

**ITEM 1 – Cover Page**

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**May 3, 2019**

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This brochure provides information about the qualifications and business practices of Terra Fund Advisors, LLC (the “**Adviser**”). If you have any questions about the contents of this brochure, please contact us at (212) 753-5100. The information contained in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

The Adviser is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). Please note that registration with the SEC does not imply a certain level of skill or training.

Additional information about the Adviser is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2 – Material Changes**

On December 1, 2018 there was a change in the officers managing the Advisor's day-to-day operations. Additionally, there was a change in ownership of Terra Capital Markets, LLC and its affiliates. Details of the updated ownership is outlined in Item 4 of this brochure. Items 10 and 13 have also be revised accordingly.

A summary of any material changes to this and subsequent brochures will be made available to you within 120 days of the close of our business' fiscal year. We may also provide you with additional updates or other disclosure information at other times during the year in the event of a material change to our business.

You may request the most recent version of this brochure, free of charge by contacting us at 212-753-5100. You may also obtain a copy by going to the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **ITEM 4 – Advisory Business**

The Adviser is a Delaware limited liability company formed in September 2017 that is registered as an investment adviser with the SEC under the Advisers Act. As of the date hereof, the Adviser provides investment advisory and administrative services to the following entities: (a) Terra Secured Income Fund 5, LLC ("**TSIF 5**") and its wholly owned subsidiaries Terra Secured Income Fund ("**TSIF**"), Terra Secured Income Fund 2, LLC ("**TSIF 2**"), Terra Secured Income Fund 3, LLC ("**TSIF 3**"), Terra Secured Income Fund 4, LLC ("**TSIF 4**"); and (b) Terra Secured Income Fund 7, LLC ("**TSIF 7**") (and together with TSIF 5, TSIF, TSIF 2, TSIF 3, TSIF 4, and any other persons or entities that may become clients of the Adviser in the future, the "**Clients**").

The Adviser may, subject to any limitations described in the various agreements between the Adviser and its Clients (each, an "**Advisory Agreement**"), which may include without limitation, the organizational documents of a Client, advise business development companies ("**BDCs**"), real estate investment trusts ("**REITs**"), registered investment companies, private investment funds, institutional investors, or other persons or entities in the future, at which time the Adviser will make any necessary amendments to this Brochure.

The Adviser is responsible for identifying potential investments for its Clients. The Adviser evaluates such investments and their appropriateness based on the investment objectives and policies of the applicable Client making such investment, as adopted by such Client's board of directors, board of managers or other governing body. If the Adviser determines that certain investments are appropriate for a given Client, and the investment committee of the Adviser unanimously approves such investments, the Adviser will effectuate the investments on behalf of such Client. The Adviser also has the discretion, without limitation, to determine the broker-dealer used in effecting any investment and commissions to be paid in connection therewith. While brokerage commissions will not generally be payable in connection with such investments, in determining the appropriate level of commissions, the Adviser may consider the level of products, research and services to be obtained.

The Adviser then acquires, monitors and continually services any investments made. Using a security analysis methodology that includes a combination of fundamental and cyclical analysis with a consideration of, among other things, a potential investment's credit rating, if applicable, the Adviser will determine what securities are appropriate for purchase, sale or retention by its Clients.

From time to time, the Adviser may enter into sub-advisory arrangements with other advisers (each, a "**Sub-Adviser**") that possess skills that the Adviser believes will aid it in achieving its Clients' investment objectives. Any such Sub-Adviser may, among other things, assist the Adviser in identifying investment opportunities and make investment recommendations to the Adviser. The Adviser will be responsible for compensating any such Sub-Adviser.

The Adviser provides investment supervisory services to each of its Clients pursuant to an Advisory Agreement.

The Adviser may offer advice to its Clients on a broad range of securities, including but not limited to, commercial real estate loans (including mezzanine loans, first and second lien mortgage loans, subordinated mortgage loans, bridge loans and other commercial real estate-related loans), preferred equity investments, select commercial real estate-related debt securities, equity securities that may be exchange listed, traded over-the-counter or issued by foreign entities, warrants, commercial paper, certificates of deposit, mutual fund shares, U.S. government securities, option contracts on securities, interests in partnerships investing in real estate, oil and gas interests, commodities, corporate loans, corporate debt securities and collateralized loans and debt obligations.

As of December 1, 2018, the Adviser and its affiliates managed approximately \$286 million in client assets on a discretionary basis.

The Adviser is owned 51% and controlled by Messrs. Bruce D. Batkin, Simon J. Mildé, and Daniel Cooperman who have in excess of a 51% voting and economic interest in the Adviser. Axar Terra LLC, a pooled investment vehicle advised by Axar Capital Management, L.P., has a 49% economic (but not voting) interest in the Adviser.

## **ITEM 5 – Fees and Compensation**

The Adviser has no set policy regarding the calculation of fees for its services, and it will determine such fees on a client-by-client basis, as negotiated with each of the Clients as set forth in such Client's Advisory Agreement. As the Adviser establishes other relationships it may arrange to receive fixed fees or fees paid on some other negotiated basis. While brokerage commissions will not generally be payable by the Adviser, see Item 12 for information regarding certain trading execution costs that may be incurred by the Clients.

### **The Adviser**

The Adviser deducts agreed-upon fees in arrears from its Clients' assets and will deduct agreed-upon fees from the assets of any future Clients. The following is a summary of the fees that the Adviser receives from its Clients.

#### *TSIF 5, TSIF, TSIF 2, TSIF 3 and TSIF 4*

TSIF 5 and its wholly owned subsidiaries TSIF, TSIF 2, TSIF 3 and TSIF 4 conduct substantially all of their business through Terra Property Trust, Inc. ("Terra REIT"), an indirect wholly owned subsidiary of those entities. Terra REIT Advisors, LLC ("Terra REIT Advisors") serves as the manager of Terra REIT. The Adviser serves as the manager of each of TSIF 5, TSIF, TSIF 2, TSIF 3 and TSIF 4. TSIF 5 pays a carried interest to the Adviser as follows:

- Carried Interest.

After the members of TSIF 5 have received distributions equal to return of their capital contributions plus an 8.5% (or 9.0% for certain members who were members of TSIF, TSIF 2, TSIF 3 and TSIF 4) cumulative, non-compounded return, the Adviser is entitled to receive distributions on account of its carried interest equal to 15% of the amounts that would otherwise be distributable to the members of TSIF 5.

TSIF 5 and Terra REIT reimburse the Adviser and Terra REIT Advisors and their affiliates for costs incurred by them in such capacity, with TSIF 5 paying the organizational and offering expenses and Terra REIT paying the management fees and operating expense reimbursements.

#### *TSIF 7*

TSIF 7 conducts substantially all of its business through Terra Property Trust 2, Inc. ("Terra REIT 2"), its wholly owned subsidiary. Terra REIT Advisors, LLC ("Terra REIT Advisors") serves as the manager of TSIF 7. TSIF 7 pays a carried interest to the Adviser as follows:

- Carried Interest.

After the members of TSIF 7 have received distributions equal to return of their capital contributions plus an 8.2% cumulative, non-compounded return, the Adviser is entitled to receive distributions on account of its carried interest equal to 15% of the amounts that would otherwise be distributable to the members of TSIF 7.

TSIF 7 and Terra REIT 2 reimburse the Adviser and Terra REIT Advisors and their affiliates for costs paid or incurred by them in such capacity, with TSIF 7 paying the organizational and offering expenses and Terra REIT 2 paying the management fees and operating expense reimbursements.

#### **ITEM 6 – Performance-Based Fees and Side-by-Side Management**

As noted above in Item 5, the Adviser may receive performance-based fees. See Item 10 below for information regarding certain potential conflicts of interest relating to the Adviser's current Clients, and how such potential conflicts are mitigated.

#### **ITEM 7 – Types of Clients**

The Adviser provides investment advisory and administrative services to several private real estate investment funds and two REITs. As discussed in Item 4, the Adviser may, subject to any limitations described in the Advisory Agreements, advise BDCs or other registered investment companies, private investment funds, institutional investors or other persons or entities in the future.

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

The Adviser is responsible for evaluating potential investments for the Clients. Any Sub-Adviser engaged by the Adviser may, among other things, assist the Adviser in identifying investment opportunities and make investment recommendations to the Adviser. The Adviser and any Sub-Adviser will review such investments and their appropriateness based on the investment objectives and policies of each Client, as adopted by the Client's board of directors, board of managers, trustees or other governing body. If the Adviser, together with any Sub-Adviser, determine that such investments are appropriate and the Adviser's investment committee unanimously approves such investment, the Adviser, with the assistance of any Sub-Adviser, will effectuate investments on behalf of its Clients. The Adviser has the discretion, without limitation, to determine the broker-dealer used in effecting any investment and the commissions to be paid. While brokerage commissions will not generally be payable by the Adviser, in determining the appropriate level of commissions, the Advisers may consider the level of products, research and services to be obtained.

The Adviser, with the assistance of any Sub-Adviser, acquire, monitor and continually service any investments made. Using a security analysis methodology that includes a combination of fundamental and cyclical analysis with a consideration of, among other things, a potential investment's credit rating, if applicable, the Adviser, with the assistance of any Sub-Adviser, determines what securities are appropriate for purchase, sale or retention by its Clients. The Adviser, with the assistance of any Sub-Adviser, will rely on financial newspapers, magazines and trade journals, inspections of corporate activities, research material, annual reports and other filings with the SEC, company press releases and detailed management interviews, corporate rating services and other third-party data collection in offering advice on investing. The Adviser and any Sub-Adviser may offer advice to its Clients on a broad range of securities, including but not limited to, commercial real estate loans (including mezzanine loans, first and second lien mortgage loans, subordinated mortgage loans, bridge loans and other commercial real estate-related loans), preferred equity investments, select commercial real estate-related debt securities, equity securities that may be exchange listed, traded over-the-counter or issued by foreign entities, warrants, derivatives, structured products, commercial paper, certificates of deposit, convertible debt securities, mutual fund shares, U.S. government securities, option contracts on securities, interests in partnerships investing in real estate, oil and gas interests, commodities, corporate loans, corporate debt securities and collateralized loans and debt obligations. In addition, the Adviser and any Sub-Adviser may offer advice on the investment in BDC securities. The Adviser utilizes various investment strategies, including, among others, leverage, both long- and short-term purchases and hedging techniques when appropriate.

Investing in securities involves a risk of loss that Clients must be prepared to bear. Investments of the type that the Adviser recommends are subject to financial market risks, including changes in interest rates, which may have a substantial negative impact on the value of Clients' investments. In addition, since the Adviser primarily recommends investments in commercial real estate loans (including mezzanine loans, first and second lien mortgage loans, subordinated mortgage loans, bridge loans and other commercial real estate-related loans), preferred equity investments and select commercial real estate-related debt securities, such investments are subject to specific risks relating to the type of security held, the issuer of such security and various other risks, including, without limitation, those set forth in that certain Confidential Private Placement Memorandum of TSIF 5 dated August 8, 2013 and that certain Confidential Private Placement Memorandum of TSIF 7 dated November 1, 2016. Further, investments recommended by the Adviser may have limited or no liquidity. The Adviser may also recommend that a Client borrow funds to make investments or for other business purposes. As a result, such Client would be exposed to the risks of borrowing, also known as leverage. Leverage increases the volatility of investments by magnifying the potential for gain and loss on amounts invested. There can be no assurance, however, that the use of leverage will be successful. To the extent fees are charged based on assets under management, there may be an incentive to use leverage, since the funds obtained via leverage will increase assets under management.

#### **ITEM 9 – Disciplinary Information**

Neither the Adviser nor any of its executive officers, members of its investment committees or other “advisory affiliates” as defined in Form ADV has been subject to legal or administrative proceedings or disciplinary events related to their business activities, or otherwise is required to disclose any event required by this Item 9.

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

The Adviser is affiliated with or a related party of Terra Income Advisors, LLC (“**TIA**”), Terra Income Advisors 2, LLC (“**TIA2**”) and Terra REIT Advisors, LLC (“**TRA**”), registered investment advisers which are commonly owned and controlled with the Adviser. TRA shares certain common ownership and day-to-day management with Adviser. TIA currently provides investment advisory and administrative services to Terra Income Fund 6, Inc., a BDC, TSIF 5, TSIF 2, TSIF 3, TSIF 4, Terra REIT, Terra Secured Income Fund 5 International (“**Terra 5 International**”) and Terra Income Fund International (“**Terra International**”). TIA2 currently provides investment advisory and administrative services to Terra Secured Income Fund 7, LLC. TRA currently provides investment advisory and administrative services to Terra REIT, Terra REIT 2, Terra 5 International and Terra International.

The Adviser is also a related party of with Terra Capital Markets, LLC (“**TCM**”), a broker-dealer registered with the SEC and the Financial Industry Regulatory Authority, Inc. (“**FINRA**”). TCM acts as the dealer manager for the distribution of the shares of common stock or membership interests in limited liability companies of the Clients and is currently owned and controlled by TCM Holding Company, LLC an entity wholly owned and controlled by Axar Terra LLC.

Conflicts of interest with the Adviser's Clients related to these relationships include, among possible others, the following:

- The directors, officers and other personnel of the Adviser allocate their time between advising the Clients and managing other investment activities and business activities in which they may be involved, including managing and operating Terra Capital Partners, LLC (“Terra Capital Partners”);
- The compensation payable by the Clients to the Adviser and other affiliates will be approved by the Client's board of directors, board of managers, trustees or other governing body consistent with applicable law and the organizational and offering documents of such Client.

Such compensation is payable, in most cases, whether or not a given Client's shareholders receive distributions;

- The Adviser's Clients may compete with certain affiliates, including Terra Capital Partners and each other Client, for investments, the Adviser and its affiliates to certain conflicts of interest in evaluating the suitability of investment opportunities and making or recommending acquisitions on the Clients' behalf;
- The Adviser may be paid different fees by different Clients, which may lead to conflicts of interest;
- Regardless of the quality of the assets acquired, the services provided to the Clients or whether the Clients make distributions to their shareholders, the Adviser will receive certain fees in connection with the management of the Clients' portfolio;
- Because TCM and TRA each is an affiliate of the Adviser, its due diligence review and investigation of the Clients and their offering documents cannot be considered to be an independent review;
- From time to time, the Clients for which the Adviser provides investment management services or on whose behalf it carries on investment activities may make investments at different levels of an investment entity's capital structure or otherwise in different classes of an issuer's securities. These investments may give rise to inherent conflicts of interest or perceived conflicts of interest between or among the various classes of securities that may be held by the Adviser's Clients;
- The Adviser and its affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may compete with the Clients and may involve substantial time and resources of the Adviser;
- The Clients may seek to engage in co-investment or other affiliated transactions with the Adviser and its affiliates. Any of these co-investment opportunities may give rise to conflicts of interest or perceived conflicts of interest among the Clients; and
- The Adviser has recommended that TSIF 5, TSIF 2, TSIF 3 and TSIF 4 invest in Terra REIT and that TSIF 7 invest in Terra REIT 2 and has obtained all necessary consents for the same.

To mitigate these conflicts, the Adviser will seek to execute such transactions for all of its Clients on a fair and equitable basis and in accordance with their respective allocation policies, taking into account such factors as the relative amounts of capital available for new investments and the investment programs and portfolio positions of such Clients, and any other factors deemed appropriate.

Further, as discussed above, the Adviser, its personnel and certain affiliates may experience conflicts of interest in allocating management time, services and functions among the Clients and any other business ventures in which they or any of their key personnel, as applicable, are or may become involved. This could result in actions that are more favorable to a given Client or other affiliated entities than to another Client. However, the Adviser believes that it and its affiliates have sufficient personnel to discharge fully their responsibilities to all activities in which they are involved.



## **ITEM 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

The Adviser has adopted a code of ethics pursuant to Rule 204A-1 under the Advisers Act that establishes procedures governing the conduct and securities transactions of each of the Adviser's officers, employees and supervised persons. The code of ethics (the "**Code**") is designed to prevent violations of the fiduciary responsibilities owed by the Adviser to its Clients. The Code contains provisions relating to the confidentiality of firm information, a prohibition on insider trading, a discussion of media relations, a policy on gifts and personal securities trading procedures, among other things. Each supervised person of the Adviser is required to acknowledge in writing the terms of the Code annually and when it is amended.

The Code is designed to ensure, among other things, that the personal securities transactions, activities and interests of the officers, employees and supervised persons of the Adviser will not interfere with (i) making decisions in the best interest of its Clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. In addition, the Code requires pre-clearance of certain transactions. Employee trading is monitored under the Code to reasonably prevent conflicts of interest between the Adviser and its Clients.

The Adviser's Clients and prospective Clients may request a copy of the Code by contacting the Chief Compliance Officer, Terra Fund Advisors, LLC, 550 Fifth Avenue, 6<sup>th</sup> Floor, New York, NY 10036.

As discussed in Item 10 above, conflicts of interest may arise from time to time as a result of the Adviser's relationships with their affiliates. For more information on the conflicts that may arise and how they will be addressed, see Item 10.

## **ITEM 12 – Brokerage Practices**

The assets that the Adviser obtains for its Clients are, generally, acquired and disposed of in privately negotiated transactions effectuated through a dealer network in which the dealer acts as principal and does not charge explicit commissions. As a result, the Adviser has not entered into any soft dollar arrangements. When appropriate, the Adviser is primarily responsible for the execution of the publicly-traded securities portion of its Clients' portfolio transactions and the allocation of brokerage commissions. The Adviser may discharge this responsibility through one or more Sub-Advisers. The Adviser and any Sub-Adviser they may engage will not execute transactions through any particular broker or dealer, but will seek to obtain the best net results for the Adviser's Clients, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While the Adviser or any Sub-Adviser that it may engage will generally seek reasonably competitive trading execution costs, the Adviser's Clients will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, the Adviser and any Sub-Adviser may select a broker based partly upon brokerage or research services provided to the Adviser, the Sub-Adviser or any of their respective Clients. If the Adviser or any Sub-Adviser uses brokerage commissions to obtain research or other products or services, the Adviser or Sub-Adviser, as applicable, will receive a benefit because they will not have to produce or pay for the research, products or services. As a result, the Adviser or any Sub-Adviser may have an incentive to select or recommend a broker-dealer based on their interest in receiving the research or other products or services, rather than on the Adviser's Clients' interest in receiving most favorable execution. In return for such services, Clients may pay higher commissions than other broker-dealers would charge if the Adviser or any Sub-Adviser determines in good faith that such commission is reasonable in relation to the services provided.

### **ITEM 13 – Review of Accounts**

The Adviser, with the assistance of any Sub-Adviser they may engage, manage active portfolios for its Clients. These portfolios are reviewed and/or monitored daily by the Adviser and any Sub-Adviser to consider, among other things, their composition, performance and compliance with applicable legal requirements. The supervised persons who conduct the review are Simon J. Mildé and Vikram S. Uppal. These individuals are Vice Chairman of the Board of Managers and Chief Executive Officer, respectively, of the Adviser.

In addition, with respect to the Clients' portfolios, the assets are valued and reviewed on a quarterly basis by the Adviser's Valuation Committee.

Certain factors that may be considered in determining the fair value of the Adviser's investments for its Clients include dealer quotes for securities traded on the secondary market for institutional investors, the nature and realizable value of any collateral, the portfolio company's earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparison to publicly-traded companies, discounted cash flow analysis and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, the Adviser's determination of fair value may differ materially from the values that would have been used if a ready market for these investments existed.

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

The Adviser does not retain or compensate consultants or other parties to solicit Clients on its behalf.

### **ITEM 15 – Custody**

The Adviser does not currently custody Client assets.

### **ITEM 16 – Investment Discretion**

The Adviser has full discretion to invest on behalf of its Clients; provided that the Adviser will evaluate all investments and their appropriateness based on the unique investment objectives and policies of each Client.

### **ITEM 17 – Voting Client Securities**

The Clients do not currently regularly make investments in equity securities. However, the Adviser may in the future recommend investments in equity securities. In such case, the Adviser recognizes that, as an investment adviser registered under the Advisers Act, the Adviser has a fiduciary duty to act solely in the best interests of its Clients. As part of this duty, the Adviser may adopt proxy voting policies and procedures. The Adviser recognizes that it must vote Client securities in a timely manner free of conflicts of interest and in the best interests of its Clients.

Under such proxy voting policies and procedures so adopted, the Adviser will vote proxies related to portfolio securities in the best interest of its Client's shareholders. The Adviser will review, on a case-by-case basis, each proposal submitted for a shareholder vote to determine their impact on the portfolio securities held by the Adviser's Clients. Although the Adviser will generally vote against those proposals that would have a negative impact on its Clients' portfolio securities, the Adviser may vote for such a proposal if there exists compelling long-term reasons to do so.

The Adviser's proxy voting decisions will be made by the senior officers who are responsible for monitoring each of the investments held by its Clients. To ensure that their votes are not a product of

a conflict of interest, the Adviser will require that: (i) anyone involved in the decision-making process disclose to the Adviser's Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees involved in the decision-making process or vote administration are prohibited from revealing how the Adviser intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Additional information about how the Adviser votes any proxies can be obtained by making a written request for proxy voting information to: Chief Compliance Officer, Terra Fund Advisors, LLC, 550 Fifth Avenue, 6<sup>th</sup> Floor, New York, New York 10036.

#### **ITEM 18 – Financial Information**

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