

**INVESTMENT ADVISER BROCHURE**

**BLACKSAND CAPITAL, LLC**

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**March 31, 2019**

**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of BlackSand Capital, LLC (“BlackSand Capital” or the “Management Company”). If you have any questions about the contents of this Brochure, please contact us at (808) 738 - 8400. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.**

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

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

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## MATERIAL CHANGES

The Management Company filed its most recent Brochure on January 18, 2019. This annual amendment updates the descriptions of certain of the operations, terms and business practices of BlackSand and the Funds.

## ADVISORY BUSINESS

The Management Company (collectively with its affiliates, “**BlackSand**”), a Delaware limited liability company and a registered investment adviser, and its affiliated investment advisers provide investment advisory services to investment funds privately offered to qualified investors in the United States and elsewhere. BlackSand Capital commenced operations in May 2010.

BlackSand Capital’s clients include the following (each, a “**Fund**,” and together with any future private investment fund to which BlackSand Capital or its affiliates provide investment advisory services, the “**Funds**”):

- BlackSand Capital Opportunity Fund I, L.P.
- BlackSand Capital Opportunity Co-Investment Fund I, L.P.
- BlackSand Capital Opportunity Fund II, L.P.
- BlackSand Capital Opportunity Fund II-A, L.P.

The following general partner entities are affiliated with BlackSand Capital:

- BlackSand Capital Management I, LLC (“**BCM I**”)
- BlackSand Capital Management II, L.P. (“**BCM II**”)
- BlackSand Capital Management II-A, L.P. (“**BCM II-A**”)

(BCM I, BCM II and BCM II-A each, a “**General Partner**,” and collectively with BlackSand Capital and any affiliated advisory entities, the “**Advisers**”).

BCM I is separately registered with the SEC as an investment adviser. Each of BCM II and BCM II-A is subject to the Advisers Act pursuant to BlackSand Capital’s registration in accordance with SEC guidance. This Brochure also describes the business practices of the General Partners, which operate as a single advisory business together with BlackSand Capital.

The Funds invest through negotiated transactions primarily in Hawaii-based real estate and real estate-related assets, generally referred to herein as “**portfolio companies**” or “**portfolio investments**.” The Advisers’ investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and achieving dispositions for such investments. From time to time, where such investments consist of operating entities, the senior principals or other personnel of the Advisers or their affiliates generally serve on such operating entities’ respective boards of directors (or equivalent governing body) or otherwise act to influence control over management of operating entities and other assets in which the Funds have invested.

The Advisers' advisory services to the Funds are detailed in the applicable private placement memoranda or other offering documents (each, a "**Memorandum**"), limited partnership or other operating agreements or governing documents (each, a "**Partnership Agreement**" and, as applicable, together with any relevant Memorandum, the "**Governing Documents**") and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in the Funds participate in the overall investment program for the applicable Fund, but may be excused from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the Governing Documents. The Funds or the General Partners may enter into side letters or other similar agreements ("**Side Letters**") with certain investors that have the effect of establishing rights under, or altering or supplementing the terms (including economic or other terms) of, the Governing Documents with respect to such investors.

Additionally, from time to time and as permitted by the Governing Documents, the Advisers expect to provide (or agree to provide) co-investment opportunities (including the opportunity to participate in co-invest vehicles) to certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, the Advisers' personnel and/or certain other persons associated with or related to the Advisers and/or their affiliates (*e.g.*, a vehicle formed by the Advisers' Principals and/or employees to co-invest alongside a particular Fund's transactions). Such co-investments typically involve investment and disposal of interests in the applicable portfolio investment at the same time and on the same terms as the Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle may purchase a portion of an investment from one or more Funds after such Funds have consummated their investment (also known as a post-closing sell-down or transfer). Any such purchase from a Fund by a co-investor or co-invest vehicle generally occurs shortly after the Fund's completion of the investment to avoid any changes in valuation of the investment. Where appropriate, and in the applicable Adviser's sole discretion, the Adviser is authorized to charge interest on the purchase to the co-investor or co-invest vehicle (or otherwise equitably to adjust the purchase price under certain conditions), and to seek reimbursement to the relevant Fund for related costs. However, to the extent such amounts are not so charged or reimbursed, they generally will be borne by the relevant Fund.

As of December 31, 2018, BlackSand Capital managed approximately \$336,312,720 in client assets on a discretionary basis. BlackSand Capital is principally owned and controlled by Bert A. Kobayashi, Jr. and Ian MacNaughton (together, the "**Principals**").

### **FEES AND COMPENSATION**

In general, the Advisers receive a management fee and a carried interest in connection with advisory services. The Advisers and certain BlackSand Affiliates (as defined herein) receive additional compensation in connection with management and other services performed for portfolio investments of Funds. Such additional compensation will not offset the management fees payable to the Advisers in accordance with the relevant Governing Documents. In addition, in certain circumstances, the Advisers receive compensation for management and other services performed in connection with co-investments made in portfolio investments of the Funds. Investors in a Fund also bear certain fund expenses.

## **Management Fees**

The Funds generally pay the Advisers, quarterly in advance, a management fee (the “**Management Fee**”) equal to 2.0% on an annual basis of aggregate capital commitments (“**Commitments**”). Investors participating in a closing after the first closing (the “**Initial Closing**”) bear the Management Fee from the Initial Closing. Commencing with the first Management Fee due date after the expiration of an investment period or earlier upon the occurrence of certain events as set forth in the Governing Documents, the Management Fee of a limited partner will equal 2% per annum of a limited partner’s invested capital or actively invested capital as set forth in the Governing Documents. Limited partners remain obligated to pay the Management Fee after the end of an investment period under certain circumstances. Limited partners admitted or that increase their Commitments at any closing after the Initial Closing will be required to pay the Management Fee retroactively.

As a matter of practice, an Adviser is typically paid fees of the type referred to in the preceding paragraph from, on behalf of or with respect to co-investors in an investment. The receipt of such fees will not reduce the Management Fee payable by any Fund(s) that have also invested in such investment, and as a result a Fund will, in most cases, only benefit with respect to its allocable portion of any such fee and not the portion of any fee that relates to such co-investors, which have the potential to be significant. Additionally, as further described below and in the Governing Documents of each Fund, it is the Advisers’ practice to retain certain third parties (including, without limitation, the Founder Family Companies (as defined herein)) and/or BlackSand Affiliates to provide services to (or with respect to) certain Fund investments. Such BlackSand Affiliates, the Founder Family Companies and/or other third parties generally receive compensation and other amounts described herein, but no such amounts will result in additional offsets to the Management Fee.

The Management Fee may be reduced in the manner designated in the Governing Documents in exchange for a reduction in the General Partner’s aggregate cash capital contribution and a corresponding interest in Fund profits.

## **Carried Interest**

The Advisers generally receive a carried interest with respect to a Fund equal to 20% of all realized profits subject to a 9% compound preferred return, as more fully described in the Governing Documents. The carried interest distributed to an Adviser is subject to a potential giveback at the end of life of a Fund if the Adviser has received excess cumulative distributions.

It is expected that any future Funds will have a similar fee structure.

## **Other Information**

The Advisers are permitted to exempt certain “affiliated partner” investors in the Funds from payment of all or a portion of Management Fees and/or carried interest, including the Advisers and any other person designated by an Adviser, such as “friends and family” of the Advisers or their personnel, or other investors meeting certain qualification requirements based on commitment size or other strategic or relationship factors. Any such exemption from fees

and/or carried interest may be made by a direct exemption, a rebate by the Advisers and/or their affiliates, or through other Funds that co-invest with a Fund.

The Funds generally invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Governing Documents, over the term of the relevant Fund, and investors generally are not permitted to withdraw or redeem interests in the Funds.

Principals or other current or former employees of BlackSand generally receive salaries and other compensation derived from, and in certain cases including a portion of, the Management Fee, carried interest or other compensation received by the Advisers or their affiliates.

In addition to the Management Fee and carried interest payable to the Advisers, each Fund bears certain expenses. As set forth more fully in the a Governing Documents of each Fund, a Fund bears all fees, costs, expenses, liabilities and obligations relating to a Fund, its joint venture partners and its subsidiaries and/or their respective activities, business, investments or actual or potential investments (to the extent not borne or reimbursed by an investment or potential investment), including all fees, costs, expenses, liabilities and obligations relating or attributable to: (i) activities with respect to the structuring, organizing, negotiating, designing, consummating, financing, refinancing, acquiring, bidding on, owning, managing, constructing, renovating, repositioning, monitoring, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, leasing, winding up, liquidating, or otherwise disposing of, as applicable, the Fund's investments and its actual and potential investments (including follow-on investments) or seeking to do any of the foregoing (including any associated legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, investment bankers, lenders, third-party diligence software and service providers, consultants and similar professionals in connection therewith and any fees and expenses related to transactions that may have been offered to co-investors), whether or not any contemplated transaction or project is consummated and whether or not such activities are successful; (ii) indebtedness of, or guarantees made by, the Fund, the General Partner or any "affiliated partner" on behalf of the Fund (including any credit facility, letter of credit or similar credit support), including interest with respect thereto, or seeking to put in place any such indebtedness or guarantee; (iii) financing, commitment, origination and similar fees and expenses; (iv) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement fees, sales commissions, investment banker, finder and similar services; (v) brokerage, sale, custodial, depository, trustee, record keeping, account and similar services; (vi) legal, accounting, research, auditing, administration (including fees and expenses associated with the Fund's third-party administrator and administration or reporting software, if any), information, appraisal, advisory, valuation (including third-party valuations, appraisals or pricing services), property management, development, consulting (including, retainers, fees and other compensation (including participations, promotes and carried interest) paid to any BlackSand Affiliates, Founder Family Companies, consultants, property managers and developers), tax and other professional services; (vii) reverse breakup, termination and other similar fees; (viii) directors and officers liability, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance and regulatory expenses; (ix) filing, title, transfer, registration and other similar fees and expenses; (x) printing, communications,

marketing and publicity; (xi) the preparation, distribution or filing of Fund-related or investment-related financial statements or other reports, tax returns, tax estimates, Schedule K-1s, or any other administrative, compliance or regulatory filings or reports (including Form PF and any filings or reports contemplated by the Alternative Investment Fund Managers Directive or any similar law, rule or regulation), or other information, including fees and costs of any third-party service providers and professionals related to the foregoing; (xii) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools (including subscription-based services) for the benefit of the Fund or the limited partners; (xiii) any activities with respect to protecting the confidential or non-public nature of any information or data; (xiv) to the extent provided in the Governing Documents, or otherwise approved by the General Partner in its sole discretion, activities or proceedings of any advisory board of the Fund (including any costs and expenses incurred by representatives of the General Partner, the advisory board members, permitted observers and other persons and entities in attending or otherwise participating in meetings of the advisory board); (xv) indemnification (including any fees, costs and expenses incurred in connection with indemnifying any partner or other person pursuant to the Governing Documents and advancing fees, costs and expenses incurred by any such person in defense or settlement of any claim that may be subject to a right of indemnification pursuant to the Governing Documents), except as otherwise set forth in such Governing Documents; (xvi) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including any judgment, other award or settlement entered into in connection therewith; (xvii) any annual limited partner meeting or other periodic, if any, meetings of the limited partners and any other conference or meeting with any limited partner(s); (xviii) except as otherwise determined by the General Partner in its sole discretion, any fee, cost, expense, liability or obligation relating to any alternative investment vehicle or its activities, business, investments or actual or potential investments (to the extent not borne or reimbursed by an investment of such alternative investment vehicle) that would be a Fund expense or organizational expense if it were incurred in connection with the Fund, and any expenses incurred in connection with the formation, management, operation, termination, winding up and dissolution of any feeder vehicles related to the Fund to the extent not paid by the investors investing in such entities; (xix) the termination, liquidation, winding up or dissolution of the Fund; (xx) defaults by partners in the payment of any capital contributions; (xxi) amendments to, and waivers, consents or approvals pursuant to, the constituent documents of the Fund, the General Partner and related entities and any alternative investment vehicle of the Fund, including the preparation, distribution and implementation thereof; (xxii) complying with any law or regulation related to the activities of the Fund (including regulatory expenses of the General Partner incurred in connection with the operation of the Fund and legal fees and expenses); (xxiii) any litigation or governmental inquiry, investigation or proceeding involving the Fund, including the amount of any judgments, settlements or fines paid in connection therewith, except as set forth in the Governing Documents; (xxiv) any third-party experts, including independent appraisers, engaged by the General Partner in connection with the Fund considering, making or holding an investment in the same entity as one or more other clients; (xxv) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer by a limited partner; (xxvi) any taxes, fees and other governmental charges levied against the Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of the Fund (except to the extent that the Fund is reimbursed therefor by a partner or such tax, fee or charge is treated as having been distributed to

the partners pursuant to the Governing Documents); (xxvii) distributions to the partners and other expenses associated with the acquisition, holding and disposition of the Fund's investments, including extraordinary expenses; (xxviii) unreimbursed expenses and unpaid fees of the BlackSand Affiliates or Founder Family Companies; (xxix) compliance or regulatory matters related to the Fund, except as set forth in the Governing Documents; (xxx) any travel, lodging, meals or entertainment relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities; (xxxi) any organizational expenses; (xxxii) any placement fees; and (xxxiii) any other fees, costs, expenses, liabilities or obligations with the consent of the applicable advisory board, to the extent so required.

The Funds also bear expenses indirectly to the extent a portfolio company pays expenses, including expenses of the Founder Family Companies and BlackSand Affiliates. Excluded from Fund expenses are ordinary administrative and overhead expenses incurred in connection with maintaining and operating the Advisers' office(s), including employees' salaries, rent and equipment expenses, except as otherwise provided in the Governing Documents. As is typical for private real estate funds, the Funds likely bear additional and greater expenses, directly or indirectly, than many other pooled investment products, such as mutual funds. To the extent brokerage fees are incurred, they will be incurred in accordance with the general practices set forth in "Brokerage Practices."

As described above, in certain circumstances, the relevant General Partner is expected to permit certain investors to co-invest in investments alongside one or more Funds, subject to the Advisers' related policies and the Governing Documents and/or Side Letter(s). Where a co-invest vehicle is formed, such entity generally will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the Funds. In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction or would otherwise be beneficial, in the judgment of the General Partner, ultimately is not consummated, all "broken deal expenses" relating to such proposed transaction generally will be borne by the Fund(s), and not by any potential co-investors, that were to have participated in such transaction.

### **Certain Services**

Additionally, as further described herein and in the Governing Documents of each Fund, the Advisers or their affiliates ("**BlackSand Affiliates**"), the Kobayashi Group, LLC ("**Kobayashi Group**"), The MacNaughton Group ("**The MacNaughton Group**"), and/or MK Development, LLC, a joint venture of Kobayashi Group and The MacNaughton Group, ("**MK**") and, collectively with Kobayashi Group, The MacNaughton Group and their respective affiliates, the "**Founder Family Companies**") are expected to provide services to one or more Funds and investment vehicles through which one or more Funds invest that would otherwise be performed by third parties (including, without limitation, development, entitlement, sales, marketing, brokerage, construction management, asset management, property management and leasing services, design and retail consulting services, and/or other similar services). In such event, BlackSand Affiliates or the Founder Family Companies, as applicable, will earn fees for performing such services (including, without limitation, profit participations, carried interest, or other incentive compensation in connection with the applicable portfolio investment) as further



described herein and in the Governing Documents of each Fund. As described above, no such amounts will offset the Management Fee. The Principals have interests in, and may participate in the management of, the Founder Family Companies and the use of BlackSand Affiliates and/or the Founder Family Companies subjects the Advisers to conflicts of interest, as discussed under “Conflicts of Interest,” below.

#### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under “Fees and Compensation,” the Advisers receive a carried interest allocation on certain realized profits in a Fund. The Advisers may also manage accounts that are not charged performance-based compensation, or are charged performance-based compensation in lower percentages or with higher preferred return that must be met before an Adviser is compensated. This practice could present a conflict of interest because the Advisers have an incentive to favor accounts for which they receive the highest performance-based compensation. Additionally, to the extent that the Advisers’ personnel are assigned varying percentages of carried interest from the Funds, such personnel are subject to potential conflicts of interest to the extent they are involved in identifying investment opportunities as appropriate for Funds from which they are entitled to receive a higher carried interest percentage.

The Advisers seek to address the potential for conflicts of interest in these matters with allocation practices that provide that transactions and investment opportunities will be allocated to the Funds in accordance with each Fund’s investment guidelines and Governing Documents, as well as other factors that do not include the amount of performance-based compensation received by the Advisers or any personnel.

The existence of performance-based compensation has the potential to create an incentive for a General Partner to make more speculative investments on behalf of a Fund than it would otherwise make in the absence of such arrangement, although an Adviser generally considers performance-based compensation to better align its interests with those of its investors.

#### **TYPES OF CLIENTS**

BlackSand Capital provides investment advice to the Funds. The Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder. The investors participating in the Funds may include individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of the Advisers, BlackSand Affiliates, the Founder Family Companies and members of their respective families, other third parties or service providers retained by the Advisers.

The Funds may include alternative investment vehicles established from time to time in order to permit one or more investors to participate in one or more particular investment opportunities in a manner desirable for tax, regulatory or other reasons. Alternative investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles

independent of limitations or other procedures set forth in the organizational documents of such vehicles and the related Fund.

The Funds generally have a minimum investment amount of \$1,000,000 for third-party investors, which amount may be waived by the General Partners of such Funds. Fund interests are generally offered and sold either solely to qualified purchasers (or qualified knowledgeable Adviser personnel) or solely to accredited investors who are also qualified clients (or qualified knowledgeable Adviser personnel).

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **General**

Formed in 2010, BlackSand Capital is an SEC-registered investment adviser founded by the Principals, who are real estate investment and development professionals with experience leading two long-standing Hawaii-based real estate firms, Kobayashi Group and The MacNaughton Group. As further described below and in the applicable Memorandum for each Fund, the Funds seek to invest in real estate and real estate-related assets primarily in the State of Hawaii.

### **Investment and Operating Strategy**

#### *Target Investment Categories*

The Funds seek to primarily target opportunistic real estate and real estate-related investments in Hawaii where the applicable General Partner sees favorable risk profiles and believes that it can add value through the entitlement, development, renovation or redevelopment, re-tenanting, change in use, repositioning, and improved operation of such investments. The Advisers expect to evaluate investments at all levels of the capital structure and for each Fund the relevant General Partner intends to seek to construct a portfolio that appropriately balances current cash yield with the potential for long-term capital appreciation. The Funds will consider both marketed and non-marketed opportunities as potential investments, but will seek to capitalize on the lack of competition in privately-negotiated and complex transactions. The Funds generally will not be prohibited from investing in any real estate asset class or type to provide the relevant General Partner with the flexibility to adapt the applicable Fund's strategy to changing market conditions, as well as be an active participant across a range of property sectors in both the equity and debt markets, which the Advisers believe maximizes access to deal flow and market insights. Without limiting the foregoing, the Funds generally intend to focus investment activities primarily on the following categories: (i) direct real estate; (ii) structured finance; (iii) development; (iv) land acquisition; (v) operating real estate companies; and (vi) joint ventures.

#### *Investment Process*

The Advisers believe that discipline in assessing both asset-level and macroeconomic risk for any investment opportunity is critical to making sound investment decisions and generating attractive risk-adjusted returns for investors. As a result, the Advisers intend to employ a

comprehensive diligence process that is expected to include a review of the industry, competitive landscape, and returns on capital invested. The findings from this process, coupled with the Advisers' insights on the market, will be used to perform extensive financial analysis, which is expected to include scenario analyses to test asset performance under various economic conditions. As part of the diligence process, the Advisers also intend to evaluate the capital structure position where it believes the most attractive risk-adjusted returns can be achieved and intends to seek to structure its investment accordingly.

### *Asset Management*

BlackSand's team is experienced in improving under-utilized real estate assets in an effort to maximize value. As part of the due diligence and investment process, the Advisers intend to devise an asset management strategy for each investment, including a plan to add value via entitlement, development, renovation or redevelopment, re-tenanting, change in use, or repositioning strategies, or through improved sales and leasing and operational or other improvements, as appropriate. The Advisers expect to implement the business plan for each asset as soon as possible after acquisition. Day-to-day asset management functions will typically be performed by the BlackSand team, although property management services, and in certain cases, asset management services, may be outsourced to a third-party provider. Where appropriate, the Advisers also plan to draw upon the design, entitlement, construction, development, management and leasing expertise that the Founder Family Companies possess in the local market.

Throughout the hold period of a Fund investment, the Advisers expect to actively monitor and evaluate overall economic, real estate and capital market conditions, as well as opportunities for additional value creation and demand for the asset in the marketplace. In combination with the asset management plan, the Advisers expect to develop an exit strategy for each investment and to continuously re-evaluate that strategy during the hold period. The Advisers intend to seek to achieve a Fund's investment objective by acquiring assets at an attractive cost basis and/or by adding value to the asset to mitigate the impact of broader market conditions. The Advisers intend to determine when to dispose of the investment after consideration of all relevant factors, including prevailing market conditions, the value and financial performance of the asset, the status of completion of the asset's business plan, and overall portfolio objectives.

### **Risks of Investment**

Each Fund and its investors bear the risk of loss that the Advisers' investment strategy entails. The risks involved with the Advisers' investment strategy and an investment in a Fund include, but are not limited to:

*General Real Estate Risks.* The Fund's investments will be subject to the risks incident to the ownership and operation of real estate and real estate-related businesses and assets, including changes in the general economic climate, local, national or international conditions (such as an oversupply of space or a reduction in demand for space), the quality and philosophy of management, competition based on rental rates, attractiveness and location of the properties and changes in the relative popularity of property types and locations, changes in the financial condition of tenants, buyers and sellers of properties, changes in operating costs and expenses, uninsured losses or delays from casualties or condemnation, changes in applicable laws,

government regulations (including those governing usage, improvement and zoning) and fiscal policies, the availability of financing, interest rate levels, environmental liabilities, contingent liabilities, successor liability for investments in existing entities (e.g., buying out a distressed partner or acquiring an interest in an entity that owns a real property), acts of God, acts of war (declared or undeclared), terrorist acts, work stoppages, shortages of labor, strikes, union relations and contracts, fluctuating prices and supply of labor and/or other labor-related factors and other factors beyond the control of the General Partner, the Fund and their respective affiliates. The cost of operating a property may exceed the rental income thereof, and the Fund may have to advance funds to protect an equity investment or forego the receipt of interest income on debt investments, or may be required to dispose of investments on disadvantageous terms if necessary to raise needed funds. Moreover, while the General Partner generally intends to purchase or to cause to be purchased insurance to cover casualty losses and general liability, such insurance may not be available or may be available only at prohibitive costs to cover losses from ongoing operations, catastrophic losses and other risks such as earthquake, flood or environmental contamination.

*Dynamic Investment Strategy.* While the General Partner generally intends to seek attractive returns for the Fund primarily through making opportunistic investments in Hawaii-focused real estate and real estate-related assets as described herein, the General Partner may, to the extent permitted by the Governing Documents, pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process and investment techniques as it determines appropriate. The General Partner may pursue investments outside of the sectors or regions in which the Principals have previously made investments.

*Economic Conditions.* The real estate industry generally and the success of the Fund's investment activities in particular will both be affected by general economic and market conditions in the State of Hawaii, the rest of the United States and other countries, as well as by changes in applicable laws, trade barriers, currency exchange controls, and national and international political and socioeconomic circumstances in respect of such jurisdictions. These factors may affect the level and volatility of prices and liquidity of the Fund's investments, which could impair the Fund's profitability and result in losses. Further, any material change in the economic environment, including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates, could have a negative impact on the performance and/or valuation of the Fund's investments. The Fund's performance can be affected by deterioration in public markets and by market events, such as the onset of the credit crisis in the summer of 2007 or the downgrading of the credit rating of the United States in 2011. The impact of market and other economic events may also affect the Fund's ability to raise funding to support its investment objective and the level of profitability achieved on realizations of investments. In addition, general fluctuations in the market prices of investments and interest rates may affect the Fund's investment opportunities and the value of the Fund's investments.

*Enhanced Scrutiny and Certain Effects of Potential Regulatory Changes.* There continue to be discussions regarding enhanced governmental scrutiny and/or increased regulation of the private equity industry. There can be no assurance that any such scrutiny or regulation will not have an adverse impact on the Fund's activities, including the ability of the Fund to effectively and timely address such regulations, execute its investment strategy or achieve its investment objectives.

The combination of such scrutiny of private equity firms (along with other alternative asset managers) and their investments by various politicians, regulators and market commentators, and the public perception that certain alternative asset managers, including private equity firms, contributed to the recent downturn in the U.S. and global financial markets, may complicate or prevent the Fund's efforts to structure, consummate and/or exit investments, both in general and relative to competing bidders outside of the alternative asset space. As a result, the Fund may invest in fewer transactions or incur greater expenses or delays in completing or exiting investments than it otherwise would have.

Additionally, Congress has considered proposed legislation that would treat certain income allocations to service providers by partnerships such as the Fund (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law is treated as an allocation of the partnership's income, which may be taxed at lower rates than ordinary income. Enactment of any such legislation, whether during or after the initial closing of the Fund, could adversely affect the ability of the Principals, employees or other individuals associated with the Fund, the management company or the General Partner who were or may in the future be granted direct or indirect interests in the General Partner, to benefit from carried interest taxed at lower rates. This may reduce such persons' after-tax returns from the Fund and the General Partner, which could make it more difficult for the General Partner and its affiliates to incentivize, attract and retain individuals to perform services for the Fund.

*Uncertain Economic, Social and Political Environment.* Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire investments, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of the Fund and its investments to execute their respective operations and to receive an attractive multiple of earnings upon disposition. This may slow the rate of future investments by the Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon the Fund's investments.

*Real Estate Risks - Hawaii.* The Fund will invest primarily in real estate and real estate-related investments within the geographical limits of the State of Hawaii. Accordingly, the Fund will be exposed to greater economic risks than if the Fund owned a more geographically dispersed portfolio. The Fund will be susceptible to adverse developments in the economic and regulatory environment in Hawaii (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation and other factors) as well as natural disasters that occur in these areas (such as volcanic activity, earthquakes, floods and other weather-related disasters, wildfires and other events). Any adverse developments in the economy or real estate market in Hawaii, including any decrease in demand for office space resulting from the regulatory or business environment in Hawaii or any decrease in demand for hotel space

resulting from a decline in the tourism industry, could adversely impact the financial condition of the Fund's investments. Further, Hawaii historically has taken a longer time to recover from economic downturns than the mainland United States and may not recover from future economic downturns as quickly as other U.S. states or the mainland generally. No assurances are made as to the continued growth of the economy in Hawaii or of its tourism industry, nor are any assurances made that the economy in Hawaii or its tourism industry will not experience a downturn.

*Highly Competitive Market for Investment Opportunities.* The activity of identifying, completing and realizing attractive real estate investments is highly competitive and involves a high degree of uncertainty. The Fund will be competing for investments with other real estate investment vehicles, as well as individuals, publicly traded real estate investment trusts ("REITs") as defined in the U.S. Internal Revenue Code of 1986, as amended (the "Code"), financial institutions (such as mortgage banks and pension funds), hedge funds and other institutional investors. Further, over the past several years, many real estate funds and publicly traded REITs have been formed (and many such existing funds have grown in size) for the purpose of investing in real estate assets, including distressed real estate assets. Additional real estate funds and REITs with similar investment objectives may be formed in the future by other unrelated parties and further consolidations may occur (resulting in larger funds and vehicles). There can be no assurance that the Fund will be able to locate, complete and exit investments which satisfy the Fund's rate of return objectives, or realize upon their values, or that the Fund will be able to invest fully its committed capital.

Without limiting the generality of the prior paragraph, due to, among other factors, the limited size of the real estate market in Hawaii, the number of attractive investment opportunities in the State is limited. Certain local investors, as well as a number of investors outside the State, are very active in the real estate market in Hawaii and may present significant competition with respect to investments in residential and commercial space. As a result, the Fund will be competing with a number of developers, owners and operators of real estate, many of which own properties similar to the properties held by the Fund. Further, certain real estate asset classes in Hawaii are highly concentrated with a few property owners controlling much of the asset class in certain areas. In addition, there are relatively few available parcels of undeveloped entitled land. Such factors (among others) may significantly affect the Fund's ability to acquire desired properties.

*Development Activities.* The Fund may invest, directly or indirectly, in undeveloped land and certain development properties. Undeveloped land and development properties may involve more risk than properties on which development has been completed. Undeveloped land and development properties do not generate operating revenue while costs are incurred to develop the properties and may also generate certain expenses, including property taxes and insurance. Development activities include the risks that development projects may be abandoned after expending resources, construction costs of a project may exceed original estimates, occupancy and rental rates at a newly completed property may be lower than anticipated and construction and leasing of a property may not be completed on schedule. Development activities are also subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations.

Contingencies in development activities beyond the control of the General Partner and its affiliates could occur.

Additionally, the development process in Hawaii can be burdensome. Developers may encounter opposition from local community groups and often must apply for various entitlement and construction permits before obtaining permission to develop “raw” unentitled land. Construction costs in Hawaii are often significantly higher than in other U.S. states since building materials are typically shipped from the mainland. Various factors, including those beyond the General Partner’s control (*e.g.*, unfavorable weather conditions, labor disputes or delays, or construction or building material shortages), could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent the completion of development activities once undertaken, thereby having a material adverse impact on the profit potential of the Fund.

*Distressed Investments.* The Fund may purchase, directly or indirectly, investments that are experiencing significant financial or business distress, including securities, companies or real estate assets involved in bankruptcy or other reorganization and liquidation proceedings. Many of these investments ordinarily remain unpaid unless and until the investment is reorganized and/or emerges from bankruptcy proceedings, and as a result may have to be held for an extended period of time. A wide variety of considerations, including, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others may affect the value of these investments. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the General Partner’s access to reliable and timely information concerning material developments affecting an investment, or which cause lengthy delays in the completion of the liquidation or reorganization proceedings. There can be no assurance that the General Partner will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action.

*Hedging.* The Fund may enter into hedging transactions primarily to protect against the possible adverse effects to the value of its assets associated with interest rate fluctuations. There can be no assurance that the Fund’s hedging activities will have the desired effect on the performance of the Fund. The use of hedging transactions involves certain risks, including (i) the possibility that interest rates fluctuate in a manner that would have led to better performance for the Fund if the Fund had not entered into such a transaction, (ii) the risk of imperfect correlation between the risk being hedged and the instrument used to hedge such risk, (iii) potential lack of liquidity for the instrument used to hedge the risk and (iv) the risk that counterparties to such transactions fail to perform and/or are insolvent and unable to perform their obligations under the applicable agreements. Engaging in hedging transactions may result in worse overall performance for the Fund than if it had not engaged in any such hedging transactions.

Certain hedging arrangements may create for the General Partner and/or one of its affiliates a registration or exemption obligation with the U.S. Commodity Futures Trading Commission or other regulator.

*Investments in Real Estate Debt.* The Fund may hold direct or indirect investments in certain real estate-related debt instruments. In addition to the risks of borrower default (including loss of principal and nonpayment of interest) and the risks associated with real estate investments generally, real estate-related debt investments are subject to a variety of risks, including the risks of illiquidity, lack of control, mismanagement or decline in value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury laws and the imposition of common law or statutory restrictions on the exercise of contractual remedies for defaults of such investments. Debt investments have special inherent risks relative to collateral value. In the event of default, the source of repayment is limited to the value of the collateral and may be subordinate to other lien holders (and the collateral value of the property may be less than the outstanding amount of the investment). Real estate loans acquired by the Fund may be at the time of their acquisition, or may become after origination, participation or acquisition, non-performing for a wide variety of reasons. Non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. To the extent that the Fund purchases partial interests in non-performing loans, the Fund may not have control over the workout process and the management of the real estate assets. It may be necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Fund, and the foreclosure process can be lengthy and expensive.

In Hawaii, foreclosure actions often take more than a year to conclude and, in certain instances, several years to conclude. During the foreclosure proceedings, a borrower may have the ability to file for bankruptcy, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

*Defects Relating to Properties.* Investment properties acquired by the Fund may have design, construction, environmental or other defects or problems that may require additional capital expenditures, special repair or maintenance expenses or damages or other obligations to third parties despite the due diligence investigations prior to the Fund's acquisition. The engineering and other reports that the Fund may rely upon as part of its investigations of these properties may be subject to inaccuracies or deficiencies, as defects may be difficult to ascertain with certainty due to the limitations inherent in the scope of the inspections and the techniques used therein.

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



could expose the Fund to liability from its tenants, employees of its tenants and others if property damage or health concerns arise.

*Casualty and Condemnation.* Investments in real estate are subject to the risks of partial or total condemnation in accordance with applicable law or regulation and casualty, whether arising from destruction by fire, earthquake, flood, hurricane or otherwise. In either case, the Fund's investments (depending on such investments' status as lender, borrower or equity owner) may be subject to one or more of the following liabilities: (i) lenders may require prepayments of outstanding loans with any proceeds arising from a casualty or condemnation recovery event (*i.e.*, insurance coverage), (ii) insurance coverage may not be sufficient to cover renewal of an investment, (iii) renovations or developments with respect to an investment may be delayed and (iv) a seller may bear the risk of loss for such casualty or condemnation in connection with the disposition of an investment through the date of disposition.

*Failure to Maintain REIT Qualification.* The General Partner may, but is not obligated to, organize one or more entities treated as a real estate investment trust for U.S. federal income tax purposes (each, a “**REIT Subsidiary**”) through which the Fund may make investments. Qualification as a REIT for U.S. federal income tax purposes involves the application of highly technical and complex provisions of the Code, for which there are only limited judicial or administrative interpretations, and the determination of various factual matters and circumstances not entirely within the REIT Subsidiary's control. If any REIT Subsidiary fails to maintain its qualification as a REIT in any taxable year, and certain relief provisions do not apply, the REIT Subsidiary would be subject to tax on its taxable income at regular corporate rates (including any applicable alternative minimum tax), and distributions by the REIT Subsidiary to the Fund or the limited partners would, to the extent of the REIT Subsidiary's earnings and profits, be taxable to the limited partners as ordinary dividends. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to such REIT Subsidiary's shareholders. If a REIT Subsidiary's status as a REIT is terminated, such entity generally may not be eligible to elect REIT status again prior to the fifth taxable year following the year in which it fails to qualify under the Code as a REIT. The requirements for qualification as a REIT are extremely complex, and each REIT Subsidiary's compliance with such requirements may depend on factors that are outside of such REIT Subsidiary's control or upon the resolution of legal issues for which guidance is lacking. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT. Any such change could adversely affect each REIT Subsidiary's ability to qualify as a REIT or the U.S. federal income tax consequences of such qualification. Even if each REIT Subsidiary entity qualifies as a REIT, such REIT Subsidiary may be subject to U.S. federal income tax in certain circumstances.

*Participation in REIT Subsidiaries.* The employees, officers and other affiliates of the General Partner and other nonaffiliated third parties may participate in the ownership of any REIT Subsidiary formed by the Fund in connection with the 100-shareholder test applicable to REITs under the Code. While the participation of such Persons is expected to be less than 1% of the outstanding equity of any REIT Subsidiary, such participation may (i) be through the ownership of preferred shares that are senior to the equity held by the Fund and/or (ii) entitle

them to receive distributions that will not be subject to the fees or carried interest or a preferred return on their investment.

*Follow-On Investments.* Following its initial investment in any investment, the Fund may decide to invest additional funds in such investment or may have the opportunity to increase its investment in such investment by investing in additional real estate assets related thereto (whether for opportunistic reasons, to fund the needs of the investment, as an equity cure under applicable debt documents or for other reasons). There is no assurance that the Fund will make follow on investments or that the Fund will have sufficient funds to make all or any of such investments (including an event of default under applicable debt documents in the event an equity cure cannot be made). Any decision by the Fund not to make follow on investments or its inability to make such investments may have a substantial negative effect on a particular real estate asset in need of such an investment.

*Leveraged Investments.* In making investments, the Fund may employ leverage in the acquisition, operation and ownership of its investments and may refinance its investments, if desirable. Debt could take the form of a mortgage or other financing at the property level or ownership level. Such use of leverage generally magnifies the Fund's opportunities for gain and its risk of loss from a particular investment. The Fund may make use of leverage by incurring or having an entity incur debt to finance a portion of its investment in such entity, including in respect of Fund investments not rated by credit agencies. In addition, recourse debt, which the Fund reserves the right to obtain, may subject other assets of the Fund and the limited partners' Commitments to risk of loss. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage on terms that the General Partner believes are reasonable. The use of leverage by the Fund will also result in interest expense and other costs that may not be offset by distributions made to the Fund or appreciation of its investments. While Fund-level borrowing generally will be interim in nature, asset-level leverage generally will not be subject to any limitations regarding the amount of time such leverage may remain outstanding. Leveraged investments may be subject to restrictive financial and operating covenants and the Fund may provide guarantees in order to secure such leverage. In the event an investment cannot generate adequate cash flow to meet its debt service, the Fund may suffer a partial or total loss of capital invested in the investment, which could adversely affect the returns of the Fund. Furthermore, should the credit markets be limited or costly at the time the Fund determines that it is desirable to sell all or a part of an investment, the Fund may not achieve an exit capitalization rate consistent with its forecasts. Moreover, certain entities in which the Fund will invest generally will not be rated by a credit rating agency. The Fund may also borrow money or guaranty indebtedness (such as a guaranty of an entity's debt subject to certain limitations in the Governing Documents). The Fund may incur leverage on a joint and several basis with one or more other investment funds and entities managed by the General Partner or any of its affiliates and may have a right of contribution, subrogation or reimbursement from or against such entities. In addition, to the extent the Fund incurs leverage (or provides such guaranties), such amounts may be secured by Commitments made by the Fund's investors and such investors' contributions may be required to be made directly to one or more lenders instead of the Fund. The amount of leverage which the Fund may utilize at any time may be large in relation to its capital. Finally, leverage may include so-called "balloon" payments at maturity if

leverage is not fully amortized by maturity and such “balloon” payments may be difficult or even impossible to refinance on attractive terms, thus potentially magnifying losses in respect of leveraged investments.

To the extent a Fund provides bridge financing to facilitate portfolio company investments, it is possible that all or a portion of such bridge financing will not be recouped within the time period specified in the Governing Documents, in which case the investment would be treated as a permanent investment of the Fund. As a result, the Fund’s portfolio could become more concentrated with respect to such investment than initially expected or otherwise provided for under the Fund’s investment limitations, certain of which exclude bridge financing investments.

*Subscription Lines.* A Fund may enter into a subscription line with one or more lenders in order to finance its operations (including the acquisition of the Fund’s investments). Fund-level borrowing subjects limited partners to certain risks and costs. For example, because amounts borrowed under a subscription line typically are secured by pledges of the relevant General Partner’s right to call capital from the limited partners, limited partners may be obligated to contribute capital on an accelerated basis if the Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Moreover, any limited partner claim against the Fund would likely be subordinate to the Fund’s obligations to a subscription line’s creditors.

In addition, Fund-level borrowing will result in incremental partnership expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an up-front fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment and negotiation of the terms of the borrowing facility and other ongoing legal fees through the duration of the credit line. Because a subscription line’s interest rate is based in part on the creditworthiness of the relevant Fund’s limited partners and the terms of the Governing Documents, it may be higher than the interest rate a limited partner could obtain individually. To the extent a particular limited partner’s cost of capital is lower than the Fund’s cost of borrowing, Fund-level borrowing can negatively impact a limited partner’s overall individual financial returns even if it increases the Fund’s reported net returns in certain methods of calculation.

A credit agreement may contain other terms that restrict the activities of a Fund and the limited partners or impose additional obligations on them. For example, a subscription line may impose restrictions on the relevant General Partner’s ability to consent to the transfer of a limited partner’s interest in the Fund. In addition, in order to secure a subscription line, the relevant General Partner may request certain financial information and other documentation from limited partners to share with lenders. The General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more limited partners.

Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows the General Partner to fund investments and pay partnership expenses without calling capital, potentially for extended periods of time. Calling a large

amount of capital at once to repay the then-current amount outstanding under a subscription line could cause short-term liquidity concerns for limited partners that would not arise had the relevant General Partner called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for a limited partner with commitments to other funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the limited partner to meet the accumulated, larger capital calls at the same time. A Fund may also utilize Fund-level borrowing when the General Partner expects to repay the amount outstanding through means other than limited partner capital, including as a bridge for equity or debt capital with respect to an investment. If the Fund ultimately is unable to repay the borrowings through those other means, limited partners would end up with increased exposure to the underlying investment, which could result in greater losses.

*Potential Restrictive Covenants.* The Fund may enter into a credit facility with one or more lenders to bridge capital calls. Any such credit facility may contain a number of covenants that, among other things, might restrict the ability of the Fund to: acquire or dispose of assets or businesses; incur additional indebtedness; make expenditures, distributions or capital calls; create liens on assets; enter into leases, investments or acquisitions; consent to transfers of interests in the Fund; make amendments to the governing documents of the Fund; or engage in certain transactions with affiliates, and otherwise restrict activities of the Fund without the consent of the lenders. In addition, such a credit facility would likely require the Fund to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements.

*Restrictive Nature of Investment Positions.* Generally, there will be no readily available market for Fund investments, and hence, most of the Fund's investments will be difficult to value. Certain investments may be distributed in kind to the partners and it may be difficult to liquidate such investments received at a price or within a time period that is determined to be ideal by such partners. After a distribution of an investment is made to the partners, many partners may decide to liquidate such investment within a short period of time, which could have an adverse impact on the price of such investment. The price at which such investment may be sold by such partners may be lower than the value of such investment determined pursuant to the Governing Documents, including the value used to determine the amount of carried interest available to the General Partner with respect to such investment.

*Certain Non-Competition Restrictions.* MK Kapolei Commons LLC ("MKKC") is the owner and developer of Kapolei Commons Shopping Center located in city of Kapolei on the island of Oahu, State of Hawaii. Affiliates of Kobayashi Group and The MacNaughton Group own a majority and controlling interest in MKKC. The operating agreement of MKKC restricts any of its members from engaging in the development or operation of a factory outlet mall on the island of Oahu, State of Hawaii, or owning, investing in, participating in, or partnering with, either directly or indirectly, a person or entity that owns, develops or operates a factory outlet mall on the island of Oahu, State of Hawaii. This restriction applies to the Principals, as indirect beneficial owners of one of the members of MKKC, and in turn the General Partner and the Fund. The Fund will not be able to purchase, invest in or develop a factory outlet mall on Oahu. It is unlikely that another factory outlet mall will be developed or sold on the island of Oahu. The

only other factory outlet mall on Oahu is the Waikale Premium Outlets located in Waipahu, Hawaii. This restriction is limited to factory outlet malls and not applicable to other types of shopping centers or retail properties.

*Co-Investments.* The General Partner may, in its sole discretion, provide or commit to provide co-investment opportunities to one or more limited partners and/or other persons, in each case on terms to be determined by the General Partner in its sole discretion. Conflicts of interest may arise in the allocation of such co-investment opportunities. The allocation of co-investment opportunities, which may be made to one or more persons for any number of reasons as determined by the General Partner in its sole discretion, may not be in the best interests of the Fund or any individual limited partner. In exercising its sole discretion in connection with such co-investment opportunities, the General Partner may consider some or all of a wide range of factors, which may include the likelihood that an investor may invest in a future fund sponsored by the General Partner or its affiliates.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by the General Partner or its related persons in consultation with other participants in the relevant transactions, such as a joint venture partner. Co-investment opportunities may, and typically will, be offered to some and not to other limited partners. The General Partner's allocation of co-investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others.

*Third Party Co-Investment Reliance on Third Party Joint Venture Partners and Managers.* The Fund may co-invest through partnerships, joint ventures or other entities with one or more third parties as a co-venturer or partner, including with the seller (or an affiliate thereof) of the property, a person involved in the selling or acquisition of the property, an investor in the Fund, the Founder Family Companies or other third parties. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that: (i) the Fund and such co-venturer may reach an impasse on a major decision that requires the approval of both parties; (ii) a co-venturer or partner of the Fund may at any time have economic or business interests or goals that are inconsistent with those of the Fund; (iii) the co-venturer or partner may encounter liquidity or insolvency issues or may become bankrupt; (iv) the co-venturer or partner may be in a position to take action contrary to the Fund's investment objective; (v) the co-venturer or partner may take actions that subject the property to liabilities in excess of, or other than, those contemplated; or (vi) in certain circumstances the Fund may be liable for actions of its co-venturers or partners. The General Partner, its affiliates, the Founder Family Companies, a co-venturer or a partner may be a joint venture partner or interest holder in another joint venture or other vehicle in which BlackSand or its affiliates has an interest or otherwise controls. The co-venturer or partner may also be entitled to receive payments from, or allocations or performance-based compensation (*e.g.*, carried interest) in respect of, the Fund as well as such investments, and in such circumstances, any such amounts may be treated as a Fund expense and will not, even if they have the effect of reducing any retainers or minimum amounts otherwise payable by BlackSand, be deemed paid to or received by BlackSand or reduce the Management Fee. This may be in connection with a joint venture in which the Fund participates or other similar arrangements with respect to assets or other interests

retained by a seller or other commercial counterparty with respect to which the Manager performs services. In addition, the Fund may co-invest with co-investors or partners (including the Founder Family Companies) whose ability to influence the affairs of the companies in which the Fund invests may be significant, and even greater than that of the Fund and as such, the Fund may be required to rely upon the abilities and management expertise of such co-venturer or partner. It may also be more difficult for the Fund to sell its interest in any joint venture, partnership or entity with other owners than to sell its interest in other types of investments (and any such investment may be subject to a buy-sell right). The Fund may grant co-venturers or partners (including the Founder Family Companies) approval rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks or unanticipated exits from an investment. A deadlock could delay the execution of the business plan for the investment or require the Fund to engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment or require alternative dispute resolution in order to resolve such deadlock. As a result of these risks, the Fund may be unable to fully realize its expected return on any such investment. Further, to the extent that the Fund offers any co-investment opportunity to any limited partners or third parties, some or all of the risks described above may also apply to such co-investments.

Further, the Fund will likely rely to a significant extent on third parties (including the Founder Family Companies), some of which may also become co-investment partners with the Fund), to act as developers or joint venture partners in connection with the acquisition, development, construction, renovation or operation of its properties. This reliance on third-party developers or joint venture partners may increase the costs to the Fund through the payment of development fees, incentive fees, management fees and other amounts and may increase the risks to the Fund if, and to the extent, such a developer or operator fails or is unable to comply with agreed-upon plans, budgets or timetables. Although the General Partner intends to monitor the performance of each investment, it will primarily be the responsibility of third-party property managers to manage certain properties on a day-to-day basis. The Fund's results of operations, including its ability to make payments on any indebtedness, will depend in large part on the ability of these third-party managers to operate and lease such properties on economically favorable terms. There can be no assurance that such third-party management firms will be able to operate each investment successfully. Moreover, the risks of dependence on third-party management firms are different by property type and by investment stage (for example, properties in development or redevelopment will have a greater dependence on the leasing abilities of a third-party manager or leasing agent). Property managers may provide management and leasing services to properties owned by others that compete with one or more investments. As a result, these property managers may at times face conflicts of interests in the management and leasing of investments and properties owned by third parties. Property managers may receive a base management fee based upon gross revenues. Such fee arrangements with a property manager may create an incentive for the relevant investment to be managed in a manner that is not consistent with the Fund's objectives.

*Illiquid and Long-Term Investments.* Although the Fund's investments may generate some current income, the return of capital and the realization of gains, if any, from an investment will generally occur only upon the partial or complete disposition or refinancing of such investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after such investment is made. In addition, the Fund generally

will not be able to sell its securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In addition, in some cases the Fund may be prohibited by contract or legal or regulatory reasons from selling certain securities for a period of time. Furthermore, the expenses of operating the Fund (including the Management Fee payable to the General Partner (or an affiliate thereof)) may exceed its income, thereby requiring that the difference be paid from the Fund's capital, including unfunded Commitments.

*Restrictions on Transfer and Redemption; Lack of Liquidity.* There will be no public market for the Interests in the Fund, and none is expected to develop. In addition, without the prior written consent of the General Partner, which may be withheld in its sole and absolute discretion, no limited partner may sell, assign, or in any manner dispose of, or create, or suffer the creation of, a security interest in such limited partner's interest, in whole or in part, nor enter into any agreement as the result of which any person, firm or corporation shall become interested with such limited partner therein. Notwithstanding the foregoing, the General Partner will not unreasonably withhold its consent to the assignment of Interests by limited partners to their affiliates. In no event may a limited partner's interest, or any part thereof, be assigned or transferred to any person unless (A) such transferee meets the Fund's investor eligibility criteria, as set forth in the subscription agreement (and as the same may be revised in accordance with changes in applicable law), and completes such transfer documentation as the General Partner requires, (B) the investment by such transferee in the Fund will not cause the assets of the Fund to become "plan assets" under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (C) the investment by such transferee in the Fund will not cause the Fund to become a "publicly traded partnership" within the meaning of Section 7704 of the Code and the Treasury Regulations promulgated thereunder, (D) such transfer will not cause the Fund to violate any law, rule or regulation applicable to the Fund, and, unless such conditions are met, no attempted assignment or transfer of a limited partner's interest in the Fund, or part thereof, will be valid and binding on the Fund and (E) if required by the General Partner, the transferor or transferee has paid, or made arrangements to pay, all reasonable expenses incurred by the Fund in connection therewith (and such payment will not constitute a capital contribution to the Fund).

Subject to certain limited exceptions set forth in the Governing Documents, there is no right of withdrawal from the Fund and no right to be excused from participating in a Fund investment, although the General Partner may compel the withdrawal of all or any portion of any limited partner's interest, the transfer of all or any portion of any limited partner's interest to another partner or to a qualified third party, or the exclusion of any limited partner from one or more Fund investments, in each case, in certain limited circumstances as described in the Governing Documents.

*Impact of Government Regulation.* Government authorities at all levels are actively involved in the regulation of land use and zoning, environmental protection and safety and other matters affecting the ownership, use and operation of real property. Regulations may be promulgated that could restrict or curtail certain usages of existing structures, or require that such structures be renovated or altered in some manner. The promulgation and enforcement of such regulations could increase expenses, and lower the income or rate of return, as well as adversely affect the value of any of the Fund's investments. Operators are also subject to laws governing their relationship with employees, including minimum wage requirements, overtime, working

conditions and work permit requirements. Compliance with, or changes in, these laws could reduce the revenue and profitability of the Fund. In addition, regulation of the leasing of residential property by many state and local governments includes controls over rents that may be charged to tenants. Such regulations often impose limits on rent increases and may require that properties comply with specified requirements as a precondition for rent increases.

*Significant Costs Associated with Complying with Laws, Regulations and Covenants.* Certain of the Fund's assets will be subject to various covenants, local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict the use of the Fund's properties and may require the General Partner to obtain approval from local officials or community standards organizations at any time with respect to the Fund's properties, including prior to acquiring a property or when undertaking renovations. Among other things, these restrictions may relate to fire and safety, seismic, asbestos-cleanup or hazardous material abatement requirements. There can be no assurance that existing regulatory policies will not adversely affect the Fund's investments or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that increase such delays or result in additional costs. The Fund's investment strategy may be affected by the General Partner's ability to obtain permits, licenses and zoning relief, and the failure to obtain such permits, licenses and zoning relief could have a material adverse effect on the Fund's performance.

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

*Environmental Risks.* As is the case with any holder of real estate investments, the Fund could face substantial risk of loss from claims based on environmental problems associated with the Fund's investments. 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. Certain federal and state laws and regulations impose liability, often regardless of fault, on various parties (jointly and severally), including owners and operators, associated with real estate affected by a release of a regulated environmental contaminant. 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 Fund's 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 Fund to such liabilities. To minimize the risk of such liability, prior to acquiring any property, the Fund will generally employ, or cause to be employed, an environmental engineering consultant to inspect each property so as to assure the Fund that the risk of regulated environmental contaminants being present at such property is minimal or relatively low when weighted against the potential gain. Additionally, the Fund will seek to purchase appropriate insurance to protect the Fund from such risks. Nevertheless, it is possible that the engineer's inspection could overlook certain areas of a property which are contaminated with regulated environmental contaminants, that the Fund could be subject to liability because of the presence of such hazards, or that insurance may not be available or if available, the cost may be higher than the General Partner believes appropriate.

*Controlling Person Liability.* The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, the Fund might suffer a significant loss.

*Reliance on the General Partner.* Control over the operation of the Fund will be vested with the General Partner, and the Fund's future profitability will depend largely upon the business and investment acumen of the Principals. The loss or reduction of service of one or more of the Principals could have an adverse effect on the Fund's ability to realize its investment objectives. In addition, the Principals currently, and may in the future, manage other investment funds besides the Fund and the Principals may need to devote substantial amounts of their time to the investment activities of such other funds, which may pose conflicts of interest in the allocation of the time of the Principals. Limited partners generally have no right or power to take part in the management of the Fund, and as a result, the investment performance of the Fund will depend on the actions of the General Partner. In addition, certain changes in the General Partner or circumstances relating to the General Partner may have an adverse effect on the Fund or one or more of its real estate and real estate-related assets including potential acceleration of debt facilities.

*Regulatory Restrictions.* Anti-money laundering, anti-boycott and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent the Advisers or the Funds from entering into transactions with certain individuals or jurisdictions. The United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") and other governmental bodies administer and enforce laws, regulations and other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or portfolio companies owned or operated by such persons, or located in jurisdictions identified from time to time by OFAC. Additionally, antitrust laws in the United States and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the United States Department of Justice and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on or reject certain transactions. In certain circumstances, antitrust restrictions relating to one Fund's acquisition of a portfolio company may preclude other Funds

from making an attractive acquisition or require one or more other Funds to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Fund may be adversely affected because of the Advisers' inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Fund from pursuing investment opportunities, require the sale of part or all of certain portfolio companies on a timeline or in a manner deemed undesirable by the Advisers or may limit the ability of one or more portfolio companies from conducting their intended business in whole or in part. Consequently, there can be no assurance that any Fund will be able to participate in all potential investment opportunities that fall within its investment objectives.

*Cybersecurity Risks.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject. To the extent that an operating portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company's systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted (i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company, or the relevant Fund, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at the Advisers or one of their service providers holding financial or investor data, the Advisers, their affiliates or the Funds may also be at risk of loss, despite efforts to prevent and mitigate such risks under the Advisers' policies.

## **Conflicts of Interest**

The Advisers and their related entities engage in a broad range of advisory and non-advisory activities. The Advisers will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Funds in an appropriate manner, as required by the relevant Governing Documents, although the Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of the Advisers conducting their activities, the interests of a Fund may conflict with the interests of the Advisers and one or more other Funds. Further, there will be occasions when the Advisers, BlackSand Affiliates, the Founder Family Companies and their respective affiliates encounter actual or potential conflicts of interest in connection with a Fund's activities. Certain of these conflicts of interest are discussed herein. As a general matter, the Advisers will determine all matters relating to structuring investments and Fund operations using their reasonable judgment considering all factors they deem relevant, but in their sole discretion, subject in certain cases to the required approvals by the advisory committees of the participating Funds.

As further described in the Governing Documents, during a Fund's exclusivity period, the Governing Documents will require that all Hawaii real estate investment opportunities that are

suitable for investment by such Fund which are sourced by the Principals in any capacity be presented to such Fund.

In addition, the Founder Family Companies generally are expected to enter into an investment opportunities sourcing agreement with BlackSand Capital and certain Funds pursuant to which the Founder Family Companies agree to offer certain investment opportunities to such Fund during the applicable exclusivity period. Upon presentation, the Fund's General Partner will then determine in good faith whether or not to pursue the opportunity.

To the extent required by the applicable Fund's Governing Documents, Hawaii real estate investment opportunities that are sourced by Kobayashi Group or The MacNaughton Group, independently of the Principals, will be offered in good faith to the Fund, if they meet certain criteria as provided in the Governing Documents.

Existing investments of the Founder Family Companies, follow-on investments in such investments and proprietary investment opportunities offered solely to a Founder Family Company in which such Founder Family Company does not have the discretion or ability to offer such opportunity, as reasonably determined by such Founder Family Company, generally are not subject to the foregoing requirements. If a Principal receives notice of a potential investment opportunity solely in his capacity as an owner of a Founder Family Company, as reasonably determined by such Principal, then such opportunity shall be treated as sourced by the Founder Family Company and not such Principal. If an opportunity sourced by a Founder Family Company does not meet any of the relevant criteria described in the Governing Documents, such Founder Family Company may pursue the opportunity without the Fund and may obtain equity capital from other sources.

If a Fund elects to invest in an opportunity sourced by a Founder Family Company, such Founder Family Company may invest alongside the Fund in such opportunity on a *pari passu* basis.

If a Founder Family Company, on the one hand, and a Fund, on the other hand, are not able to work out an agreement with respect to the investment opportunity sourced by a Founder Family Company within 30 days after presentment, then such Founder Family Company may pursue the investment opportunity without the Fund and obtain equity capital from other sources. The Founder Family Companies may solicit other proposals during the 30-day period, but may not make or accept any offers from other parties until the 30-day period expires.

If a Fund elects to pursue a real estate development opportunity, the Fund may offer MK the opportunity to serve as the development manager for the project, subject to the limitations set forth in the Governing Documents.

From time to time, the Advisers will be presented with investment opportunities that would be suitable not only for a Fund, but also for other Funds and other investment vehicles operated by advisory affiliates of the Advisers. In determining which investment vehicles should participate in such investment opportunities, the Advisers and their affiliates are subject to conflicts of interest among the investors in such investment vehicles. Except as required by the relevant Governing Documents, the Advisers are not obligated to recommend any investment to

any particular investment vehicle. Investments by more than one client of the Advisers in an investment may also raise the risk of using assets of a client of the Advisers to support positions taken by other clients of the Advisers.

The Advisers must first determine which Fund(s) will, or are required to, participate in the relevant investment opportunity. The Advisers generally assess whether an investment opportunity is appropriate for a particular Fund based on the Fund's Governing Documents, as well as factors including but not limited to: available capital, risk limits, size or other reasons. For example, a newly organized Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. A Fund may invest together with other Funds advised by an affiliated adviser of BlackSand Capital in the manner set forth in the relevant Governing Documents and the Advisers' investment allocations policy.

Following such determination of allocation among Funds, the Advisers will determine if the amount of an investment opportunity in which one or more Funds will invest exceeds the amount that would be appropriate for such Fund(s) and any such excess may be offered to one or more potential co-investors, including third parties, as determined by the Funds' Governing Documents, Side Letters and the Advisers' procedures regarding allocation.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by an Adviser or its related persons in consultation with other participants in the relevant transactions, such as a joint venture partner. Co-investment opportunities may, and typically will, be offered to some and not to other Fund investors, and certain investors may receive multiple opportunities to co-invest while others expressing interest in co-investments may receive none. Although a prospective co-investor's willingness to invest in future Funds may be considered by the Advisers, it generally will not be the sole determining factor considered by the Advisers in identifying co-investors. When and to the extent that employees and related persons of the Advisers and their affiliates make capital investments in or alongside certain Funds, the Advisers and their affiliates are subject to conflicting interests in connection with these investments. There can be no assurance that any Fund's return from a transaction would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

The Advisers' allocation of investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others. While the Advisers will allocate investment opportunities in a manner that they believe in good faith to be fair and equitable to their clients under the circumstances over time and considering relevant factors, there can be no assurance that the actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as it would be if the conflicts of interest to which the Advisers may be subject, discussed herein, did not exist.

Conflicts may arise when a Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in an asset in which another Fund has already made an investment. A Fund may not, for example, invest through the same investment vehicles,

have the same access to credit or employ the same hedging or investment strategies as other Funds. This may result in differences in price, terms, leverage and associated costs. Further, there can be no assurance that the relevant Fund and the other Fund(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. An Adviser and its affiliates may express inconsistent views of commonly held investments or of market conditions more generally, including in instances where different portfolio managers express different views regarding the same investment. There can be no assurance that the return on one Fund's investments will be the same as the returns obtained by other Funds participating in a given transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to both Funds. In that regard, actions may be taken for one or more Funds that adversely affect other Funds.

Subject to any relevant restrictions or other limitations contained in the Governing Documents of the Funds, an Adviser will allocate fees and expenses in a manner that it believes in good faith is fair and equitable to its clients under the circumstances and considering such factors as it deems relevant, but in its sole discretion. In exercising such discretion, an Adviser may be faced with a variety of potential conflicts of interest.

As a general matter, Fund expenses typically will be allocated among all relevant Funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by an Adviser or its affiliates using their reasonable judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, *e.g.*, in determining whether to allocate *pro rata* based on number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has greater benefit to a Fund or the Advisers. The Funds have different expense reimbursement terms in the applicable Governing Documents, which may result in the Funds bearing different levels of expenses with respect to the same investment.

A portfolio company typically will reimburse the Advisers or service providers retained at the Advisers' discretion for expenses (including, without limitation, travel expenses) incurred by the Advisers or such service providers in connection with its performance of services for such portfolio company. This subjects the Advisers and their affiliates to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. The Advisers determine the amount of these reimbursements for such services in their own discretion, subject to their internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Fund, their effect is reflected in each Fund's audited financial statements, and any fee paid or expense reimbursed to the Advisers or such service providers generally is subject to a review and approval process, which helps to mitigate related potential conflicts of interest.

The Advisers generally exercise discretion to recommend to a Fund or to a portfolio investment thereof that it contract for services with (i) an Adviser, a BlackSand Affiliate, the Founder Family Companies, or a related person of the Advisers, (ii) an entity with which the

Advisers or their affiliates or current or former members of their personnel has a relationship or from which the Advisers or their affiliates or their personnel otherwise derives financial or other benefit or (iii) certain limited partners or their affiliates. For example, an Adviser may be presented with opportunities to receive financing and/or other services in connection with a Fund's investments from certain limited partners or their affiliates that are engaged in lending or related businesses. This discretion subjects the Advisers to conflicts of interest because, although the Advisers select service providers that they believe are aligned with their operational strategies and will enhance investment performance and, relatedly, returns of the relevant Fund, the Advisers may have an incentive to recommend the related or other person (including a limited partner) because of its financial or other business interest. There is a possibility that an Adviser, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Funds or the Advisers), may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not an Adviser has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

The Advisers and/or their affiliates may also, from time to time, employ personnel with pre-existing ownership interests in Fund investments or other investment vehicles advised by the Advisers and/or their affiliates; conversely, former personnel or executives of the Advisers and/or their affiliates may serve in significant management roles at service providers recommended by the Advisers. Similarly, the Advisers, their affiliates and/or personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including but not limited to managers of private funds, banks, brokers, advisors, consultants, finders (including executive finders and portfolio company finders), executives, attorneys, accountants, institutional investors, family offices, lenders, former employees, and current and former portfolio company executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, the Advisers and/or their affiliates, and/or the Funds or other investment vehicles they advise. The Advisers may have a conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to such Fund or a Fund investment if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Funds, will provide the Advisers information about markets and industries in which the Advisers operate (or are contemplating operations) or will provide other services that are beneficial to the Advisers. The Advisers may have a conflict of interest in making such recommendations, in that each Adviser has an incentive to maintain goodwill between it and the existing and prospective investments for a Fund, while the products or services recommended may not necessarily be the best available to the investments held by a Fund.

The Advisers, their affiliates, and equity holders, officers, principals and employees of the Advisers and their affiliates may buy or sell real estate, real estate-related assets or other assets that the Advisers have recommended to a Fund. The investment policies, fee arrangements and other circumstances of these investments generally vary from those of any Fund. Employees

and related persons of the Advisers have, and are expected to continue to have, capital investments in or alongside certain Funds, or in prospective investments directly or indirectly, as well as in investment vehicles (including private funds) sponsored by potential competitors, and therefore may have additional conflicting interests in connection with these investments.

Because certain expenses are paid for by a Fund and/or its portfolio companies or, if incurred by the Advisers, are reimbursed by a Fund and/or its portfolio companies, the Advisers will not necessarily seek out the lowest cost options when incurring (or causing a Fund or its portfolio companies to incur) such expenses.

It is expected that the Fund will, where appropriate, engage or partner with a BlackSand Affiliate, the Founder Family Companies and/or other third parties to perform certain real estate services for the Fund and its investments for a fee, or partner with a BlackSand Affiliate, the Founder Family Companies and/or other third parties in an investment (including, without limitation, development, entitlement, sales, marketing, brokerage, construction management, asset management, property management and leasing services, design and retail consulting services, and/or other similar services). Any compensation or fees paid in connection with such services will not be offset against, or otherwise cause a reduction of, the Management Fee of the applicable Fund(s).

Because there is a fixed investment period after which capital from investors in a Fund may only be drawn down in limited circumstances and because Management Fees are, at certain times during the life of a Fund, based upon capital invested by such Fund, this fee structure may create an incentive to deploy capital when the Advisers may not otherwise have done so.

The Advisers and/or their affiliates may enter into Side Letters with certain investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights.

Any of these situations subjects the Advisers and/or their affiliates to potential conflicts of interest. The Advisers attempt to resolve such conflicts of interest in light of their obligations to investors in their Funds and the obligations owed by the Advisers' advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Fund, other Funds and such investment vehicles in a fair and equitable manner. To the extent that an investment or relationship raises particular conflicts of interest, the Advisers will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, the Advisers consult and receive consent to conflicts from an advisory committee consisting of limited partners of the relevant Fund(s) and such other investment vehicles.

#### **DISCIPLINARY INFORMATION**

The Advisers and their management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

BlackSand Capital is affiliated with other BlackSand investment advisers registered with the SEC under the Advisers Act pursuant to BlackSand Capital's registration in accordance with SEC guidance. BlackSand Capital is also affiliated with BCM I who is separately registered as an investment adviser with the SEC. These affiliated investment advisers operate as a single advisory business together with BlackSand Capital and serve as managers or general partners of Funds and other pooled vehicles and generally share common owners, officers, partners, employees, consultants or persons occupying similar positions.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The Advisers have adopted a Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of the Advisers Principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Adviser personnel to report their personal securities transactions, prohibits or requires pre-clearance for such personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits such personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Advisers' Chief Compliance Officer. In addition, the Code requires such personnel to comply with procedures designed to prevent the misuse of, or trading upon, material non-public information. A copy of the Code will be provided to any investor or prospective investor upon request to Holly A. Park, the Advisers' Chief Compliance Officer, at (808) 738-8400. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

The Advisers and their affiliated persons may come into possession, from time to time, of material non-public or other confidential information about public companies, which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers.

Accordingly, should the Advisers or any of their affiliated persons come into possession of material non-public or other confidential information with respect to public and non-public company, the Advisers generally would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of the Advisers' personnel serving as directors of public companies and may restrict trading on behalf of clients, including a Fund.

Principals and employees of the Advisers and their affiliates may directly or indirectly own an interest in one or more Funds, including certain co-invest vehicles. To the extent that co-invest vehicles exist, such vehicles may invest in one or more of the same investments as a Fund.



Co-invest opportunities may also be presented to certain affiliates of the Advisers, as well as third party investors and other persons, and such co-investments may be effected through co-invest vehicles or directly in a particular investment. Such co-investment opportunities generally will be allocated in the manner described under “Methods of Analysis, Investment Strategies and Risk of Loss.”

As described further herein and in the Governing Documents, the Advisers and their affiliates, Principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in a Fund, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, any Fund, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain Funds may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Funds or may give priority with respect to investments to such Funds. Some of these restrictions could be waived by investors (or their representatives) in such Funds.

From time to time, a Fund will be permitted to make loans and other advances to, or receive advanced funds from, Founder Family Companies or BlackSand Affiliates on arm’s-length terms. It is expected that any such loans or advances by or to a Fund will be limited to the conduct of the business of the Fund in the ordinary course, taking into account, among other things, the holding structure of the Fund for its investments.

In borrowing and making loans on behalf of a Fund, each Adviser is subject to conflicts of interest, including a conflict of interest between repaying its obligations and retaining such borrowed amounts for the benefit of the Fund, and in circumstances where interest accrues on any such outstanding borrowings at a rate lower than the relevant Fund’s preferred return, is expected to have incentives to cause the Fund to borrow in this manner rather than drawing down capital commitments. Where a preferred return begins to accrue after capital contributions are due (regardless of when the Fund borrows, makes the relevant investment or pays expenses) and ceases to accrue upon return of these capital contributions, the use of borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. In circumstances where there is not a preferred return on funds borrowed in advance or in lieu of calling capital, Fund-level borrowing typically will reduce the amount of preferred return to which the limited partners would otherwise be entitled had the General Partner called capital, and thus could result in the relevant General Partner receiving carried interest sooner than it would without borrowing. In addition, when the Management Fee is calculated as a percentage of invested capital, a limited partner may pay Management Fees on borrowed amounts used to fund investments that have not yet been realized even though such amounts would not accrue preferred return as described above. It is expected that the costs relating to the establishment and/or maintenance of a subscription line of credit will be significant, and there can be no assurance that the benefits to limited partners will be commensurate with such costs.

An Adviser will effect such borrowings in a manner it believes to be fair and equitable to the relevant Fund, and consistent with such Adviser’s obligations to such Fund under the Governing Documents.

## **BROKERAGE PRACTICES**

Given the nature of the Advisers' business, they do not intend to regularly distribute securities to investors in a Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. To the extent the Advisers engage in public securities transactions, they follow the brokerage practices described below.

If the Advisers sell publicly traded securities for a Fund, they are responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Advisers. In such event, the Advisers will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers may consider a variety of factors, including: (i) a broker's execution capabilities with respect to the relevant type of order; (ii) the commissions charged by a broker, which may be based on the size of the order, the price of the security and whether the receipt of products or services is involved; (iii) the broker's reputation and responsiveness to requests for trade data and other financial information; and (iv) other factors suggested by the SEC for determining best execution.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers generally seek competitive commission rates, they may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the Advisers generally do not make use of such services at the current time and have not made use of such services since their inception.

The Advisers do not anticipate engaging in significant public securities transactions; however, to the extent that the Advisers engage in any such transactions, orders for purchase or sale of securities placed first will be executed first and within a reasonable amount of time of order receipt.

In connection with private securities transactions on behalf of the Funds, the Advisers may retain one or more broker-dealers or investment banks, the costs of which will be borne by the relevant Fund and/or its portfolio companies. In determining to retain such parties, the Advisers may consider a variety of factors, including: (i) capabilities with respect to the type of transaction being contemplated; (ii) commissions or fees charged; (iii) reputation of the firm being considered; and (iv) responsiveness to requests for information. As a result, although the Advisers generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and the Funds may not pay the lowest commission or fee for such services.

## **REVIEW OF ACCOUNTS**

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, the Advisers monitor companies in which the Funds invest, and the Advisers' Chief Compliance Officer periodically checks to confirm that each Fund is maintained in accordance with its stated objectives.

Each Fund generally will provide to its limited partners (i) audited financial statements annually commencing with the first year in which it either is in operation for the full year or makes an investment, (ii) unaudited financial statements for the first three quarters of each fiscal year, (iii) annual tax information necessary for each partner's U.S. tax returns, and (iv) descriptive investment information for each portfolio investment periodically.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

The Advisers and/or their affiliates, including BlackSand Affiliates, may provide certain business or consulting services to a Fund and investment vehicles through which a Fund invests and may receive compensation from these entities in connection with such services. The compensation paid by a Fund for these services may be in addition to the Management Fee.

From time to time, the Advisers may enter into solicitation arrangements pursuant to which they compensate third parties for referrals that result in a potential investor becoming a limited partner in a Fund. Any fees payable to any such placement agents will be borne by the Advisers indirectly through an offset against the Management Fee, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Fund(s).

## **CUSTODY**

The Advisers maintain custody of assets held in the name of one or more Funds with the following qualified custodian: Bank of Hawaii, a qualified custodian located in Honolulu, Hawaii. Further, for each of the Funds, the Advisers intend to comply with the private fund audit requirements as provided in Rule 206(4)-2(b)(4) under the Advisers Act.

## **INVESTMENT DISCRETION**

Each General Partner has discretionary authority to manage investments on behalf of the Fund(s) it advises. As a general policy, General Partners do not allow clients to place limitations on this authority. Pursuant to the terms of the Governing Documents, however, a General Partner may enter into Side Letters with certain limited partners whereby the terms applicable to such limited partner's investment in a Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. Each General Partner assumes this discretionary authority pursuant to the terms of the Governing Documents and powers of attorney executed by the limited partners of such Fund.

## **VOTING CLIENT SECURITIES**

The Advisers have adopted a proxy voting policy (the “**Proxy Policy**”) to address how they will vote proxies, as applicable, on behalf of a Fund. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of a Fund, including where there may be material conflicts of interest in voting proxies. The Advisers generally believe their interests are aligned with those of each Fund’s investors, for example, through the Principals’ beneficial ownership interests in such Fund and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Advisers may address the conflict using several alternatives, including by seeking the approval or concurrence of a Fund’s advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a Fund’s advisory board may approve an Adviser’s vote in a particular solicitation. The Advisers do not consider service on portfolio company boards by Adviser personnel or any Adviser’s receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies.

Clients or investors that would like a copy of the Advisers’ complete Proxy Policy or information regarding how an Adviser voted proxies for particular portfolio companies may contact Holly A. Park, the Advisers’ Chief Compliance Officer, at (808) 738-8400, and it will be provided to you at no charge.

## **FINANCIAL INFORMATION**

The Advisers do not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.