested by our Clients (in terms of "regulatory assets under management" which include committed uncalled capital). This entire amount is managed on a discretionary basis.

ITEM 5: FEES AND COMPENSATION

A. Fee Schedule

Hillcrest receives management fees and carried interest¹, for their advisory services to the Clients.

Until the investment period for each Fund has terminated, each Fund pays to Hillcrest annual advisory fees (“Management Fees”) equal to a certain percentage of the total capital commitments (regardless of whether such capital has been invested) of the partners of the applicable Fund, as described in the Fund’s Governing Documents. Following the end of the investment period of each Fund, the Management Fee of such Fund is equal to a certain percentage of the invested capital of such Fund, as determined in accordance with such Fund’s Governing Documents.

Hillcrest, in its discretion, may waive or reduce the Management Fee applicable to any Client or all or any of the investors in each Fund or agree with an investor to waive or alter the Management Fee as to that investor. The Management Fee charged by certain of the Funds is reduced by the amount of any transaction, break-up or similar fees received by us as described in the Governing Documents of the applicable Fund.

There can be no assurance as to when capital will be invested or that the entire capital commitment of an investor will be invested by each Fund.

Hillcrest is apportioned carried interest distributions from each Fund (“Carried Interest”) based on the net cash proceeds attributable to Fund investments through related general partner entities. Each such general partner, in its discretion, may waive or reduce the Carried Interest as to all or any of the investors in each Fund or agree with an investor to waive or alter the Carried Interest as to that investor. The Carried Interest is also subject to a “clawback”, which means that each general partner is required to return to the investors of each Fund distributions it receives from such Fund which constitute Carried Interest under such Fund’s Governing Documents if the general partner of such Fund has received, over the term of such Fund, an aggregate amount of Carried Interest distributions which exceeds the amount of Carried Interest distributions payable to the general partner pursuant to the terms of the applicable Governing Documents, applied on an aggregate basis covering all investments of such Fund over the term of such Fund.

With respect to each Fund, Management Fees generally do not exceed 1.55% per annum and generally Carried Interest distributions generally do not exceed 20% of the profits earned by such Fund.

Investors should refer to each Fund’s Governing Documents for additional or supplementary information regarding such Fund as well as the fees paid by such Fund, since fees and expenses may vary across Funds.

Fees associated with the SMA’s are negotiated directly with each Client and generally range from 50 basis points to 150basis points. Incentive fees are also negotiated with such clients,

¹Carried interest is received via the General Partner of the applicable Fund.

and generally do not exceed 25% of profits earned by such Client, as calculated in accordance with applicable hurdles as described in the applicable Governing Documents.

B. Payment Method

The Management Fee generally will be paid by each Client quarterly in advance by (i) issuing capital calls to the investors, (ii) invoicing SMA's (iii) borrowing under credit facilities, or (iv) or by paying the Management Fee from investment proceeds or other cash held by each Client. The Carried Interest for each Client is paid out as a distribution of the net cash proceeds attributable to dispositions of portfolio investments of such Client.

C. Other Fees and Expenses

Each Client bears the expenses of its organization (subject to a maximum amount as set forth in the applicable Governing Documents) and all operational expenses incurred in connection with the purchase, sale, financing, refinancing, management, disposition, and pay-off of investments, and the fees and expenses of third-party service providers to the Client. Such expenses include but are not limited to:

- (i) legal, auditing, consulting, financing and accounting fees and expenses of the Client;
- (ii) expenses associated with the preparation and distribution of the Client's financial statements and reports to Fund investors and the costs of preparing and filing the Fund's tax returns;
- (iii) out-of-pocket expenses and other expenses incurred in connection with the operation of the Client's account under the laws of the jurisdiction in which it is organized;
- (iv) expenses incurred in connection with transactions pursued but not ultimately consummated;
- (v) expenses of appraisers and consultants;
- (vi) expenses of litigation and indemnification;
- (vii) insurance premiums;
- (viii) expenses of advisory committee meetings and meetings of the Client or, as applicable, Fund investors;
- (ix) other expenses associated with the acquisition, holding, financing, refinancing and disposition of the Client's investments, including extraordinary expenses; and
- (x) any taxes, fees or other governmental charges levied against the Client's account.

From time to time, we receive transactions fees, including origination, acquisition, disposition, financing, break-up or similar fees from third parties which are directly related to the activities of the Clients. Typically, any such fees received by us will be applied (i) to reimburse us for any expenses incurred and not otherwise reimbursed and (ii) to prepay Management Fees with respect to the Client(s) to which such fees relate.

The existence of origination, acquisition, and disposition fees, if any, create an incentive to originate, acquire, or dispose of assets based on compensation received versus a Client's

needs; however, we have procedures to ensure we manage each Client in accordance with the investment strategy set forth in the Governing Documents.

To the extent fees, costs and expenses are incurred for the benefit of more than one Client (including items such as reporting, research, consulting and insurance), such expenses will be allocated among the relevant Clients (or, in certain cases, among the relevant Clients and Hillcrest). Such allocation will be made on a basis reasonably believed by Hillcrest to be fair and equitable based on the relevant facts, such as, but not limited to, pro rata, use, service applicability, and using the relative sizes of the participating Client accounts, the activity of the Clients and the particular circumstances that caused the expense to be incurred with respect to each Client. Hillcrest regularly evaluates its allocation practices to ensure that such allocations are based on a sound method and accordingly such allocation practices may be subject to change.

D. Prepayment of Fees and Refunds

The Management Agreements for the Funds may be terminated upon the earliest to occur of: (a) the dissolution of such Fund, (b) the delivery of written notice by the general partner of such Fund terminating the Management Agreement; or (c) the affirmative vote of a specified percentage of limited partners to remove the general partner either (i) due to the occurrence of certain bad acts (as specified in the applicable Partnership Agreement) or (ii) without “cause”. Hillcrest will be entitled to all accrued but unpaid management fees through the date of termination of the applicable Management Agreement and will not be required to return any such management fees to the Funds or investors in the event of termination of the Management Agreement.

Except as otherwise provided in the Fund’s Governing Documents, no investor may withdraw from a Fund or make a demand for or receive paid-in capital.

SMAs will be invoiced quarterly, in advance. SMAs initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any SMA, all earned, unpaid fees will be due and payable to Hillcrest.

E. Sales Compensation

We do not accept compensation in connection with the sale of interest in the Funds.

ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

“Performance-Based Fees” are fees that are based on a share of the profits, capital gains or capital appreciation of the assets of an account. Each general partner to a Client receives performance-based compensation in the form of carried interest distributions from each Client. For a discussion of our Carried Interest, please refer to Item 5A above. Fees based on performance will only be charged in accordance with the provisions of Rule 205-3 under the Advisers Act.

Performance-based compensation may create an incentive for us to cause a Client to make investments that are riskier than it would otherwise make. Performance-based fee arrangements may also create an incentive to favor Clients which charge a higher carried interest percentage than other Clients in the devotion of time, resources and allocation of investment opportunities.

In the event that some Clients are charged performance-based compensation but not others, a conflict of interest may arise where Hillcrest has an incentive to treat some Clients preferentially as compared to others because those Clients pay performance-based compensation. Such a conflict could also arise because Hillcrest has an interest in the Client's investment vehicle. In addition, although Hillcrest will generally be investing for a single Client with a particular strategy at any given time, there may be times where Clients pursue overlapping strategies and/or have overlapping investment periods. Hillcrest has adopted a policy to allocate and/or rotate (as needed) investment opportunities to its Clients on a fair and equitable basis (including taking into account the characteristics of the opportunity, its risk and return profile, and the strategies of the relevant Client), notwithstanding any variation in compensation structure or the fact that Hillcrest or its managers or affiliates may have a proprietary interest in a Client account.

To manage these potential conflicts, Hillcrest has adopted several compliance policies and procedures. These policies and procedures include (i) our Code of Ethics (see Item 11), (ii) our Compliance Manual, and (iii) allocation policies and rotation procedures which seek to ensure that investment opportunities are allocated and rotated fairly among Clients and that all Client accounts are managed in accordance with their investment mandate. We do not consider fee structures in allocating investment opportunities.

ITEM 7: TYPES OF CLIENTS

For a discussion of our Clients, please refer to Item 4 above.

We generally require investors in a Fund to make a minimum capital commitment to that Fund, although the amount of the minimum varies from fund to fund. The minimum investment requirements may be waived by us in our sole discretion. Investors that are U.S.-based persons must be "accredited investors" under Regulation D under the Securities Act, and, for certain, "qualified purchasers" under Section 2(a)(51)(A) of the Investment Company Act. The Funds' charge performance fees only with respect to those investors in each Fund or Clients who are "qualified clients" eligible to pay performance fees under the Advisers Act.

We require Client's and investors to make representations concerning their financial sophistication and ability to bear the risk of loss of their entire investment.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK LOSS

A. Methods of Analysis

Investments for each Client are identified and selected by the Senior Management Team. We primarily conduct research on portfolio investments based generally on (i) reviews of market comparable data, legal documents, and industry research and reviews; (ii) borrower/sponsor interviews; and (iii) site visits to each potential investment to examine the

property. In certain instances, we may also retain outside consultants and advisors having special expertise in relevant fields. We compile and analyze the foregoing information as well as employ a variety of financial analysis tools and methodologies in assessing, evaluating, underwriting, and valuing potential investments. Following an investment by a Client, we will continue to monitor the progress and suitability of portfolio investment, the borrower's/sponsor's ability to perform and market and economic conditions.

Investments in securities involve risk of loss that investors must be prepared to bear.

B. Investment Strategies

Hillcrest has two complimentary real estate credit strategies. Each strategy focuses on building a diversified and complementary blend of:

- Property Sectors:** Office, Office-related uses, Industrial, Multi-Family, Retail, Hotel
On a selective basis Alternative Property Sectors will be considered for example Student Housing, Senior Housing, Covered Land).
- Geographic Location:** U.S. markets with historical and/or trending economic and/or population growth as well as in-fill locations with barriers to entry and/or constraints on supply.
On a selective basis Alternative U.S. markets will be considered (for example an emerging sub-market – the boroughs of Manhattan).

The Credit and Income Strategy can be considered an alternative to fixed income and a proxy for core equity real estate focused on originating and managing

- Stabilized to “lightly” transitional assets
- UNLEVERED core-plus mezzanine debt and preferred equity investments
- 55% to 80% LTV (in a secure part of the capital stack)

The Enhanced Yield and Income Strategy capitalizes on stressed/distressed recapitalization opportunities at the asset level (missed business plans) and restructuring opportunities at the borrower level (ownership changes) and focused on originating and managing

- “Moderately” transitional to transitional assets
- Whole-loans, mezzanine debt and preferred equity investments
- Up to 85% LTV (on recapitalizations with equity participation the LTV could be intentionally higher)

Both of these strategies capitalizes on current market conditions (where we are in the economic and/or investment cycle); where we are seeing the risk-adjusted investment opportunities; as well as our firm's core strengths: the principals' decades (each) of operating and investing experience; disciplined underwriting and asset valuation; and access to investment opportunities in the middle market space through long-standing banking and operating partner relationships.

The investment strategy of Hillcrest Credit and Income Fund II, L.P. (“Fund II”) was to originate and manage investments in accordance with the Credit and Income Strategy description above. The Fund II investment period has ended, as such, this fund is no longer permitted to make new investments.

Investment opportunities which are appropriate for more than one Client will be allocated by us according to our allocation policies and rotation procedures as set forth in the applicable Governing Documents of each Client and as described further in Section 12.B below.

Each Client may make its investments through the formation of subsidiaries formed as real estate investment trusts, limited liability companies or other entities. We may also, in our sole discretion, establish parallel and/or feeder partnerships, real estate investment trusts, group trusts, or other investment vehicles to address the tax, regulatory, or other concerns of certain prospective investors. In order to insulate the assets of a Client against liabilities arising from certain investments, to facilitate any financing to be incurred in order to acquire investments and to provide flexibility in disposing of investments, we may use domestic and foreign special purpose vehicles to make Client investments.

The investment strategy for each Client is more particularly described in each Client's Governing Documents. Prospective Clients and investors should carefully read the Governing Documents and consult with their own counsel and advisers as to all matters concerning an investment in such an investment vehicle prior to making an investment.

C. Material Risks

The Clients will be primarily investing in debt and equity investments related to real estate and real estate-related assets. Acquiring interests in a real estate asset is intended for sophisticated investors who can accept a high degree of risk in their portfolio, do not need regular current income from their investment with us and can accept a potential loss of their entire investment. Investment risks specific to the investment strategy of each Client are described in the Governing Documents associated with each Client. Such risks, in no particular order, may include (but are not limited to):

Portfolio Concentration. A Client may hold a relatively small number of real estate investments. Losses incurred in such investments could have a disproportionate effect on the Client's overall financial condition.

Portfolio Management. The performance of an investment depends on the Management Team's skill in making appropriate investment decisions and their ability to structure, consummate, leverage, manage, and realize returns on attractive investments.

Diversity. Although diversification will be a factor in each Client's investment decisions, originating and maintaining a diverse portfolio will not be any Client's primary focus. There is no assurance as to the degree of diversification by asset, property type, or other metrics that will be achieved in each Client's investments.

Competition for Portfolio Investments. Identifying, completing and realizing attractive real estate investments is highly competitive, and involves a high degree of uncertainty. There can be no assurance that we will be able to locate, consummate and exit investments that satisfy a Client's investment objectives or realize upon their values or be able to invest fully a Client's committed capital.

Illiquid Investments. Return of capital and the realization of gains, if any, from the investments of a Client generally will occur only upon the partial or complete disposition of an investment which may not occur for several years after the investment is made. It is unlikely that there

will be a public market for the investments held by a Client at the time of their acquisition. Such illiquidity may limit the ability of the Fund to vary its portfolio of investments in response to changes in economic and other conditions. Illiquidity may result from the absence of an established market for investments as well as the legal or contractual restrictions on their resale.

Non-Controlling Interests. Although we will seek appropriate rights to protect each Client's interests, a Client may hold a non-controlling interest in an investment and, therefore, may have a limited ability to protect its position in such assets and control the management and disposition of such assets.

Targeted Rate of Return on Investments. Hillcrests will make investments based on our estimates or projections of internal rates of return and current returns, which in turn are based on, among other considerations, assumptions regarding the performance of each Client's investments, the amount and terms of available financing and the manner and timing of dispositions, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that have not been anticipated may occur and may have a significant effect on the actual rate of return on each Client's investments.

Unknown Risks. Hillcrest's due diligence may not reveal all of the factors affecting an investment and may not reveal weaknesses in such investments. There can be no assurance that our due diligence processes will uncover all relevant facts that would be material to an investment decision.

Subordinated Positions. Subordinate loans such as junior participations in mortgages, mezzanine loans and preferred equity investments (and participations therein) have a risk of credit loss that is enhanced due to the subordinate nature of such investments. In the event of default, the net proceeds from a foreclosure or restructuring may not be sufficient to cover the expenses of foreclosure and payment in full of the debt.

Construction Lending Activities. Hillcrest may originate loans for the construction of commercial and residential use properties. Construction lending generally is considered to involve a higher degree of risk than other types of lending due to a variety of factors, including generally larger loan balances, the dependency on successful completion of a project, the dependency upon the successful operation of the project (such as achieving satisfactory occupancy and rental rates) for repayment, the difficulties in estimating construction costs and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at stated maturity.

Use of Credit Spreads. The Clients may make investments with projected returns predicated upon improvement in credit spreads. There is no assurance that credit spreads will improve and, there is no assurance that a Client will be able to realize the value from spread improvements if the market for the investment is illiquid.

Delinquency Risks. The commercial mortgage and mezzanine loans the Clients may originate or acquire are subject to delinquency, foreclosure, and loss which could result in losses to the Clients.

Leverage on Debt/Credit Investments. We will not utilize leverage on certain Credit and Income Strategies. Hillcrest believes that an unlevered strategy will position certain Clients' to better withstand market cycles and enhance its control in various outcomes.

Leverage. We will utilize leverage on behalf of the Clients with the goal of enhancing the returns of the investments. Hillcrest's failure to obtain leverage at the contemplated levels, or to obtain leverage on attractive terms, could have a material adverse effect on such Clients. Use of leverage will subject a Client to risks normally associated with debt financing, including the risk that the Client's cash flow will be insufficient to meet required payments of principal and interest, the risk that indebtedness on the investments will not be able to be refinanced or the risk that the terms of such refinancing will not be as favorable as the terms of the existing indebtedness.

In addition, a Client may invest in investments which have significant leverage. The use of leverage is a speculative technique that involves special risk considerations. To the extent an investment in which a Client invests is leveraged, its leveraged capital structure will increase the exposure of the investment to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the company or its industry sector.

Hedging. The Clients may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases, credit spreads). No strategy can completely insulate a Client from the risks associated with interest rate changes and there is a risk that they may provide no protection at all and potentially compound the impact of changes in interest rates. Moreover, hedging can cause the Clients to lose money and can reduce the opportunity for gain.

Fluctuations and Cycles in the Real Estate Market. The Clients are subject to the risks inherent in the real estate market. Real estate historically has experienced significant fluctuations and cycles in performance, that may result in reductions in the value of the Clients' real estate-related investments.

U.S. and Global Economies. The Clients and their investments may be negatively affected by downturns in the U.S. and global economies and real estate markets.

Operating Companies. Certain Clients may make investments in real estate-related companies which are existing businesses. Accordingly, such Clients will assume various risks associated with the operations of such companies including, but not limited to, employee-related issues and operational liabilities. Additionally, such Clients will rely upon the portfolio companies' management teams to operate the companies on a day-to-day basis. There can be no assurance that such management will continue to operate the companies.

Real Estate Development. The Clients may be affected by risks associated with real estate development. The Clients may acquire direct and indirect interests in real estate development projects. To the extent that the Clients invest in such development activities, they will be subject to the risks normally associated with such activities.

Environmental and Other Liability. The Clients and their investments 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. The Clients and their investments may be subject to a wide range of environmental, health and safety laws, ordinances and regulations, including without limitation, those relating to the investigation, removal, and remediation of past or present releases of hazardous or toxic substances. 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.

The Clients are subject to additional risks than those set forth above. Please see the Offering Documents or Investment Management Agreement of each Fund or Client for additional risks associated with such Client.

ITEM 9: DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or potential client's evaluation of the firm or the integrity of the firm's management in this item.

We have no legal or disciplinary events to report.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES

A. Registration as a Broker-Dealer or Registered Representative

Neither we nor any senior management person is registered as a broker-dealer or registered representative, futures commission merchant, commodity pool operator, commodity trading advisor or associated persons thereof.

B. Registration as a Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Advisor or Associated Persons

Neither we nor any senior management person is registered as a broker-dealer or registered representative.

C. Material Relationships

We currently have certain relationships or arrangements with related persons that are material to our advisory business or our Clients. Hillcrest controls all of its affiliates serving as investment managers or general partners to the Funds and/or SMAs, as discussed in Item 4 above. Certain inherent conflicts of interest arise from the fact that: (1) we provide investment management services to more than one Client; (2) Clients may have one or more overlapping investment objectives and/or investment strategies; and (3) participation in specific investment opportunities may be appropriate for more than one Client. Participation in investment opportunities which are suitable for more than one Client will be allocated pursuant to our allocation policy and procedures (see Item 12.B below).

Investors in a Fund and/or SMA must understand that each Fund and/or SMA was formed as an investment product to be managed by us, and that we do not intend to cause any Fund and/or SMA to terminate its investment management relationship with us absent our liquidation or bankruptcy. In addition, Fund investors are not permitted to withdraw from a Fund prior to its dissolution. (See Item 7 above.)

D. Selection of Other Investment Advisers

We do not select other advisers to provide services to our Clients.

ITEM 11: CODE OF ETHICS

A. Code of Ethics

In order to address conflicts of interest, we have adopted a code of ethics (the “Code”) which is applicable to all of our officers, principals, managers, members, associated persons, and employees involved in the provision of investment advice (collectively, “Associated Persons”). The Code generally sets the standard of ethical and professional business conduct that we require of our Associated Persons, requires Associated Persons to comply with applicable federal securities laws and regulations, and sets forth provisions regarding personal securities transactions by Associated Persons. Additionally, the Code sets forth our policies and procedures with respect to material, non-public information and other confidential information, and the fiduciary obligations that we and each of our Associated Persons owes to each advisory client.

The Code is circulated at least annually to all Associated Persons, and each Associated Person at least annually must certify in writing that he or she has received and followed the Code and any amendments thereto.

We will provide a copy of the Code to any Client or prospective client upon request.

B. Recommendations Involving Material Financing Interests

We and our Associated Persons do not purchase any securities or assets for our own accounts from or sell any securities or assets for our own accounts to, Clients. However, from time to time, subject to applicable investment guidelines and restrictions, we may direct one Client to sell securities or assets to another Client through an internal cross transaction.

Cross trades may be viewed as principal transactions due to our ownership interests in certain Clients. Cross transactions and principal transactions may give rise to conflicts of interest between Clients. For example, one Client could be advantaged to the detriment of another Client in the event that the securities or assets being exchanged are not priced in a manner that reflects their fair value. In addition, we could use our investment authority to transfer unappealing securities or assets from one Client to another Client.

To the extent that any such cross transaction may be viewed as a principal transaction due to our ownership interest in the Funds, we will comply with the requirements of Section 206(3) of the Advisers Act and our internal policies and procedures. Specifically, our Associated Persons must provide notice to, and obtain the approval of, our Chief Compliance Officer or designee, prior to executing a principal trade or cross trade. When reviewing a proposed principal trade or cross trade, the Chief Compliance Officer or designee shall confirm, among other things: (i) that such trade is allowed by the applicable Client’s investment guidelines, (ii) that our valuation procedures were followed when pricing the transaction, including obtaining a third-party valuation when appropriate, and (iii) in the case of principal trades, that notice of

the specific trade was provided to a legal representative of the Funds and written consent from each applicable Fund's advisory committee was obtained.

We or an affiliate serve as the general partner, investment manager and/or investment adviser to the Funds and/or SMAx. We have a material personal investment in each Fund and certain SMAs through the general partner of each Fund and as limited partners of each Fund. Associated Persons may own interests in the Funds and/or SMAs, either directly or indirectly through family members. We do not believe that these investments cause a conflict of interest between us and the s but rather function to better align the interests of the investors with our own interests since our own capital is being invested alongside the investors' capital. By virtue of our capital investment in the Funds and/or SMAs, we may be considered to participate, indirectly, in transactions effected for the Funds and/or SMAs. The foregoing relationships, fees and any other actual or potential conflicts of interest arising therefrom are disclosed in the Offering Documents.

C. Personal Trading

We generally do not co-invest with any of our Clients. However, our Associated Persons may have direct and indirect investments of their own capital or other financial interests in our Clients through, for example, direct investments, deferred compensation agreements, performance allocation and carried interest.

Our Code also addresses personal trading for Associated Persons. Included in the personal trading section is the requirement for all Associated Persons to this is not the case. We have a blacklist but no preclearance. It further requires Associated Persons that we deem as access persons (investment, corporate, finance, and compliance personnel) to report their personal securities holdings annually and their personal securities transactions on a quarterly basis.

D. Other Conflicts of Interest

Our Code of Ethics has policies and procedures to address the following additional conflicts of interest. While we do not believe that there are any conflicts that pose material risks to the Clients' interests, we wish to note some additional potential conflicts that are inherent in our structure and activities. We also have included brief descriptions of the procedures we use to mitigate their effects.

Non-Public Material Inside Information/Insider Trading

We have established policies and procedures reasonably designed to prevent the misuse by us and our Associated Persons of material information regarding issuers of securities that has not been publicly disseminated ("material non-public information"). In general, under the procedures, when we are in possession of material non-public information related to a publicly-traded security or the issuer of such security, whether acquired unintentionally or otherwise, neither Hillcrest nor its Associated Persons are permitted to render investment advice as to, or otherwise trade or recommend a trade in, the securities of such issuer until

such time as the information that we have is no longer deemed to be material non-public information.

Gifts/Gratuities

Our Codes sets forth procedures regarding gifts and business entertainment to address the potential conflicts of interest surrounding these practices. In general, we limit the receipt of gifts to each Associated Person from each business contact and limit the giving of gifts to investors and potential investors and other business contacts. In addition, with regard to business entertainment, we have a policy to generally allow for business entertainment opportunities provided that it is for legitimate business purposes. Exceptions to these policies may be made upon review and approval by the CCO. In all cases, we monitor not only potential conflicts of interest in individual instances of gifts or business entertainment but also patterns over time. A further explanation of our gift and business entertainment policy can be found in our Code of Ethics.

Political Contributions

Due to the potential for conflicts of interest, we have established procedures relating to political contributions which are designed to comply with applicable federal and state law. All Associated Persons are required to seek pre-approval before making any political contribution.

Valuation

Our Clients may at times hold illiquid or difficult to value investments. We believe our valuation policies and procedures enable us to value Client assets fairly and in a manner that is consistent with the best interests of the Clients, however since we have the authority to determine the value of the Clients' investments which may be illiquid or difficult to value, we may have an incentive to select the highest potential value for these investments. The risk of this potential conflict of interest is mitigated by the fact that our Management Fee is not impacted by the valuation of our Clients' investments. As specifically negotiated with certain Clients, Hillcrest may, in certain situations, receive carried interest payments that are based primarily on valuations involving both realized and unrealized gains and losses. As a result, the carried interest earned could be based on unrealized gains that clients may never realize. The carried interest may create an incentive for Hillcrest to make more speculative investments and make different decisions regarding the timing and manner of the realization of such investments, than would be made if such carried interest were not allocated to Hillcrest.

Conflicts from Competing Interests

Our Clients may compete for access to our resources, including investment opportunities. There may be conflicts of interest in allocating investment opportunities among the current and future private funds we manage, however the Partnership Agreements contain restrictions on our ability to sponsor or manage competing funds and/or vehicles and to allocate investment opportunities away from the Clientss and/or vehicles. We may devote more time, attention or resources to some of our Clients than to others and/or present an investment opportunity to certain Clients that we do not or cannot present to all. This could have a material adverse effect on a Client's ability to acquire assets, generate cash flow and income, and make distributions.

We may confront conflict concerns when allocating scarce investment opportunities, given the benefit to us of favoring Clients that pay a higher fee or generate more income for us. To address this conflict of interest, we have adopted various allocation policies (See Section 12)

as well as supervisory procedures that are intended to fairly allocate investment opportunities among competing Clients.

Performance-based compensation may create a conflict of interest, as it can create an incentive for us to make or recommend investments that are riskier or more speculative than would be the case in the absence of such compensation structure. Certain of our supervised persons individually receive, as part of their compensation, carried interest payments, which are based on the performance of the relevant Client. We manage each Client in accordance with the investment strategy set forth in the Fund's Offering Documents or management agreement with a Client and strive to ensure that investors are aware of the investment strategy and the risks associated with the strategy. The Offering Documents of each Fund and management agreement with each Client contains further details regarding the incentive allocation and risk and strategy of such Client.

Conflicts from our other activities and investments

We may engage in a broad spectrum of real estate finance and investment activities that are independent from, and may from time to time conflict with, our Clients. In the future, there might arise instances where our interests conflict with the interests of a Client and/or investors. We have investments in real estate and real estate-related assets in which our Clients do not have an ownership interest. Certain conflicts of interest may result from such investments. Subject to the restrictions set forth in the Partnership Agreements, we may invest in investments that are senior to or junior to, participations in, or have rights and interests different from or adverse to, the investment opportunities of the Clients. Our interests in such investments may conflict with the interests of our Clients in related investments at the time of origination or in the event of default or restructuring of the investment. Subject to certain limitations set forth in the Partnership Agreements, we may also invest in real estate and real estate-related assets that may be competitive with our Clients or the properties securing their investments. To the extent we invest in competitive properties, such properties may impair the performance of Clients' investments.

As described above, we or an affiliate may perform property management, leasing and development services to the Clients and their investments and receive fees from the Clients in exchange for providing such services, as described in the Partnership Agreements. The ability to earn such fees from certain of the Clients may incentivize us to perform more of these services than we might otherwise perform.

Conflicts in general

Various parts of this brochure discuss potential conflicts of interest that arise from our advisory business. We disclose these conflicts due to the fiduciary relationship we have with our Clients. When acting as a fiduciary, we owe Clients a duty of loyalty. This includes the duty to address, or at minimum disclose, conflicts of interest that may exist between different Clients; between us and our Clients; or between our Associated Persons and Clients. Where potential conflicts arise from our fiduciary activities, we will take steps to mitigate, or at least disclose, them. Conflicts arising from fiduciary activities that we cannot avoid (or chose not to avoid) are mitigated through written policies that we believe protect the interests of our Clients as a whole. In these cases – which include issues such as personal trading and client entertainment, discussed above – regulators have generally prescribed detailed rules or principles for investment firms to follow. By complying with these rules and following robust compliance practices, we believe that we handle these conflicts appropriately.

ITEM 12: BROKERAGE PRACTICE

A. Criteria for Selection of Broker-Dealers

In General—Brokerage Selection

Our Clients make investments in real estate, real estate-related assets, and debt investments backed by real estate and real estate-related assets. We do not utilize the services of a securities broker in selecting the investments for Clients.

Accordingly, we do not select brokers for Client transactions, engage in soft dollar arrangements, enter into agreements with, or make commitments to any broker-dealer that would bind us to compensate that broker-dealer, directly or indirectly, for the sale of Client interests, through the placement.

B. Aggregation of Orders/Allocation of Trades

Since we invest on behalf of our Clients in real estate, real estate-related assets, and debt investments backed by real estate and real estate-related assets, we are not able to aggregate securities or investment transactions for Clients.

The Partnership Agreements set forth our investment opportunity allocation procedures and our allocation policies and rotation procedures address the allocations across all Clients where applicable. Generally, if there is an investment opportunity that is suitable for more than one Client, each Client still in its investment period will be given the opportunity to participate in such investment opportunity in such amounts as we reasonably determine in good faith, based on factors such as the investment size, available capital of each Client, investment restrictions, diversification requirements of each Client, anticipated termination of the relevant investment period of each Client, and other relevant factors.

We, in our sole discretion, may also offer the right to participate in investment opportunities to one or more strategic investors, lenders, or other third-parties. We will allocate available investment opportunities among Clients, strategic investors, and other third-parties as we may reasonably determine in good faith.

ITEM 13: REVIEW OF ACCOUNTS

A. Periodic Reviews

The enior Management Team monitors all Client accounts and their investments on an ongoing basis. The Senior Management Team meets regularly, generally to review portfolio performance, portfolio diversification and investment activity.

B. Non-Periodic Reviews

Not applicable

C. Client Reports

Clients and investors receive such reports as are provided for in the Governing Documents. Fund financial statements will be prepared in accordance with U.S. Generally Accepted Accounting Principles and will be distributed to investors after the end of each Fund's and/or SMA's fiscal year. Fund and/or SMA investors also receive quarterly reports containing information on the Fund's and/or SMA's portfolio holdings, including summary descriptions of the applicable Fund's and/or SMA's investments made and disposed of during such quarter. These reports may include or be accompanied by information with respect to the performance of the Fund or Client account, other information, as applicable, about the investor's capital account and certain tax-reporting information (e.g., Form K-1) or as negotiated on behalf of other Clients pursuant to the applicable Governing Documents and vary from those types reports provided to investors in the Funds.

We may rely on information provided by third parties in preparing reports, and a third party may assist in preparing or distributing reports. To the extent reports include or rely upon information from another source, we attempt to obtain such information from reliable sources; however, the accuracy of such information cannot be guaranteed. Reports may also include or rely upon fair value determinations made by us or a third party. While such valuations are made in good faith, their actual or empirical accuracy cannot be guaranteed.

We, in our discretion, may provide more frequent reports and/or more detailed information to all or any of the investors in the Funds or to Clients.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

A. Compensation by Non-Clients

From time to time, we may receive transactions fees, including origination, acquisition, disposition, brokerage, investment banking, financing, break-up or similar fees from portfolio companies or third parties which are directly related to the activities of the Clients. Typically, any such fees received by us will be applied (i) to reimburse us for any expenses incurred and not otherwise reimbursed and (ii) to prepay Management Fees with respect to the Client(s) to which such fees relate. In addition, as described in the Partnership Agreements, we may charge certain of the Clients property management fees, leasing fees, development fees and investment sourcing fees, which fees do not offset the Management Fees.

B. Compensation for Client Referrals

Unrelated third-parties may be compensated for assistance in arranging capital commitments from both domestic and foreign sources in the Clients. Any such arrangements are conducted pursuant to written agreements. The compensation to be paid to such unrelated parties is negotiated on an individual case basis.

ITEM 15: CUSTODY

Generally, except for certain privately offered securities, neither we nor any of our affiliates maintain physical possession of the funds or securities of any Client. Physical custody of the assets of a Client (other than certain privately offered securities) are maintained with a bank, trust company, broker-dealer or other qualified custodian (“Qualified Custodian”) selected by us in our exclusive discretion, which selection may change from time to time generally without the consent of investors in the Fund and with proper notice to Clients.

Although neither we nor our affiliates have physical possession or custody of any Fund of SMA assets (other than certain privately offered securities), under Rule 206(4)-2 of the Advisers Act (the “Custody Rule”), we are deemed to have “constructive” custody of the Fund assets by virtue of our and our affiliates relationships with the Funds.

In order to comply with the Custody Rule, the Funds and certain SMAs in accordance with the Governing Documents undergo an annual audit performed by an independent accounting firm registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB). The audited financial statements, prepared in accordance with GAAP, are distributed to all investors in each Fund within 120 days of the end of the fund’s fiscal year.

ITEM 16: INVESTMENT DISCRETION

Subject to any investment restrictions set forth in the Fund’s Governing Documents and any side letter agreements, Hillcrest generally has discretionary authority to make the investment determinations without obtaining the consent of any investor of the applicable Fund before the transactions are affected.

Hillcrest’s discretionary authority is derived from its authority as the investment manager of each of the Funds and its authority pursuant to an investment management agreement entered into by Hillcrest and each of the Funds.

Hillcrest provides investment management services to SMA’s on a non-discretionary basis.

ITEM 17: VOTING CLIENT SECURITIES

Our Clients invest in real estate related assets. Due to the nature of these investments, we do not anticipate having authority to vote proxies since we do not make direct investments in public securities.

ITEM 18: FINANCIAL INFORMATION

A. Prepayment of Fees (Six months or more months in advance)

Not Applicable

B. Impairment of Contractual Commitments

We have no financial commitment that impairs our ability to meet our contractual and fiduciary commitments to our Clients nor do we have any bankruptcy petitions to disclose.

C. Bankruptcy Petitions

Not Applicable