

Item 1 Cover Page

**GEM Capital, L.P.
Part 2A of Form ADV
The Brochure**

900 North Michigan Avenue
Chicago, IL 60611
(312) 915-2900
<http://www.gemrc.com>

March 2019

This brochure (this “Brochure”) provides information about the qualifications and business practices of GEM Capital, L.P. 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 securities authority.

GEM Capital, L.P. is registered as an investment adviser with the SEC. Registration with the SEC does not imply a certain level of skill or training.

If you have any questions about the contents of this Brochure, please contact us at 312-915-2900. Additional information about GEM Capital, L.P. is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Item 2 Material Changes

Since our last annual update of the Part 2 of Form ADV in March 2018, there have been no material changes to report. If the Investment Adviser (as defined herein) makes any material changes to this Brochure, this section will include a summary of such changes.

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Item 4 Advisory Business

GEM Capital, L.P., a Delaware limited partnership (hereinafter “GEM” or the “Investment Adviser”), commenced operations in 1994 with an office in Chicago, Illinois. Barry Malkin, Norman Geller and Michael Elrad (each, a “Principal Owner”), along with their families and affiliated estates and trusts are the principal owners of the Investment Adviser and control the Investment Adviser.

Wholly owned subsidiaries of the Investment Adviser serve as the management companies with discretionary investment authority to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a “Fund” and collectively, the “Funds”). The Funds sponsored by the Investment Adviser (or its affiliates) include private pooled investment vehicles that make long and short investments in publicly traded securities (collectively, the “Hedge Funds”) and private pooled investment vehicles that make either opportunistic and value-added investments or long-term investments in real estate assets (collectively, the “Real Estate Funds”). Affiliates of the Investment Adviser serve as investment advisers of the Real Estate Funds and the Hedge Funds.

Throughout this Brochure references to “GEM Realty Properties” relate to the management companies of the Real Estate Funds, while references to “GEM Realty Securities” relate to the management companies of the Hedge Funds. References to “GEM” include the Investment Adviser, GEM Realty Properties, GEM Realty Securities and their affiliates. As used herein, the term “Client” generally refers to each Fund. GEM Realty Properties, GEM Realty Securities and each Fund’s general partner (each, a “General Partner,” and collectively, the “General Partners”) are subject to the Investment Advisers Act of 1940, as amended (the “Advisers Act”) pursuant to GEM’s registration in accordance with SEC guidance. This Brochure also describes the business practices of the GEM Realty Properties, GEM Realty Securities and each General Partner, which operate as a single advisory business together with GEM.

GEM is a real estate investment company with two distinct lines of business. GEM Realty Properties invests in private-market real estate assets through the Real Estate Funds and GEM Realty Securities invests in publicly traded real estate securities through the Hedge Funds. Investment recommendations are reviewed to ensure that they are consistent with each Client’s stated investment objectives and any investment restrictions but are not tailored to reflect the investment objectives of individual investors in the Funds. For a more detailed description of the Firm’s investment strategies, please refer to Item 8.

As of December 31, 2018, GEM Realty Securities managed \$285,052,061 and GEM Realty Properties managed \$4,460,363,716. GEM has discretionary investment authority over these assets.

Item 5 Fees and Compensation

This Brochure is intended to be provided only to “qualified purchasers” as that term is defined in Section 2(a)(51) of the Investment Company Act of 1940 (with the exception of certain persons who qualify as “knowledgeable employees” under Rule 3(c)-5 of the Investment Company Act of

1940, as amended). As such, this Brochure does not contain a detailed fee schedule. The fees applicable to each Client are set forth in detail in each Client's offering documents. Generally, each Client is subject to management fees and performance-based compensation. Management fees are paid quarterly in arrears. In certain cases, management fees will be reduced for investments made by an investor in a Fund above a specified dollar amount or for investors participating in a Real Estate Fund's initial closing. Fees and compensation paid to GEM by the Clients are generally deducted from the assets of such clients. GEM may in its sole discretion elect to waive management fees or performance-based compensation with respect to any investor.

In addition to the management fees and performance-based compensation, each Client bears certain expenses. As set forth more fully in each Client's offering documents, a Client bears all expenses relating to the Client's activities, investments and business to the extent not reimbursed by a portfolio investment or a subsidiary, including: all fees, costs, expenses, liabilities and obligations, if any, incurred in developing (including costs of tenant and capital improvements), negotiating, structuring, organizing, acquiring, holding, managing, servicing, operating, monitoring, leasing, financing, refinancing, hedging, valuing, restructuring, winding-up, liquidating, dissolving, disposing of or otherwise dealing with actual or potential investments and real estate assets pursued for a Client, including any follow-on investments or in connection with any subsidiary, whether or not the Client actually invests therein and whether or not such activities are successful (including dead deal, legal, due diligence, filing, accounting, administration (including any third-party fund administrator), custodian, depositary, auditing, investment banking, reporting, projection, valuation, tax and other fees and out-of-pocket costs and expenses); the costs of consultants (including consulting and retainer fees paid to consultants performing investment initiatives and other similar consultants); appraisal, filing, printing, real estate title, survey and other fees and expenses; the costs of rendering financial assistance to or arranging for financing for the Client, any assets (including any portfolio debt) or businesses constituting investments (including the costs related to the repayment of any financing and managing any credit facility); taxes, fees and other governmental charges levied against the Client; insurance costs and litigation and arbitration related costs and expenses; expenses (other than administrative expenses) related to the operation of the Client (including, without limitation, professionals incurred in connection with the Client's annual audit, data processing, tax planning, tax projections, engineering, investment-level management and servicing, hedging, environmental, financial reporting, legal opinions and tax return preparation and similar services, expenses associated with any subsidiary, as well as expenses associated with the distribution of reports, tax returns, Schedule K-1s and capital call notices to participants and any other Client administrative or regulatory filings or reports (including those related to the Alternative Investment Fund Managers Directive ("AIFMD") or any similar law, rule or regulation, as implemented in any relevant jurisdiction), or other information (including an allocable portion of any licensing, maintenance, upgrade and/or implementation fees, expenses and costs of any investor administrative tools (including software and extranet tools) related to the foregoing)); any expenses related to temporary investments, interest expenses, brokerage commissions and other investment costs incurred by or on behalf of the Client; the expenses associated with Investor Advisory Committee meetings and investor meetings; indemnification expenses (including those related to any investment); any costs relating to foreign currency exchanges incurred on behalf of the Client; any activities with respect to protecting the confidential or non-public nature of any information or data; extraordinary expenses (such as actual, threatened or otherwise anticipated

litigation, mediation, arbitration or other dispute resolution process, including any judgment, other award or settlement entered, if any); any expenses related to compliance or regulatory matters related to the Client (including compliance with the AIFMD or any similar law, rule or regulation, as implemented in any relevant jurisdiction, but excluding, for the avoidance of doubt, any costs and expenses solely related to the process of registering or maintaining the registration of GEM or any of its affiliates with the SEC as an investment adviser under the Advisers Act); except as otherwise determined by GEM or its affiliates, any fee, cost, expense, liability or obligation relating to any alternative investment vehicle or its activities, business or actual or potential investments (to the extent not borne or reimbursed by an investment of such alternative investment vehicle) and/or any fee, cost, expense, liability or obligation relating to any subsidiary that would be an operating expense or administrative expense if it were incurred in connection with the Client; proposed or effective amendments or other alterations to the Client's offering documents; any travel (excluding first class commercial airfare and the cost of chartering private aircraft, in each case to the extent the cost of such travel exceeds the cost of business class commercial airfare, except to the extent such method of travel is more cost-effective to the Client as determined by GEM in good faith) relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities, and any meals related to such travel; unreimbursed costs and expenses incurred in connection with any transfer of interest in the Client; all other customary expenses; amounts to be contributed or advanced to any investment for the purpose of such entity or investment paying any cost of the type described above; and all costs and expenses pertaining to the offering and sale of interests to prospective investors and the organization and formation of the Client, any parallel fund, its General Partner and any management companies, including any related legal fees and travel (excluding first class commercial airfare and the cost of chartering private aircraft, in each case to the extent the cost of such travel exceeds the cost of business class commercial airfare, except to the extent such method of travel is more cost-effective to the Client as determined by GEM in good faith), any meals related to such travel, printing, capital raising, accounting, regulatory compliance (excluding, for the avoidance of doubt, any costs and expenses solely related to the process of registering or maintaining the registration of the Client's General Partner or any of its affiliates with the SEC as an investment adviser under the Advisers Act), administrative and filing expenses, and the preparation of, and negotiations with respect to, the Client's offering documents and any agreements (including side letters) with any investor.

The Real Estate Funds have made and expect to continue to make loans to and/or equity investments in partnerships, joint ventures or other entities or arrangements with third-party joint venture partners. Such joint venture partners are generally entitled to compensation under the terms of the joint venture documents (such as acquisition fees, property management fees, consulting fees, leasing fees, incentive fees, carried interest and promote after liquidation of the investment) with respect to the services provided by such joint venture partners and their affiliates.

In certain circumstances, GEM or its affiliates may provide any or all of the services to the Funds and their portfolio investments that would otherwise be performed for the Funds and such portfolio investment by third parties (including accounting, financial reporting and administration) on terms that are determined by GEM to be fair and reasonable (including reimbursing GEM or its affiliates for any overhead expense (including rent, utilities, office maintenance, office supplies

and hardware, storage, human resources and benefits administration, technology, software and employee search costs) or employee compensation costs (including salary, bonus, deferred compensation, salary overhead and payroll administration and charges) that GEM determines are applicable to such services for those employees of GEM providing the service).

Additionally, with respect to the Real Estate Funds, it is GEM's practice to retain certain operating partners to provide services to (or with respect to) certain portfolio investments in which one or more Real Estate Funds invest. Such operating partners generally provide services in relation to the identification, acquisition, management, improvement and disposition of portfolio investments, including operational aspects of such portfolio investments. Operating partners generally receive from a portfolio investment or from the relevant Real Estate Fund compensation (including, but not limited to, cash fees, profits or equity interests and/or a promote) and other amounts described herein. Operating partners also generally will be reimbursed for certain travel and other costs in connection with their services. No such amounts will result in additional offsets to management fees paid by the Real Estate Funds.

As further described herein, 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 GEM, ultimately is not consummated, all broken deal expenses relating to such proposed transaction will be borne by the Fund(s), and not by any potential co-investors, that were to have participated in such transaction. However, to the extent that such co-investors have already invested in a co-investment or other vehicle in connection with such transaction, such vehicle is expected to bear its share of such broken deal expenses.

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

The Investment Adviser and its affiliates accept performance-based fees from every Client other than its Real Estate Fund co-investment opportunity vehicles. A potential conflict of interest could arise when an investment adviser accepts performance-based fees from some clients, but not from other clients. However, in this case, the potential for any such conflict of interest is limited by the terms of each Real Estate Fund's offering documents which provide that GEM may offer to investors or qualifying groups of investors that made specified minimum commitments to a Real Estate Fund the right to invest through a co-investment vehicle *pro rata* alongside that Real Estate Fund in certain real estate investments. GEM earns management fees from such co-investment vehicles but is not entitled to earn performance-based compensation from any co-investment vehicles. While there could be a perceived conflict of interest that GEM would have an incentive to favor Funds that could be obligated to pay performance-based compensation over those Fund that are not, there is no actual conflict in this case due to the fact that co-investment vehicles always invest pro-rata and on the same terms alongside the Real Estate Funds. Further, as a fiduciary, GEM recognizes its duties to act in good faith and with fairness in all of its dealings with the Real Estate Funds and any co-investment vehicles.

Item 7 Types of Clients

GEM provides investment advice to Funds, as described above. 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 GEM and its affiliates and members of their families or other service providers retained by GEM.

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.

GEM may in the future provide investment advice to managed accounts for institutional and other investors.

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

GEM has one Investment Committee, which is comprised of the Principal Owners and two other senior executives, that oversees major investment strategies for GEM Realty Properties and GEM Realty Securities. Members of the Investment Committee provide real estate market perspective regarding private-market real estate assets and publicly traded real estate securities. The Investment Committee monitors valuations, transactions, capital flows, demographics, key economic indicators, interest rates, and other factors that drive the private and public real estate markets. As a result, the Investment Committee develops investment themes and refines investment strategies to capitalize on investment trends. This perspective allows GEM to synthesize various market viewpoints into comprehensive investment decisions. The Investment Committee is supported by dedicated investment teams in each line of business who coordinate due diligence and underwriting. Investments in limited partner interests involve significant risk due to, among other things, the nature of the Investment Adviser's investments. Investors must have the financial ability and willingness to accept the risks and lack of liquidity characteristics of the investment in limited partner interests.

GEM Realty Properties

GEM Realty Properties sponsors a series of Real Estate Funds that make opportunistic and value-add investments in real estate properties, debt and operating companies and a Real Estate Fund that primarily makes long-term investments in real estate properties in the United States through a perpetual life structure. GEM Realty Properties pursues various investment strategies, including asset repositioning, property redevelopment and distressed debt investing, among others, with the objective of creating a diversified portfolio by property type and geographic location for each

Real Estate Fund. Each investment by GEM Realty Properties is approved by the Investment Committee.

Risk Factors with Respect to the Real Estate Funds

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Funds advised by GEM Realty Properties. These risk factors include only those risks GEM Realty Properties believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed GEM Realty Properties. Investors should carefully review their respective Fund's governing documents for a more fulsome discussion of the relevant risks associated with an investment in that Fund.

General Risk of Real Estate Investment

Real property investments are subject to varying degrees of risk. Real estate values are affected by a number of factors, including: (i) changes in the general economic climate or in national or international economic conditions; (ii) local conditions (such as an oversupply of space or a reduction in demand for space); (iii) the quality and philosophy of management; (iv) competition based on rental rates; (v) attractiveness and location of the properties and changes in the relative popularity of commercial properties as an investment; (vi) financial condition of tenants, buyers and sellers of properties; (vii) quality of maintenance, insurance and management services; (viii) changes in real estate tax rates and other operating costs and expenses; (ix) energy and supply shortages; (x) changes in interest rates and the availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable; (xi) uninsured losses or delays from casualties or condemnation; (xii) government regulations (including those governing usage, improvements, zoning and taxes) and fiscal policies; (xiii) potential liability under changing environmental and other laws; (xiv) risks and operating problems arising out of the presence of certain construction materials; (xv) structural or property level latent defects; (xvi) acts of God; and (xvii) other factors beyond the control of GEM Realty Properties. Investments in existing entities (e.g., buying out a distressed partner or acquiring an interest in an entity that owns a real property) could also create risks of successor liability.

Risk of Investments in Real Estate Debt

The Real Estate Funds may invest in a variety of real estate-related debt investments. In addition to the risks of borrower default (including loss of principal and nonpayment of interest) and the risks associated with real property investments, the Real Estate Funds will be subject to a variety of risks in connection with such debt investments, 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 Real Estate Funds' exercise of contractual remedies for defaults of such investments.

Risk of Mortgage Investments

The Real Estate Funds may originate, participate in and/or acquire real estate loans that are non-recourse to the borrower. Mortgage investments have special inherent risks relative to collateral value. To the extent the Real Estate Funds make or acquire subordinated or “mezzanine” debt investments, the Real Estate Funds do not anticipate having absolute control over the underlying collateral as the Real Estate Funds will be dependent upon third-party borrowers and agents and will have rights that are subordinate to those of senior lenders. In certain circumstances, the Real Estate Funds’ loans may not be secured by a mortgage, but instead by partnership interests or other collateral that may provide weaker rights than a mortgage. In any case, in the event of default, the Real Estate Funds’ source of repayment will be limited to the value of the collateral and may be subordinate to other lienholders. The collateral value of the property may be less than the outstanding amount of the Real Estate Funds’ investments; in cases in which the Real Estate Funds’ collateral consists of partnership or similar interests, the Real Estate Funds’ rights and level of security may be less than if they held a mortgage loan. Returns on an investment of this type depend on the borrower’s ability to make required payments, and, in the event of default, the ability of the loan’s servicer to foreclose and liquidate the mortgage loan.

Non-Performing Loans; Foreclosure Process

The Real Estate Funds may purchase whole or partial interests in non-performing loans, which by their nature are risky. Not only are such loans non-performing, but by purchasing partial interests and debt interests, the Real Estate Funds may not have control over the workout process and the management of the real estate assets. There can be no assurance that such acquisitions will be successful.

Real estate loans acquired by the Real Estate Funds may be at the time of their acquisition, or may become after acquisition, non-performing for a wide variety of reasons. Such 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. However, even if a restructuring were successfully accomplished, a risk exists that upon maturity of such real estate loan, replacement “takeout” financing will not be available. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that GEM Realty Properties may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Real Estate Funds. The foreclosure process can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a real estate loan including lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In some states, foreclosure actions can take up to several years or more to conclude. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, 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.

Investments in Other Troubled Assets

The Real Estate Funds may make substantial investments in nonperforming or other distressed assets which involve a degree of financial risk and are experiencing or are expected to

experience severe financial difficulties, which may never be overcome. Investments in properties operating under the close supervision of a mortgage lender or under bankruptcy or other similar laws are, in certain circumstances, subject to certain additional potential liabilities which may exceed the value of the Real Estate Funds' original investment therein. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to the Real Estate Funds and distributions by the Real Estate Funds to the investors may be required to be returned if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Securities Backed by Mortgages

The Real Estate Funds may acquire CMBS (including subordinated and/or unrated tranches of CMBS) and CMBS-related derivative instruments. In general, subordinated tranches of CMBS are entitled to receive repayment of principal only after all required principal payments have been made to more senior tranches and have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of nonpayment, are relatively illiquid and may be subject to restrictions on rights to realize upon or control underlying collateral.

Investments in Land; Development and Redevelopment

The Real Estate Funds may acquire direct or indirect interests in undeveloped land or underdeveloped real property (which may often be non-income-producing), real estate developments or redevelopments and/or businesses that engage in real estate development or redevelopment. To the extent that the Real Estate Funds invest in such assets or activities, they will be subject to the risks normally associated with such assets and development activities. Such risks include risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of the Real Estate Funds, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the Real Estate Funds. Properties under development or properties acquired for development may receive little or no cash flow from the date of acquisition through the date of completion of development and may continue to experience operating deficits after the date of completion. In addition, market conditions may change during the course of development that make such development less attractive than at the time it was commenced.

Operating Improvements

In some cases, the success of the Real Estate Funds' investment strategy will depend, in part, on the ability of the Real Estate Funds to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty.

There can be no assurance that the Real Estate Funds will be able to successfully identify and implement such restructuring programs and improvements.

Risks of Acquiring Real Estate Property

The Real Estate Funds' investments will be subject to various risks which may cause fluctuations in occupancy, rental rates, operating income and expenses or which may render the sale or financing of its properties difficult or unattractive. For example, following the termination or expiration of a tenant's lease there may be a period of time before the Real Estate Funds will begin receiving rental payments under a replacement lease. During that period, the Real Estate Funds will continue to bear fixed expenses such as interest, real estate taxes, maintenance and other operating expenses. In addition, declining economic conditions may impair the Real Estate Funds' ability to attract replacement tenants and achieve rental rates equal to or greater than the rents paid under previous leases. Increased competition for tenants may require the Real Estate Funds to make capital improvements to properties which would not have otherwise been planned. Any unbudgeted capital improvements that the Real Estate Funds undertakes may divert cash that would otherwise be available for distribution to Investors. Ultimately, to the extent that the Real Estate Funds are unable to renew leases or re-let space as leases expire, decreased cash flow from tenants will result, which could adversely impact the Real Estate Funds operating results.

Residential Real Estate Investments

The Real Estate Funds' may invest from time to time in residential development projects and financing opportunities relating to certain residential real estate assets or portfolios thereof. In such circumstances, the performance of such investments may become increasingly susceptible to adverse changes in prevailing economic and employment conditions in the U.S. and the other jurisdictions where such properties are located. GEM's ability to invest in residential real estate-related opportunities (including providing financing for potential owners and operators of residential real estate assets or portfolios thereof) may depend upon its ability to strategically partner with established and sophisticated joint venture partners and third parties. Any downturn in the U.S. or global economies may adversely affect the financial condition of residential owners and tenants, making it more difficult for them to meet their periodic repayment obligations relating to certain residential real estate properties, which could adversely impact the Real Estate Funds' investment performance. In addition, there can be no assurance that the Real Estate Funds will be able to effectively partner with suitable joint venture partners and third parties in connection with its residential real estate-related investment activities, which may impact the Real Estate Funds' ability to effectively identify and consummate such investments.

Debt Financing; Leverage

The Real Estate Funds' investments will involve material amounts of indebtedness. The Real Estate Funds expect to leverage their investments with debt financing at the property or operating company level. Debt service requirements may deplete cash flows and relatively small changes in the overall value of investments will have a magnified impact on the value of the equity of the Real Estate Funds. If a portfolio investment were unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of the Real Estate Funds' investments in such portfolio investment would be significantly reduced or even

eliminated. In addition, debt financing may restrict the amount of funds available for distribution to the investors. Certain tax-exempt investors may be subject to unrelated business income taxation because of the Real Estate Funds' use of leverage.

The use of leverage involves a high degree of financial risk and will increase the exposure of the investments to adverse economic factors such as rising interest rates, downturns in the economy or deterioration in the condition of the investments. In addition, borrowings by the Real Estate Funds under a credit facility may be secured by the investors' commitments to make capital contributions as well as by the Real Estate Funds' assets.

Usury Limitations

Interest charged on loans owned by the Real Estate Funds may be subject to state and foreign usury laws imposing maximum interest rates and penalties for violation, including restitution of excess interest and unenforceability of debt.

Interest Rate Risks

The Real Estate Funds have exposure to interest rate risks, meaning that changes in prevailing interest rates could negatively affect the value of the Real Estate Funds (*e.g.*, interest rate changes may affect, among other items, the cash flows of an investment directly and the cost of leverage).

Potential Restrictive Covenants

The Real Estate Funds may enter into a credit facility with one or more lenders in order to finance their operations (including the acquisition of the Real Estate Funds' investments). It is anticipated that any such credit facility will contain a number of common covenants that, among other things, might restrict the ability of the Real Estate Funds to: (i) acquire or dispose of assets or businesses; (ii) incur additional entity level indebtedness; (iii) make capital expenditures; (iv) make cash distributions; (v) create liens on assets; (vi) enter into leases, investments or acquisitions; (vii) engage in mergers or consolidations; (viii) make capital calls to the investors; or (ix) engage in certain transactions with affiliates, and otherwise restrict corporate activities of the Real Estate Funds (including their ability to acquire additional investments, businesses or assets, certain changes of control and asset sale transactions) without the consent of the lenders. In addition, such a credit facility would likely require the Real Estate Funds 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. The Real Estate Funds may incur indebtedness under such credit facility that bears interest at a variable rate. Economic conditions could result in higher interest rates, which could increase debt service requirements on variable rate debt and could reduce the amount of cash available for various Real Estate Funds' purposes.

Risky and Illiquid Investments

The investments made by the Real Estate Funds will be risky and illiquid. The investments may be unsecured and subordinated to material amounts of senior indebtedness. The

investments may not be protected by financial covenants or limitations upon additional indebtedness. Illiquidity may result from the absence of an established market for the investments, as well as legal or contractual restrictions on their sale by the Real Estate Funds. Dispositions of investments may be subject to contractual and other limitations on transfer (including prepayment penalties with respect to property-level debt) or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. The possibility of partial or total loss of capital will exist and prospective investors should not subscribe for interests in the Real Estate Funds unless they can readily bear the consequences of such loss. Even if the investments of the Real Estate Funds are successful, they may not produce a realized return for an unspecified duration of time.

Insurance May Not Cover All Losses

Comprehensive casualty insurance will be maintained on the Real Estate Funds' investments, including liability and fire and extended coverage, in amounts sufficient to permit replacement in the event of a total loss, subject to applicable deductibles. GEM Realty Properties will endeavor to obtain coverage of the type and in the amount customarily obtained by owners of properties similar to the real property that it acquires in the future. There are certain types of losses, however, generally of a catastrophic nature, resulting from, for example, earthquakes, floods, hurricanes, pollution, environmental matters, wars, riots, nuclear reactions and terrorist acts, which may be uninsurable or not economically insurable. In general, losses related to terrorism are becoming harder and more expensive to insure against. Most insurers are excluding terrorism coverage from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts for additional premiums which can greatly increase the total costs of casualty insurance for a property. As a result, the Real Estate Funds' investments might not be insured against terrorism. Inflation, changes in building codes and ordinances, environmental considerations, provisions in loan documents encumbering the portfolio properties pledged as collateral for loans, and other factors also might make it economically impractical to use insurance proceeds to replace improvements on a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds received, if any, might not be adequate to restore the investment with respect to the affected property. If a major uninsured loss occurs, the Real Estate Funds could lose both invested capital in and anticipated profits from the affected Real Estate Fund's investments.

Americans with Disabilities Act and Similar Laws

Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations in the United States must meet federal requirements related to access and use by disabled persons. If one or more of the properties in the Real Estate Funds' portfolios do not comply with the ADA, then the Real Estate Funds 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 Real Estate Funds' properties, or restrict the Real Estate Funds' ability to renovate their properties. The Real Estate Funds cannot predict the ultimate cost of compliance with the ADA or other legislation. If the Real Estate Funds incur substantial costs to comply with the ADA and any other similar legislation, the Real Estate Funds' financial condition, results of operations, cash flow, cash

available for distribution and ability to satisfy its debt service obligations could be materially adversely affected.

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 radon, 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 Real Estate Funds' properties could require the Real Estate Funds 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 Real Estate Funds to liability from their tenants, employees of their tenants and others if property damage or health concerns arise.

Potential Environmental Liability

Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability 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 Real Estate Funds' return from such investment.

Litigation

In the ordinary course of their business, the Real Estate Funds may be subject to litigation from time to time. The outcome of such proceedings may adversely affect the value of the Real Estate Funds and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of GEM Realty Properties' time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

Regulation

Governmental authorities at the federal, state and local levels are actively involved in the promulgation and enforcement of regulations relating to land use and zoning restrictions. Regulations may be promulgated which could have the effect of restricting or curtailing certain uses of existing structures or requiring that such structures be renovated or altered in some

fashion. The establishment of such regulations could have the impact of increasing the expenses and lowering the profitability of any of the properties affected thereby. Increased costs resulting from increases in real estate, income or transfer taxes or other governmental requirements generally may not be passed through directly to residents, tenants or lessees, inhibiting the ability of GEM Realty Properties to recover such costs.

GEM Realty Properties and the Investment Adviser are subjected to numerous and evolving regulations. It is impossible to determine the scope and extent of the impact of any new laws, regulations or initiatives. New laws or regulations could make compliance more difficult and expensive and affect the manner in which GEM Realty Properties, and the Investment Adviser operate. Moreover, if calls for additional regulation increase, there may be a related increase in regulatory investigations of the investment activities of alternative asset management funds, including the Funds, GEM Realty Properties, and the Investment Adviser. Such investigations may impose additional expenses on GEM Realty Properties, may require the attention of senior management and may result in fines if GEM Realty Properties or the Investment Adviser is deemed to have violated any regulations.

The AIFMD, regulates the activities of private fund managers undertaking fund management activities or marketing fund interests to investors within the European Union (the “EU”). If a Fund is marketed to EU-based investors: (i) such Fund will be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which may result in the Funds incurring additional costs and expenses; and (ii) the AIFMD will also restrict certain activities of the Funds in relation to EU portfolio companies including, in some circumstances, a Fund’s ability to recapitalize, refinance or potentially restructure an EU portfolio company within the first two years of ownership. In addition, it is possible that some EU jurisdictions will elect to restrict or prohibit the marketing of non-EU funds to investors based in those jurisdictions, which may make it more difficult for the Funds to raise its targeted amount of commitments.

Reassessment and Transfer Tax

To the extent that an interest in real property is transferred in connection with the offering of limited partnership interests in the Real Estate Funds or a secondary offering, or the ownership is assigned, transferred, financed, or restructured in the ordinary course of business of the Real Estate Funds and its subsidiaries, certain state and local jurisdictions may (i) seek to reassess the underlying real property, which may result in higher ad valorem property taxes and/or (ii) impose a stamp, recording, deed, or other transaction-based tax on such transaction.

Market Conditions

The Real Estate Funds’ strategy in some investments may be based, in part, upon the premise that real estate businesses and assets will be available for purchase by the Real Estate Funds at prices that GEM Realty Properties considers favorable. Further, the Real Estate Funds’ strategy relies, in part, upon local market recoveries continuing during the term of the Real Estate Funds. No assurance can be given that real estate businesses and assets can be acquired at favorable prices or that the market for such assets will recover or continue to improve, as the case may be since this will depend, in part, upon events and factors outside the control of GEM Realty Properties.

Financial Market Fluctuations

General fluctuations in the market prices of securities may affect the value of the investments held by the Real Estate Funds. Instability in the securities markets may also increase the risks inherent in the Real Estate Funds' investments. The ability of companies or businesses in which the Real Estate Funds may invest to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise.

Risk of Bridge Financing

If the Real Estate Funds make an investment with the intent of subsequently financing a portion of that investment, there is a risk that the Real Estate Funds will be unable to successfully complete such a financing. This could lead to the Real Estate Funds having a larger amount of capital invested in an investment than anticipated and reduced diversification.

Non-U.S. Investments

Non-U.S. real estate-related investments involve certain factors not typically associated with investing in real estate-related investments in the United States, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which the Real Estate Funds' investments may be made, and costs associated with conversion from one currency into another, (ii) differences between U.S. and foreign real estate markets and (iii) certain economic and political risks, including potential exchange-control regulations, potential restrictions on non-U.S. investment and repatriation of capital and the possibility of expropriation or confiscatory taxation.

Controlling Person Liability

The Real Estate Funds are expected to have controlling interests in some of their investments in real estate companies. 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 Real Estate Funds might suffer a significant loss.

General Partner Compensation

The existence of GEM's Carried Interest may create an incentive for GEM, on behalf of the Real Estate Funds, to make more speculative investments or hold an investment longer than it would otherwise would in the absence of such performance-based compensation. However, (i) the Commitment of GEM and its affiliates and (ii) the calculation of Carried Interest on an aggregate basis should each tend to reduce these incentives.

Possible Lack of Diversification; Limited Number of Investments

The Real Estate Funds are subject to certain restrictions on the size, location and type of their investments. Other than such restrictions, prospective investors have no assurance as to the degree of diversification that will actually be achieved in the Real Estate Funds' investments,

either by location, asset size or asset type. The Real Estate Funds may participate in a limited number of investments and, as a consequence, the aggregate return of the Real Estate Funds may be substantially affected by the unfavorable performance of even a single investment. If the Real Estate Funds make an investment in a single transaction with the intent of refinancing or selling a portion of the investment, there is a risk that the Real Estate Funds will be unable to successfully complete such a financing or sale. This could lead to increased risk as a result of the Real Estate Funds having an unintended long-term investment and reduced diversification.

Competition: Difficulty of Locating Suitable Investments

Although GEM's professionals have been successful in identifying suitable investments in the past, the Real Estate Funds may be unable to find a sufficient number of attractive opportunities to meet its targeted return. The activity of identifying, structuring and completing and realizing attractive investments is highly competitive and involves a high degree of uncertainty. The Real Estate Funds will be competing for investments with other real estate investment vehicles, as well as individuals, publicly traded REITs, financial institutions (such as mortgage banks, insurance companies and pension funds) and other institutional investors. Further, over the past several years, many real estate investment funds and publicly traded REITs have been formed and others have been consolidated (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). The success of the Real Estate Funds will depend on the ability of the General Partner's, the Investment Advisor's and GEM's professionals to identify suitable investments, to negotiate and arrange the closing of appropriate transactions and to arrange the timely disposition of a sufficient number of suitable investments. There can be no guaranty that the Real Estate Funds will be able to locate, complete and exit investments that satisfy the Real Estate Funds' targeted return, or realize upon their values, or that the Real Estate Funds will be able to fully invest all funds committed for investment by the Partners. In addition, GEM's investment strategies in certain investments depend on its ability to enter into satisfactory relationships with joint venture partners. There can be no assurance that GEM's current relationship with any such partner will continue (whether on currently applicable terms or otherwise) with respect to the Real Estate Funds or that any relationship with other such persons will be able to be established in the future as desired with respect to any sector or geographic market and on terms favorable to the Real Estate Funds.

Third Party Involvement

The Real Estate Funds may co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests in certain investments. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that: (i) the Real Estate Funds 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 Real Estate Funds may at any time have economic or business interests or goals that are inconsistent with those of the Real Estate Funds; (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 Real Estate Funds' 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 Real Estate Funds may be liable for actions of their co-venturers or partners. In addition, the Real Estate Funds may rely upon the abilities and management expertise of a co-venturer or partner. It may also be more difficult for the Real Estate Funds to sell their interests in any joint venture, partnership or entity with other owners than to sell their interests in other types of investments. The Real Estate Funds may grant co-venturers or partners joint approval rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks. A deadlock could delay the execution of the business plan for the investment or require the Real Estate Funds to engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment. As a result of these risks, the Real Estate Funds may be unable to fully realize their expected return on any such investment.

Contingent Liabilities on Disposition of Investments; Investor Giveback

In connection with the disposition of an investment, the Real Estate Funds may be required to make representations about such investment. The Real Estate Funds also may be required to indemnify the purchaser of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities for which GEM Realty Properties may establish reserves or escrow accounts. These reserves or accounts (if any) may be insufficient to cover the liability. Furthermore, under the Delaware Revised Uniform Limited Partnership Act, each investor that receives a distribution in violation of such law will, under certain circumstances, be obligated to recontribute such distribution to the Real Estate Funds.

Failure to Meet Targeted Returns

Prospective investors should bear in mind that past or targeted performance is not a guarantee, projection or prediction and is not necessarily indicative of future results. There can be no assurance that a Fund will achieve comparable results, that targeted returns will be met or that a Fund will be able to implement its investment strategy and investment approach or achieve its investment objectives. Actual gross and net returns for Funds may vary significantly from targeted returns. A Fund's target returns are expected to be realized from current income and capital appreciation, using leverage where GEM Realty Properties deems it is appropriate. The target returns are also based on models, estimates and assumptions about performance believed to be reasonable under the circumstances, but actual realized returns on a Fund's investments will depend on, among other factors, the ability to consummate attractive investments, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the targeted returns are based.

Side Letter Agreements

GEM may enter into a side letter or other similar agreement with a particular Investor in connection with its admission to the Real Estate Funds as an Investor therein without the approval of any other Investor, which would have the effect of establishing rights under or altering or supplementing the terms of the Partnership Agreement with respect to such Investor in a manner

more favorable to such Investor than those applicable to other Investors. Such rights or terms in any such side letter or other similar agreement may include, without limitation, (i) excuse rights applicable to particular investments (which may increase the percentage interest of other Investors in, and contribution obligations of other Investors with respect to, such investments), (ii) GEM's agreement to extend certain information rights or additional reporting to such Investor, including, without limitation, to accommodate special regulatory or other circumstances of such Investor, (iii) waiver or modification of certain confidentiality obligations and/or documentation that might be requested by the GEM for the benefit of lenders or other persons extending credit to or arranging financing for the Real Estate Funds (iv) consent of GEM to certain transfers by such Investor or other exercises by GEM of its discretionary authority under the Partnership Agreement for the benefit of such Investor, (v) restrictions on, or special rights of such Investor with respect to the activities of GEM, (vi) withdrawal rights (subject to consent of GEM) due to legal, regulatory or policy matters, including matters related to political contributions, gifts and other such policies, (vii) other rights or terms necessary in light of particular legal, regulatory or public policy characteristics of an Investor, (viii) economic arrangements, (ix) matters regarding such Investor's right to participate in co-investment opportunities or (x) additional obligations, and restrictions of the Real Estate Funds with respect to the structuring of any investment (including with respect to alternative investment vehicles). Any rights or terms so established in a side letter with an Investor will govern solely with respect to such Investor (but not any of such Investor's assignees or transferees unless so specified in such side letter) and will not require the approval of any other Investor notwithstanding any other provision of the Partnership Agreement. Notwithstanding the fact that an Investor may have a most-favored-nations provision in its side letter, such Investor may not, notwithstanding the terms of such side letter provision, have the right to elect certain rights or benefits granted to other Investors in their side letters.

Diverse Investor Group

The Investors may have conflicting investment, tax and other interests with respect to their investments in the Real Estate Funds, including conflicts relating to the structuring or timing of investment acquisitions and dispositions. The conflicting interests of individual Investors may relate to or arise from, among other things, the nature of investments made by the Real Estate Funds, the structuring or the acquisition of investments and the timing of investments. As a consequence, conflicts of interest may arise in connection with decisions to be made by GEM or the Investment Advisor, including with respect to the nature or structuring of investments that may be more beneficial for one Investor than for another Investor, especially with respect to Investors' individual tax attributes (for example, an Investor may be affected by its taxable or tax-exempt status or its or its affiliate's jurisdiction of organization). The Investors that invest in the Real Estate Funds will not participate in the management thereof. In selecting and structuring investments appropriate for the Real Estate Funds, GEM or the Investment Advisor will generally consider the investment and tax objectives of the Real Estate Funds as a whole, not the investment, tax or other objectives of any Investor individually.

Transfers

In certain cases, GEM will have the opportunity (but, subject to any applicable restrictions or procedures in the relevant Private Equity Fund's Partnership Agreement, no obligation) to identify one or more secondary transferees of interests in a Private Equity Fund. In such cases,

GEM will not receive compensation for identifying such transferees, and will use its discretion to select such transferees based on suitability and other factors similar to those employed in selecting co-investors, and unless required by the relevant Private Equity Fund's Partnership Agreement, will determine in its sole discretion whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Fund investors.

The following additional risk factors do not purport to be a complete list or explanation of the additional risks involved in an investment in the perpetual life Real Estate Fund advised by GEM Realty Properties. These risk factors include only those additional risks that GEM Realty Properties believes to be material, significant or unusual related to the perpetual life Real Estate Fund.

Uncertainty of Net Asset Values

Among the perpetual life Real Estate Fund's important features are the provisions relating to the funding of capital commitments and the redemptions of interests in the perpetual life Real Estate Fund. The valuation of interests upon the funding of capital commitments, the amount payable upon redemption to redeeming investors and certain other valuations are generally based upon the perpetual life Real Estate Fund's net asset value applicable to such funding, redemption or other event (subject to any applicable adjustment with respect to distributions, contributions or other material events occurring thereafter). The values of the perpetual life Real Estate Fund's properties will be established in accordance with its valuation policy statement, a copy of which will be available upon request. The perpetual life Real Estate Fund's debt is expected to be "marked-to-market" in accordance with the valuation policy statement. Valuations are inherently subjective in certain respects and rely on a variety of assumptions, including assumptions about projected cash flows for the remaining holding periods for the properties. Furthermore, valuations are based in large part on information as of the applicable period, and market, property and other conditions may change materially after that date. Accordingly, such values may not accurately reflect the actual market values of the properties, and, thus, investors may make decisions as to whether to invest in or redeem interests without complete and accurate valuation information. In addition, investors would be adversely affected by higher asset management fees and incentive allocations if the perpetual life Real Estate Fund's net asset value is overstated.

Pricing and Priority in Redemption Transactions

In connection with an Open Date (and earlier in limited circumstances), investors are entitled to elect to redeem their interests upon written notice to the General Partner. Except in limited circumstances, the redemption payment will be paid only as liquid assets are available as determined by the General Partner in its sole discretion. The General Partner has the right to determine the extent to which liquid assets are available for redemption or instead are necessary for current and anticipated obligations, liabilities, expenses, debt payments, investments, follow-on investments, capital expenditures, distributions, reserves or required redemption payments to certain Partners. Furthermore, interests may be redeemed by means of two or more partial payments made over a period of time and an investor who gives a redemption notice will not know the redemption price until its interests are actually redeemed. The redemption price ultimately paid may not accurately reflect the fair value of the interests being redeemed. The General Partner may restrict an investor's ability to redeem its perpetual life Real Estate Fund

interests. The General Partner may enter into an agreement with one or more investors that limits or modifies the applicability of the redemption restrictions with respect to such investors' perpetual life Real Estate Fund interests, including granting such investors the right redeem their interests in the perpetual life Real Estate Fund upon the occurrence of certain events. Such redemptions may affect the perpetual life Real Estate Fund's ability to make and/or hold investments.

Use of Capital

Investors in the perpetual life Real Estate Fund should not expect to receive distributions of net capital event proceeds. If the General Partner determines that all or any portion of net capital event proceeds are not necessary for current and anticipated obligations, liabilities, expenses, debt payments, investments, follow-on investments, capital expenditures, distributions or reserves, such amounts may be used to satisfy redemption requests.

Redemption Requests Causing the Sale of Investments

If the interests subject to outstanding redemption requests represent more than 25% of the perpetual life Real Estate Fund's net asset value for more than 12 consecutive months, the perpetual life Real Estate Fund will not be permitted to acquire any new investments (excluding pre-existing commitments to make investments, follow-on investments or restructurings of investments) until such redemption requests fall below such threshold. This limitation may have a negative impact on the perpetual life Real Estate Fund's dividend yield and returns.

GEM Realty Securities

GEM Realty Securities sponsors long/short hedge funds that invest primarily in the publicly traded equity and debt securities of real-estate related companies, including real estate investment trusts ("REITs"), real estate operating companies and homebuilders. Additionally, GEM Realty Securities may invest in derivative instruments, including options and swap contracts, in connection with or as a complement to its investments in equity and debt instruments. Investment strategies employed by GEM Realty Securities include, among others, paired-trading, capital structure arbitrage and catalyst investing. Asset allocations, risk exposures, and other portfolio information are reviewed by GEM's Investment Committee, GEM's Risk Committee and by various senior executives within the GEM Realty Securities division.

Risk Factors with Respect to GEM Realty Securities

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Funds advised by GEM Realty Securities. These risk factors include only those risks GEM Realty Securities believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by GEM Realty Securities. Investors should carefully review their respective Fund's governing documents for a more fulsome discussion of the relevant risks associated with an investment in the Funds advised by GEM Realty Securities.

Market Risks

GEM Realty Securities' investment strategies are subject to market risk. There can be no assurance that what is perceived as an investment opportunity will not, in fact, result in substantial losses as a result of one or more of a wide variety of factors. Certain general market conditions—for example, a reduction in the volatility or pricing inefficiencies of the markets in which GEM Realty Securities is active—could materially reduce the Hedge Funds' profit potential. While GEM Realty Securities might develop new investment strategies in the future, any such strategies may not be thoroughly tested before being employed and may not, in any event, be successful. In addition, any new investment strategy or technique developed by GEM Realty Securities may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the portfolios. The portfolios can only be successful if GEM Realty Securities is able to trade and invest successfully, and there can be no assurance that this will be the case.

Systemic Risk

Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the portfolios interact on a daily basis.

Lack of Liquidity in Markets and Investments in Thinly-traded or Illiquid Instruments

Despite the heavy volume of trading in securities, the markets for some securities and investment instruments have limited liquidity and depth. This lack of depth could disadvantage the portfolios, both in the realization of the prices which are quoted and in the execution of orders at desired prices.

The portfolios may invest a significant portion of their assets in instruments that are thinly traded or that have limited liquidity. As a result, the portfolios may be required to hold such instruments despite an adverse price movement. In addition, to the extent the portfolios make a short sale of an illiquid security, they may have difficulty in covering the short sale.

Leverage

The portfolios may borrow amounts in the normal course of their trading, on both a secured basis, using the securities that they own as collateral, and an unsecured basis. The portfolios, by virtue of their use of borrowed funds and the significant degree of leverage typically embedded in derivative instruments such as swaps, may therefore trade on a highly leveraged basis. Additionally, losses incurred on the portfolios' leveraged investments will be increased in magnitude in direct proportion to the degree of leverage used, and may exceed the amount of capital invested. Leverage may also be used in connection with short sales.

The instruments and borrowings utilized by the Hedge Funds to leverage investments may be collateralized by the portfolios' portfolios. Accordingly, the portfolios may pledge their securities in order to borrow or otherwise obtain leverage for investment or other purposes. Should the securities pledged to brokers to secure the portfolios' margin accounts decline in value, the portfolios could be subject to a "margin call", pursuant to which the portfolios must either deposit additional funds or securities with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. The banks and dealers that provide financing to the portfolios can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by banks and dealers in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that the portfolios will be able to secure or maintain adequate financing.

Hedging Transactions

The portfolios may utilize securities both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of the portfolios' investment portfolios resulting from fluctuations in the markets and changes in interest rates; (ii) protect the portfolios' unrealized gains in the value of their investment portfolios; (iii) facilitate the sale of any securities; (iv) enhance or preserve returns, spreads or gains on any security in the portfolios' portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the portfolios' securities; (vii) protect against any increase in the price of any securities the portfolios anticipate purchasing at a later date; or (viii) act for any other reason that GEM Realty Securities deems appropriate. The portfolios will not be required to hedge any particular risk in connection with a particular transaction or their portfolios generally. While the portfolios may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the portfolios than if they had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that may not be hedged.

Institutional Risks

The portfolios expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the portfolios to trade in any variety of markets or asset classes over time; however, there can be no assurance that the portfolios will be able to maintain such relationships or establish such relationships. An inability to establish or maintain such relationships could limit the portfolios' trading activities, could create losses, could preclude the portfolios from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and could prevent the portfolios from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the portfolios establish additional relationships could have a significant impact on the portfolios' business due to the portfolios' reliance on such counterparties.

Some of the markets in which the portfolios may effect transactions are not "exchange-based", including "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the portfolios to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract

(whether or not bona fide) or because of a credit or liquidity problem, thus causing the portfolios to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the portfolios have concentrated their transactions with a single or small group of counterparties. Generally, the portfolios will not be restricted from dealing with any particular counterparties. GEM Realty Securities’ evaluation of the creditworthiness of the portfolios’ counterparties may not prove sufficient. The lack of a complete and “foolproof” evaluation of the financial capabilities of the portfolios’ counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the portfolios.

Credit Risks

The stability and liquidity of over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transactions. It is expected that the portfolios will monitor on an ongoing basis the creditworthiness of firms with which they will enter into over-the-counter derivatives. If there is a default by the counterparty to such a transaction, the portfolios will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the portfolios being less than if the portfolios had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the portfolios’ counterparties were to become insolvent or the subject of insolvency proceedings, there exists the risk that the recovery of the portfolios’ securities and other assets from such counterparty will be delayed or be of a value less than the value of the securities or assets originally entrusted to such counterparty.

In addition, the portfolios may use counterparties, located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in foreign jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the portfolios’ assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the portfolios and their assets. Investors should assume that the insolvency of any counterparty would result in a loss to the portfolios, which could be material.

Competition; Availability of Investments

Certain markets in which the portfolios may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that GEM Realty Securities will be able to identify or successfully pursue attractive investment opportunities in such environments.

Volatility Risk

The portfolios’ investment program may involve the purchase and sale of relatively volatile instruments such as derivatives, which are frequently valued based on implied volatilities

of such derivatives compared to the historical volatility of underlying securities. Fluctuations or prolonged changes in the volatility of such securities, therefore, can adversely affect the value of investments held by the portfolios.

Global Market Exposure

The portfolios may invest on a global basis in both developed and emerging markets. In investing outside of the United States, the portfolios are subject to: (i) currency exchange-rate risk; (ii) the possible imposition of withholding, income or excise taxes; (iii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and little or potentially biased government supervision and regulation; and (iv) economic and political risks, including expropriation, currency exchange control and potential restrictions on foreign investment and repatriation of capital.

GEM Realty Securities may, but will be under no obligation to, hedge the portfolios' exchange rate risk. Moreover, any hedging may itself be costly and reduce returns. Prospective investors must recognize that an investment in the portfolios will be subject to foreign exchange risk as well as hedging costs. Furthermore, currency fluctuations may have a material impact on the volatility of the issuers in which the portfolios invest, in addition to affecting the value of the gains and losses recognized on the portfolios' trading.

Long/Short Investment Strategy

The success of the portfolios' long/short investment strategy depends upon the GEM Realty Securities' ability to identify and purchase financial instruments that are undervalued and identify and sell short financial instruments that are overvalued. The identification of investment opportunities in the implementation of the portfolios' long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the portfolios' positions were to fail to converge toward, or were to diverge further from values expected by GEM Realty Securities, the portfolios may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the portfolios to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with GEM Realty Securities' long/short strategies may become outdated and inaccurate as market conditions change.

Investments in Emerging Markets

GEM Realty Securities may invest the portfolios' assets in emerging countries which it believes offer superior capital appreciation. Investors in the portfolios should note that changes in regulatory, tax or economic policy in a country could significantly affect the market in that country, and, therefore, the return on the portfolios' investments in such country. Additionally, many foreign markets are more concentrated than the U.S. market, with a small number of companies making up a large percentage of the local market. As a result, the performance of one company, or a relatively small number of companies, could have a significant effect on the performance of the portfolios' investments in a country. In determining whether to invest in a

particular emerging market, GEM Realty Securities may consider such factors as economic growth, expected inflation, governmental policies, and currency relationships among other factors.

Capital Structure Arbitrage

The success of this strategy will depend on the ability of GEM Realty Securities to identify and exploit the relationships between movements in different financial instruments within an issuer's capital structure (including, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. There can be no assurance that GEM Realty Securities will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing inefficiency of the markets in which the portfolios will seek to invest will reduce the scope for the portfolios' investment strategies. In the event that the perceived mispricing underlying the portfolios' positions fail to materialize, these investment strategies could be unsuccessful or result in losses.

Activist Role of GEM Realty Securities

The portfolios may invest in debt and equity securities of companies that GEM Realty Securities believes are undervalued by the marketplace and are likely to appreciate, including as a result of a change in ownership, corporate direction or management, or as a result of operational improvements. This activist investment strategy may require, among other things: (i) that GEM Realty Securities properly identify portfolio companies whose securities prices can be improved through corporate and/or strategic action; (ii) that the portfolios acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) that the portfolios avoid triggering anti-takeover and regulatory obstacles while aggregating their positions; (iv) that management of portfolio companies and other security holders respond positively to GEM Realty Securities' proposals; and (v) that the market price of a portfolio company's securities increases in response to any actions taken by portfolio companies. There can be no assurance that any of the foregoing will succeed.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or investors of the subject company, which may result in litigation and may erode, rather than increase, the value of the interests; (ii) intervention of a governmental agency; (iii) efforts by the subject company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in securities prices; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; (vi) the necessity for compliance with applicable securities laws; and (vii) no guarantee can be made that there will be sufficient liquidity in the markets to allow the portfolios to dispose of all or any of their securities therein or to realize any increase in the price of such securities. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of investors and others with an interest in the subject company. Some investors may have interests which diverge significantly from those of the portfolios, and some of those parties may be indifferent to the proposed changes.

Event-Driven Investing

Event-driven investing requires the investor to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as GEM Realty Securities had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value and fail to implement it, resulting in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the portfolios of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a Federal or state regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable Federal or state securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event-driven investing, the results of the portfolios' operations may be expected to fluctuate from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

Relative Value Trading

GEM Realty Securities may use "relative value" investing strategies, which attempt to exploit relative mispricings among interrelated instruments (securities/securities; securities/derivatives; securities/futures; derivatives/futures; futures/futures), rather than making directional "bets" on absolute price movements. Mispricings, even if correctly identified, may not be corrected by the market, at least within a timeframe over which it is feasible for the portfolios to maintain a position. Even pure arbitrage positions can result in significant losses if GEM Realty Securities is not able to maintain both sides of the position until expiration, for example, in circumstances where the portfolios are forced to prematurely return a borrowed security. GEM Realty Securities may utilize a high degree of leverage and could be forced to liquidate positions prematurely in order to meet margin calls, causing an otherwise "pure" arbitrage position to result in major losses.

The success of GEM Realty Securities' relative value investment strategy depends on GEM Realty Securities' ability to identify and exploit perceived inefficiencies in the pricing of securities, financial products, or markets. Identification and exploitation of such discrepancies involve uncertainty. There can be no assurance that GEM Realty Securities will be able to locate investment opportunities or exploit pricing inefficiencies in the securities markets. A reduction in the pricing inefficiency of the markets in which GEM Realty Securities seeks to invest will reduce the scope for GEM Realty Securities' investment strategies. In the event that the perceived mispricings underlying the portfolios' positions were to fail to converge toward, or were to

diverge further from, relationships expected by GEM Realty Securities, the portfolios may incur losses. Even if GEM Realty Securities' relative value investment strategy is successful, it may result in high portfolio turnover and, consequently, high transaction costs.

Distressed Debt

The portfolios may acquire performing, sub-performing or nonperforming debt secured by real estate. The portfolios may also acquire unsecured debt interests that are issued by real estate companies, REITs or that pertain to the owners of the underlying real estate. In addition to the risks of borrower default, the collateral may be mismanaged or otherwise decline in value during periods in which the portfolios do not have control of the underlying real estate. In addition, borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement and/or bring claims for lender liability in response to actions to enforce mortgage or other debt obligations. If any of the above occurs, the value of the portfolios' investments could be adversely affected. As a lender, the portfolios may be subject to penalties for violations of state usury limitations, which penalties may be triggered by contracting for, charging or receiving usurious interest. It is anticipated that a portion of the portfolios' debt investments will not be rated by any nationally recognized rating agency. Generally, the value of unrated classes is more subject to fluctuation due to economic conditions than rated classes. Overall credit quality may move up or down frequently within this category. The portfolios' acquisition of credit support classes of securitizations (which may be first loss classes) which are unrated at the time of acquisition and which have lower ratings incrementally increase the risk of nonpayment or of a significant delay in payments on these classes. Should assets be downgraded, it may adversely affect their value and may adversely affect the value of the portfolios.

Risks Associated with Commercial Mortgage Loans

The portfolios may invest in commercial mortgage loans. The value of the portfolios' commercial mortgage loans will be influenced by the historical rate of delinquencies and defaults experienced on the commercial mortgage loans and by the severity of loss incurred as result of such defaults. The factors influencing delinquencies, defaults and loss severity include (i) economic and real estate market conditions by industry sectors (*e.g.*, multifamily, retail, office, etc.); (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (*i.e.*, the ability of tenants or operators to make lease payments or generate revenue from the operation of a property, the ability of a property to attract and retain tenants or guests, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning and laws) rather than upon the existence of independent income or assets of the borrower. Most commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Commercial mortgage loans generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining “balloon” amount at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans (as well as CMBS, as defined below) bear the risk that the borrower will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower’s obligation.

Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

Illiquid Strategies

The portfolios may invest in securities, such as structured products, derivatives and other types of unregistered securities that are illiquid. Generally, there is no public or over-the-counter trading market for these securities, and the portfolios might only be able to liquidate these positions at highly disadvantageous prices. There may be limited information available about the issuers of the securities which may make valuation of such securities difficult or uncertain. The market prices, if any, for such illiquid securities tend to be volatile and the portfolios may not be able to sell them when they desire to do so or to realize what they perceive to be their fair value in the event of a sale. Even those markets which GEM Realty Securities expects to be liquid can experience periods, possibly extended periods, of illiquidity.

Vulnerability to Interest Rate Changes

Many of the investments in which the portfolios will invest will be fixed rate debt or similar securities or instruments, and therefore will decline in value when interest rates rise. Also, because the value of real estate often declines when interest rates rise, the value of the collateral underlying the investments in which the portfolios invest may decline at the same time. Therefore, rising interest rates could substantially affect the value of the portfolios’ investments.

Investment in Partnerships and Other Entities

The portfolios may make investments through partnerships, joint ventures or other entities. Such investments may involve risks not present in direct investments, including, for example, the possibility that a co-venturer or partner of the portfolios might become bankrupt, or may at any time have economic or business interests or goals which are inconsistent with those of the portfolios, or that any such co-venturer or partner may be in a position to take action contrary to the portfolios’ objectives. Furthermore, if such co-venturer or partner defaults on its funding obligations, it may be difficult for the portfolios to make up the shortfall from other sources. The portfolios may be required to make additional contributions to replace such shortfall, thereby reducing the diversification of their investments. Any default by such co-venturer or partner could have an extremely deleterious effect on the portfolios, their assets and the interests of the investors. In addition, the portfolios may be liable for the actions of their co-venturers or partners. While GEM Realty Securities will attempt to limit the liability of the portfolios by reviewing the qualifications and previous experience of co-venturers or partners, it does not expect to obtain

financial information from, or to undertake private investigations with respect to, prospective co-venturers or partners.

Investments with Co-Lenders

The portfolios may make debt investments where the portfolios are co-lenders with other lenders. Such investments may involve risks not present in debt investments where a Hedge Fund is the sole lender, including, for example, the possibility that a co-lender might become bankrupt, or may at any time have economic or business interests or goals which are inconsistent with those of the portfolios, or that any such co-lender may be in a position to take action contrary to the portfolios' objectives. Furthermore, to the extent such investment requires additional funding or protective advances, if any such co-lender defaults on its funding obligations, it may be difficult for the portfolios to make up the shortfall from other sources. The portfolios may be required to advance additional funds to replace such shortfall, thereby reducing the diversification of their investments. Any default by such co-lender could have an extremely deleterious effect on the portfolios, their assets and the interests of the investors. In addition, the portfolios may be liable for the actions of their co-lenders.

Risks of Litigation

Investing in distressed securities can be a contentious and adversarial process. Different investor groups may have qualitatively different, and frequently conflicting, interests. The portfolios' investment activities may include activities that are hostile in nature and will subject them to the risks of becoming involved in litigation by third parties. The expense of defending claims against the portfolios by third parties and paying any amounts pursuant to settlements or judgments would be borne by the portfolios and would reduce net assets and could require the partners to return distributed capital and earnings to the portfolios. GEM Realty Securities will be indemnified by the portfolios in connection with such litigation, subject to certain conditions.

Derivative Instruments

The portfolios may make use of various derivative instruments, such as warrants, options, convertible securities and equity swaps. The use of derivative instruments involves a variety of material risks. These risks include the extremely high degree of leverage which can be embedded in such instruments, a risk which can be materially increased by the limited liquidity which frequently characterizes the derivatives markets. The pricing relationships between derivatives and the underlying instruments on which they are based also may not conform to anticipated or historical correlation patterns, resulting in unanticipated losses. In addition, some of the derivatives that may be traded by GEM Realty Securities are over-the-counter instruments (contracts) between the portfolios and third parties. The risk of counterparty nonperformance can be significantly greater in the case of these over-the-counter instruments as opposed to exchange-traded instruments. Furthermore, "bid-ask" spreads may be unusually wide in the substantially unregulated over-the-counter markets.

Short Sales

The portfolios may engage, from time to time, in short selling of securities or other investment products.

Short selling, and especially short selling on margin, is considered a risky trading strategy. When they make a short sale, the portfolios may sell securities or other investment instruments that they do not own. To make delivery of the security or other investment instruments sold, the portfolios will be required to borrow the security or other investment instruments. An investment manager will make a short sale when it anticipates it will be able to purchase and return the securities to the lender after the securities have declined in value. The gain realized will be the difference between the sale price for the securities and the price at which the securities are purchased. However, in the event the market price of the security or other investment instrument has increased, the portfolios may be forced to cover the short position at a price higher than the sale price and, if the interest earned on the proceeds of the short sale is insufficient to offset the price differential, this will result in a loss. Since there is theoretically no limit to how high the price of a security will sell for, a short sale involves the theoretically unlimited risk of an increase in the market price of the securities involved.

The borrowed securities or other investment instruments in a short sale are subject to call from the lender at any time at its discretion, which would require the portfolios to cover their positions at that time. A lender may call a security for a variety of reasons, some of which may be rather arbitrary. In the event the call is made when the security has increased in price or is, in fact, rapidly increasing in price, the portfolios will be required to cover at the higher price, thus realizing a loss. The portfolios may be required to attempt to borrow the called security from a different broker. However, under certain circumstances, the portfolios may have difficulty in finding the security to borrow. The call feature of short selling takes control over the decision to cover short positions out of the hands of the investment manager.

It is possible that where the number of short sellers of a security is large, the portfolios will have difficulty in finding the security to borrow. In such event, the cost of borrowing the security will increase. In situations where it is difficult to borrow a security, the portfolios' ability to meet their investment objectives may be limited.

Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the portfolios may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes.

Options

The portfolios may utilize options. There is no assurance that a liquid secondary market on an options exchange will exist for any particular exchange-traded option or at any particular time. If the portfolios are unable to effect a closing purchase transaction with respect to covered

options they have written, the portfolios will not be able to sell the underlying securities or dispose of assets held in a segregated account until the options expire or are exercised. Similarly, if the portfolios are unable to effect a closing sale transaction with respect to options they have purchased, they would have to exercise the options in order to realize any profit and will incur transaction costs upon the purchase or sale of underlying securities. The portfolios may purchase and sell both options that are traded on exchanges and options traded over-the-counter. The market for over-the-counter options is more limited than with exchange-traded options and may involve the risk that brokers, dealers or other counterparties participating in such transactions will not fulfill their obligations.

Synthetic Assets; Credit Default Swaps

The portfolios may enter into credit default swaps or acquire or sell credit-linked notes secured by credit default swaps for, among other reasons, the purpose of implementing GEM Realty Securities' view that a particular credit, or group of credits, will experience credit improvement or credit deterioration, or to pursue other investment strategies. In the case of expected credit improvement, the portfolios may "write" or "sell" credit default protection in which they receive spread income. The portfolios may also "purchase" credit default protection even in the case in which they do not own the referenced obligation if, in the judgment of GEM Realty Securities, there is a high likelihood of credit deterioration. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the underlying Reference Obligation (as defined below), and potential loss upon default, among other factors. As such, there are many factors upon which market participants may have divergent views.

Specifically, the portfolios may acquire exposure to the risk of CMBS, debt securities and loans synthetically through products such as credit default swaps (including, without limitation, CMBX contracts), total return swaps, credit linked notes, structured notes, trust certificates and other derivative instruments (each, a "Synthetic Asset"). A Synthetic Asset could take many forms, including a credit derivative transaction that references a CMBS, debt security loan, or a credit derivative transaction that references a portfolio or index of reference obligations consisting of CMBS, debt securities, bonds or other financial instruments (each, a "Reference Obligation").

Selling credit default protection creates a synthetic "long" position which may replicate credit exposure to the Reference Obligation. However, there can be no assurance that the price relationship between the Reference Obligation and the Synthetic Asset will remain constant (as, among other reasons, the pricing of each may be based upon different factors), and events unrelated to the Reference Obligation (such as those affecting availability of borrowed money and liquidity) can cause the price relationship to change. This risk is often referred to as "basis risk," and it may cause the portfolios to realize a greater loss on a Synthetic Asset than might otherwise be the case with a direct investment in a Reference Obligation.

As a "seller" of credit default protection, the portfolios will generally receive a fixed rate of income throughout the term of the contract, which generally is between six months and ten years (depending on the maturity of the underlying Reference Obligation); provided that there is no credit event. If a credit event occurs, the portfolios (as the seller of protection) will be required to pay the notional value of the Reference Obligation and, depending on the terms of the contract,

either may receive in return a security representing the Reference Obligation, which will have a heavily discounted value or perhaps little or even no value, or may receive nothing in return other than the right to receive reimbursements of recoveries from the counterparty to the extent that the Reference Obligation subsequently performs.

Exposure to Reference Obligations through Synthetic Assets presents risks in addition to those resulting from direct purchases of the assets referenced. The portfolios will have a contractual relationship only with the Synthetic Asset counterparty, and not with the issuer(s) (the “Reference Entity”) of the Reference Obligations unless a termination (in whole or in part) of the contract prior to such contract’s scheduled maturity date (in the event of a credit event) occurs with respect to any such Reference Obligation, physical settlement applies and the Synthetic Asset counterparty delivers the Reference Obligation to the portfolios. Other than in the event of such delivery, the portfolios generally will have no right directly to enforce compliance by the Reference Entity with the terms of any such Reference Obligation and the portfolios will not have any rights of set-off against the Reference Entity. In addition, the portfolios generally will not have any voting or other consensual rights of ownership with respect to the Reference Obligation. The portfolios also will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

If the portfolios are “purchasers” of credit default protection and no credit event occurs, the portfolios will lose their investments and recover nothing. However, if a credit event occurs, the portfolios (as purchasers) may receive the notional value of the Reference Obligation from the Synthetic Asset counterparty even if the Reference Obligation has little or no value.

In the event of the bankruptcy or insolvency of the Synthetic Asset counterparty, the portfolios will be treated as a general unsecured creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the portfolios will be subject to the credit risk of the Synthetic Asset counterparty, as well as that of the Reference Entity. As a result, concentrations of Synthetic Assets entered into with any one Synthetic Asset counterparty will subject the portfolios to an additional degree of risk with respect to defaults by such Synthetic Asset counterparty as well as by the respective Reference Entities. Where the portfolios are the purchasers of credit default protection, the portfolios are exposed to the risk that the Synthetic Asset counterparty may fail to satisfy its payment obligation to the portfolios following a credit event. The failure of a Synthetic Asset counterparty to perform may cause the portfolios’ hedging strategies, to the extent that they involve the purchase of credit default protection, to be less effective or ineffective.

Foreign Exchange Contracts

The portfolios may engage in foreign exchange trading. Trading in foreign exchange spot or forward contracts is not regulated and such contracts are not traded on or guaranteed by an exchange or its clearinghouse. Rather, banks and dealers act as principals in the forward contract markets. Consequently, there are no requirements with respect to recordkeeping, financial responsibility, or segregation of customer funds and positions. In connection with their spot and forward contract trading, the portfolios will be subject to the failure, inability or refusal to perform a spot or forward contract by a counterparty to such spot or forward contract. The default of a

party with which the portfolios had entered into a spot or forward contract could deprive the portfolios of any profit potential or force the portfolios to cover their commitments for resale, if any, at the market price then current.

Equity Securities

The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, the portfolios may suffer losses if they invest in equity instruments of issuers whose performance diverges from GEM Realty Securities' expectations or if equity markets generally move in a single direction and the portfolios have not hedged against such a general move. The portfolios also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

In addition, common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer. Warrants and stock purchase rights are securities permitting, but not obligating, their holders to subscribe for other equity securities, and they do not represent any rights in the assets of the issuer. As a result, warrants and stock purchase rights may be considered more speculative than other types of equity investments.

Lower Rated Securities

The portfolios may invest in debt securities that are unrated or rated the lowest rating category by Standard & Poor's or Moody's. The portfolios may have difficulty disposing of lower quality debt securities because there may be a thin trading market for such debt securities. There may be no established secondary market for many of these debt securities, and the portfolios anticipate that such securities could be sold only to a limited number of dealers or institutional investors. The lack of a liquid secondary market also may have an adverse impact on market prices of such instruments and may make it more difficult for the portfolios to obtain accurate market quotations for purposes of valuing their portfolio securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, also may decrease the values and liquidity of lower rated debt securities, especially in a thinly traded market. The portfolios also may incur additional expenses to the extent they are required to seek recovery upon a default in the payment of principal or interest on their portfolio securities.

Exchange-Traded Funds

The portfolios may invest in Exchange Traded Funds ("ETFs"), which are shares of publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These

indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. In addition, the portfolios may bear, along with other shareholders of an ETF, their *pro rata* portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the portfolios' expenses (*e.g.*, management fees and operating expenses), investors may also indirectly bear similar expenses of an ETF.

Swaps

The portfolios may enter into swap agreements. Swap agreements are individually negotiated between the portfolios and a counterparty and can be structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the portfolios' exposure to instruments issued by certain countries (*i.e.*, geographic exposure), long-term or short-term interest rates (in the United States or abroad), foreign currency values, mortgage securities, corporate borrowing rates, credit events, or other factors such as security prices, baskets of equity securities, or inflation rates. In addition, swaps also can utilize leverage that could create additional volatility risks for the portfolios. Swap agreements can take many different forms and are known by a variety of names. The portfolios are not limited to any particular form of swap agreement if GEM Realty Securities determines it is consistent with the portfolios' investment objective and policies. Among other types of swap agreements, the portfolios may enter into credit default swaps.

Swap agreements tend to shift the portfolios' investment exposure from one type of investment to another. For example, under the terms of a swap, the portfolios may receive from a swap counterparty all positive returns earned on a notional investment amount in a particular security or basket of securities in exchange for the portfolios' periodic payments to the swap counterparty reflecting the costs of the swap (*i.e.*, a "total return swap"). In such instance, the portfolios would pay to the swap counterparty the absolute value of all negative returns earned on the notional investment represented by the swap. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the portfolios' portfolios. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the portfolios. If a swap agreement calls for payments by the portfolios, the portfolios must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the portfolios. Further, a counterparty to a swap could default on the swap and expose the portfolios to additional losses.

Long-Term Investments

The portfolios may pursue investment opportunities that seek to maximize asset value or create market opportunities on a long-term basis. In pursuing such long-term strategies, the portfolios may forego value in the short-term or temporary investments in order to be able to avail

the portfolios of additional and/or longer-term opportunities in the future. Consequently, the portfolios may not capture maximum available value in the short-term, which may be disadvantageous, for example, for investors who withdraw all or a portion of their capital accounts before such long-term value may be realized by the portfolios.

Short-Term Market Considerations

GEM Realty Securities' trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

Undervalued Securities

The portfolios may invest in securities of companies which GEM Realty Securities believes to be undervalued. However, the identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the portfolios' investments may not adequately compensate for the business and financial risks assumed.

Debt Securities Generally

Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated or unrated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

Bonds or other fixed-income securities that are "higher yielding" (including non-investment-grade) debt securities are generally not exchange traded and, as a result, these securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing. In addition, the portfolios may invest in bonds of issuers that do not have publicly-traded equity securities, making it more difficult to hedge the risks associated with such investments.

CMBS

The portfolios' portfolios may invest in commercial mortgage-backed securities ("CMBS"). CMBS are, generally, securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, rental apartments, nursing homes, senior living centers and self-storage properties. CMBS are subject to particular risks, including lack of standardized terms, shorter maturities than residential mortgage loans and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. Because commercial mortgage loans are often structured so that all or a substantial portion of the loan principal is not amortized over the life of the loan but is instead payable at maturity, repayment of commercial mortgage loans depends significantly upon the availability of real estate financing at the time of maturity from the existing or an alternative lender and/or upon the current value and ability to sell the related real estate. Therefore, the lack of real estate financing may lead to default under a commercial mortgage loan and may adversely affect the related CMBS.

In addition, commercial property values and net operating income are subject to volatility, which may result in net operating income becoming insufficient to cover debt service on the related mortgage loan. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property is subject to various risks, including changes in general or local economic conditions and/or specific industry segments; the solvency of the related tenants; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; terrorist threats and attacks and social unrest and civil disturbances.

Property-specific issues with respect to the underlying mortgaged property, such as significant government regulation of a particular industry, reliance on franchise, management or operating agreements, transferability on purchase or foreclosure of related valuable assets such as liquor and other licenses and ease of conversion of a commercial property to an alternative use, will impact both risk of loss and loss severity with respect to the underlying mortgage loan pool and the CMBS. Additional risks may be presented by the type and use of a particular commercial property. Special risks are presented by nursing homes, hospitality properties and certain other property types.

At any one time, a portfolio of CMBS may be backed by commercial mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the commercial mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Certain of the commercial mortgage loans underlying a CMBS may bear interest at adjustable rates based on the London Interbank Offered Rate for one-month dollar deposits or

other established interest indices. Accordingly, debt service for any such commercial mortgage loan will increase as interest rates rise. In contrast, rental and other income on the related mortgaged properties is not expected to rise significantly as interest rates rise. Accordingly, debt service coverage ratios of the underlying floating rate commercial mortgage loans generally will be adversely affected by rising interest rates, and a borrower's ability to make all payments due on such floating rate commercial mortgage loans may be adversely affected.

Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related CMBS. Revenues from the assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

The exercise of remedies and successful realization of liquidation proceeds relating to CMBS may be highly dependent on the performance of the servicer or special servicer. There may be a limited number of special servicers available, particularly those that do not have conflicts of interest.

Currencies

A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by the portfolios are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

Limited Formal Diversification Policies

The portfolios have not adopted fixed guidelines for diversification of its investments among issuers, industries, instruments or markets and may be heavily concentrated, at any time, in a limited number of positions. In attempting to maximize the portfolios' returns, GEM Realty Securities may concentrate the holdings of the portfolios in those industries, companies, instruments or markets which, in the sole judgment of GEM Realty Securities, provide the best profit opportunity in view of the portfolios' investment objectives. This limited diversity could expose the portfolios disproportionate to market movements in general if there are disproportionately greater adverse price movements in those securities.

Nature of Portfolio Investments

It is possible that the issuers of some of the securities in which the portfolios may invest may be more vulnerable than larger companies to adverse business or market developments, may have limited markets or financial resources and may lack experienced management. In addition, many small and medium size companies are not well-known to the investing public, do not have significant institutional ownership and are followed by relatively few, if any, securities analysts, with the result that there may tend to be less publicly available information concerning such companies compared to what is available for exchange-listed or larger capitalization over-the-counter securities. Finally, some securities traded in the over-the-counter market may have fewer market makers, wider spreads between their quoted bid and asked prices and lower trading volumes, resulting in comparatively greater price volatility and less liquidity than the securities of companies that have larger market capitalizations and/or that are traded on United States or foreign exchanges or the market averages in general. Thus, an investment in the portfolios involves considerably more risk than investments in more liquid equity securities of companies traded on United States or foreign exchanges and the over-the-counter market.

Additional Conflicts of Interest

In addition, as described above, portfolio investments typically pay certain fees to operating partners and other consultants (including consultants introduced or arranged by GEM and/or its affiliates that regularly provide services with respect to one or more portfolio investments), and such fees do not offset the management fees charged to the Real Estate Funds as described herein. GEM and/or its affiliates may agree to compensate certain of such persons to the extent portfolio investment-related compensation falls below certain specified levels on an aggregate annualized basis, or provide other compensation (*e.g.*, promote). Operating partners generally receive investment opportunities, reimbursements and other compensation that do not offset the Management Fee of any Fund, as described herein. Although the use of operating partners and the allocation of compensation paid to them by GEM, its affiliates and/or the portfolio investments of the Real Estate Funds subjects GEM and/or its affiliates to potential conflicts of interest, GEM believes that such potential conflicts may be reduced by the anticipated cost savings to portfolio investments (which is expected to be to the benefit of the applicable Real Estate Fund(s)) that will result if the cost of the operating partner is lower than market rates for the services provided and/or if the services of the operating partner align with GEM's model for the portfolio investment and improve portfolio investment performance. Although GEM seeks to retain operating partners with a view to reducing costs to portfolio investments (and, ultimately, the Real Estate Funds) and/or improving portfolio investment performance, a number of factors may result in limited or no cost savings from such retention. GEM also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that GEM believes will align such persons' interests with those of the Real Estate Funds' investors and seeks to retain only operating partners and other service providers which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, 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.

Each Fund's confidential offering materials include a more detailed description of the relevant risks and investment strategies of each Fund. Each prospective investor in a Fund must

acknowledge in writing that he or she has read and understood the Fund's confidential offering materials before an investment in the Fund by such investor is accepted by GEM.

Item 9 Disciplinary Information

There are no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of GEM's advisory business or the integrity of GEM's management.

Item 10 Other Financial Industry Activities and Affiliations

GEM and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

GEM and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

GEM, through GEM Realty Properties has previously and will continue to make investments in (i) opportunistic/value-added real estate investment through one of the series of Real Estate Funds and any successors thereto and (ii) long-term real estate investments through its perpetual life Real Estate Fund. Further, GEM will make investments in publicly traded real estate securities through Funds advised by GEM Realty Securities. The existing series of Real Estate Funds advised by GEM Realty Properties are closed-end, opportunistic/value-added real estate private funds and their investment objectives and investment strategies differ from the perpetual life Real Estate Fund. In most cases, investments made by Funds advised by GEM Realty Securities are liquid, short-term and lack control; whereas investments made by the Real Estate Funds, including investments in real estate operating companies, generally will be relatively illiquid and longer-term.

Barry Malkin, a Principal Owner of GEM, owns, indirectly through family trusts, interests in JMB Realty Corporation ("JMB Realty") and his father and siblings also own indirectly through family trusts, interests in JMB Realty as well as JMB Insurance Agency, Inc. ("JMB Insurance"). JMB Realty owns JMB Financial Advisors, LLC ("JMB Financial"), and 900 Financial Management Services, LLC ("900 FMS") (JMB Financial and 900 FMS are collectively hereinafter referred to as the "JMB Realty Entities" and together with JMB Insurance collectively hereinafter referred to as, the "JMB Entities"). GEM does not believe that a conflict exists between GEM Realty Properties and JMB Realty because, (i) Barry Malkin's investment in JMB Realty is passive, and he has not served as an officer of JMB Realty since 1995 and (ii) at this time, JMB Realty does not engage in new real estate investments unrelated to its existing assets. However, a conflict could be presumed to exist between GEM and the JMB Entities because Barry Malkin or his father and siblings could personally benefit if the Funds' engage the services of the JMB Entities. GEM has and, in the future, may engage the JMB Entities to provide insurance brokerage, capital market and treasury management services to the Funds and their portfolio investments for compensation. GEM, however, believes that the potential conflicts caused by engaging the JMB Entities for any such services are mitigated by the anticipated cost savings to portfolio

investments (which is expected to be to the benefit of the applicable Fund(s)) that will result if the services being provided by the JMB Entities result in cost savings relative to other market participants. Cost will not be the only factor in selecting the JMB Entities, and there can be no assurance that any rates are the lowest that could be available. The Real Estate Funds annually report to the Investor Advisory Committee of each Real Estate Fund a schedule of the total fees and other compensation paid by the Real Estate Funds to the JMB Realty Entities. Any real estate transaction with JMB Realty or its affiliates would generally require the prior consent of the Investor Advisory Committee or a majority-in-interest of all investors of the Fund looking to enter into such real estate transaction.

The families of Barry Malkin and Michael Elrad own and operate real estate and real estate-related investments outside of GEM Realty Properties and may sell such investments or buy or sell similar investments in the future. The Real Estate Funds will not have any rights in or to such investments or any profits derived therefrom, nor shall the Real Estate Funds be entitled to participate in such investments.

GEM does not recommend or select other investment advisers for its Clients.

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

GEM strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, GEM has adopted a Code of Ethics (the “Code”). The Code incorporates the following general principles that all employees are expected to uphold:

- Put the interests of clients ahead of GEM’s interests and its employees, and fully disclose all material conflicts of interest;
- Comply with all applicable laws and regulations;
- Abstain from trading personally in stocks and bonds of real-estate related companies in the universe of securities the portfolios may invest in, as well as associated derivatives;
- Deliver or cause their brokers to deliver duplicate copies of trade confirmations and periodic account statements to the Compliance Department, and obtain pre-clearance before personally trading securities in initial public offerings or private placements;
- Annually certify compliance with the Code and policies and procedures set forth therein; and
- Promptly report any suspected violations of the Code to the Chief Compliance Officer.

All employees must acknowledge their receipt of, understanding of, and agreement to adhere to the Code. Further, GEM supplements the Code with training upon hire and periodically thereafter. A copy of GEM’s Code is available to current and prospective investors in the Funds upon request.

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to GEM on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. GEM, its affiliates and its

employees may invest on behalf of themselves in securities and other instruments, although they are not permitted to invest in securities or other instruments that would be within a Client's investment universe. However, for the purposes of incubating a new private fund or separate account strategy, GEM has established and/or may establish proprietary accounts that trade in the same securities as the Hedge Funds. GEM may aggregate the trades of the proprietary account with the trades of the Hedge Funds. All transactions in such securities will be allocated pro rata, based upon the desired trade demand, among all accounts permitted to invest in such securities; provided, however, at the discretion of GEM, a proprietary account established by GEM may be excluded from such allocation if GEM believes that doing so is necessary to comply with GEM's duty of loyalty to its Clients.

GEM, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for Clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Clients. Potential conflicts also may arise due to the fact that GEM, its affiliates and its employees may have investments in some Funds but not in others or may have different levels of investments in the various Funds.

GEM has established an allocation policy and other policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as Client trades.

The perpetual life Real Estate Fund's investment focus is generally intended to have a different risk and return profile than GEM Realty Property's other investment funds or accounts. However, in certain cases, opportunities may arise that meet the investment objectives of both the actively investing series of Real Estate Funds and the perpetual life Real Estate Fund. In this scenario, the Investment Committee, in its sole discretion, will first allocate such investment to the Real Estate Fund, if any, whose governing documents require or otherwise contemplate exclusivity with respect to such investment opportunity (an "Exclusive Investment"). The Investment Committee will allocate an investment opportunity that is not an Exclusive Investment, in a fair and equitable manner, among the Real Estate Funds based on the investment opportunity's characteristics and investment objectives of the Real Estate Funds; provided, however, in no event will an investment opportunity be allocated among more than one Real Estate Fund.

During the commitment period of a Real Estate Fund, GEM may offer, or agree to offer, to qualifying investors, and certain third-parties the right to co-invest alongside the Real Estate Fund. Conflicts of interest may arise in the allocation of co-investment opportunities. In exercising its sole discretion in connection with such co-investment opportunities, GEM may consider some or all of a wide range of factors.

From time to time, but in no event when the assets of a Fund are treated as "plan assets" for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") GEM may cause a Fund to enter into a transaction that would be considered a principal transaction

subject to Section 206(3) of the Advisers Act. In such circumstances, GEM will either: (i) make disclosure to and obtain the prior written consent of the affected Clients or (ii) appoint an independent third-party professional services firm selected by GEM as the investor representative to review the transaction.

Please refer to Item 12 below for a description of GEM's trade allocation policy and cross trades policy.

Item 12 Brokerage Practices

GEM Realty Securities select broker-dealers on the basis of seeking best execution and in consideration of relevant factors, including, but not limited to, commission rates, reliability, financial responsibility, strength of the broker and the ability of the broker to efficiently execute transactions and the broker's facilities. GEM Realty Securities need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread.

If GEM Realty Securities concludes that the commissions charged by a broker or the spreads applied by a dealer are reasonable in relation to the quality of services rendered by such broker or dealer (including, without limitation, the value of the brokerage and research products or services provided by such broker or dealer), it may cause the Clients to pay commissions to or be subject to spreads applied by such broker-dealer in an amount greater than the amount another broker-dealer might charge or apply.

In addition, brokers may provide other services that are beneficial to GEM Realty Securities, but not necessarily beneficial to the Clients directly including, without limitation, capital introduction, marketing assistance, consulting with respect to technology, operations or equipment, and other services or items. Such services and items may influence GEM Realty Securities' selection of brokers.

Any use of commissions or "soft dollars" generated by the Clients to pay for brokerage and research products or services will fall within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Where a product or service obtained with commission dollars provides both research and non-research assistance to the Clients, GEM Realty Securities will make a reasonable allocation of the cost that may be paid for with commission dollars.

The Hedge Funds and any proprietary account have entered into a commission sharing agreement whereby they pay a broker-dealer for trade execution and requests that the broker-dealer allocate a portion of excess commissions to third-party providers of research or other products or services.

Research and brokerage services obtained by the use of commissions arising from the Hedge Funds' portfolio transactions may be used by GEM in its other investment activities and thus, the Hedge Funds may not necessarily, in any particular instance, be the sole direct or indirect beneficiary of the research or brokerage services provided.

When appropriate, GEM Realty Securities may, but is not required to, aggregate orders for the Hedge Funds and any proprietary account to achieve more efficient execution or to provide for

equitable treatment among accounts. Clients participating in aggregated trades will be allocated securities based on the average price and commission achieved for such trades or any other method deemed fair and equitable by GEM Realty Securities.

The Investment Committee, together with other senior officers, maintains a list of the current Clients and each Client's investment objectives, strategies, parameters and all other pertinent factors that the Investment Adviser believes should be considered when making investment decisions on behalf of such Client. The Investment Committee will allocate investment opportunities among the Clients with available capital in a fair and equitable manner (and consistent with the obligations contained in the governing documents or other agreements for the relevant Client) taking into account the investment strategies of each Client. An Exclusive Investment opportunity will first be allocated to the Real Estate Fund, if any, whose governing documents or other agreement require or otherwise contemplate exclusivity (an "Exclusive Fund"). The Investment Committee will allocate an investment opportunity that is not an Exclusive Investment to the Real Estate Funds (other than any Exclusive Fund (s)) based on the investment opportunity's characteristics and the investment strategies of the other Real Estate Funds; provided, however, in no event shall an investment opportunity be allocated among more than one Real Estate Fund. Most investment opportunities will be suitable for only one Real Estate Fund, since the investment strategies of the series of Real Estate Funds and the perpetual life Real Estate Fund are sufficiently differentiated to avoid conflicts of allocation. To the extent that the characteristics of an investment opportunity make it clearly suitable for only one Real Estate Fund, in the sole determination of the Investment Committee, it will be allocated to that Real Estate Fund. Despite differentiated investment strategies, occasions may arise where an investment opportunity is suitable for more than one Real Estate Fund (a "Conflict Investment"). In such circumstances, the Investment Committee shall allocate the Conflict Investment first to the current Exclusive Fund and then to the other Real Estate Funds based on the suitability of the investment opportunity for the Real Estate Funds' investment strategies (in the sole determination of the Investment Committee); provided, however, in no event shall an investment opportunity be allocated among more than one Real Estate Fund. If a Real Estate Fund rejects or otherwise passes on the opportunity to pursue an Exclusive Investment or a Conflict Investment, or the transaction is later determined to not be appropriate for the Real Estate Fund's investment strategy, the Investment Committee may reallocate such investment opportunity to another Real Estate Fund based on the suitability of the investment opportunity for the remaining Real Estate Funds' investment strategies, in the sole determination of the Investment Committee, provided, however, in no event shall an investment opportunity be allocated among more than one Real Estate Fund.

There is generally little overlap between investments that are suitable for the Hedge Funds and investments that are suitable for Real Estate Funds, so GEM need not allocate investments between a Real Estate Fund and the Hedge Funds. If an investment was suitable for the Hedge Funds and Real Estate Funds, then the Investment Committee upon consultation with the Chief Compliance Officer would determine the proper allocation of such investment among the Funds.

The Real Estate Funds do not normally invest in publicly traded securities, so GEM Realty Properties typically does not allocate trades to broker-dealers. To the extent that the Real Estate

Funds do engage in transactions involving publicly traded securities, GEM will seek best execution for all such trades.

From time to time, but in no event when the assets of a Fund are treated as “plan assets” for purposes of ERISA, cross transactions may be effectuated by GEM as long as such trade is expected to result in the best price and execution for both accounts. No commissions may be charged by GEM to either Fund. In addition, the cross trades must comply with the investment objectives of each Fund and when necessary after obtaining any required advisory committee approvals.

Item 13 Review of Accounts

GEM performs various daily, weekly, monthly, quarterly and periodic reviews of each Client’s portfolio.

For the Hedge Funds, these reviews include analyses of performance, exposures to various industry sectors and geographic regions, and the competitive positions of current and prospective holdings. Reviews are quantitative and qualitative in nature, and may involve written research reports and models. Particularly intensive reviews may be triggered by significant political, economic, or industry developments, or by unanticipated company announcements or performance. Reviews are overseen by GEM’s Principal Owners.

For the Real Estate Funds, the scope and nature of ongoing monitoring is tailored to reflect each investment. Reviews are quantitative and qualitative in nature, and may include site visits, income and expense analyses, and evaluations of local market conditions, among other things. Particularly intensive reviews are most likely to be triggered by asset-specific developments. Reviews are overseen by GEM’s Principal Owners.

In addition to the ongoing reviews described above, members of GEM’s Investment Committee meets periodically to monitor the Clients’ investments and risk exposures. They review reports, analyses and other inputs provided by GEM’s investment professionals.

GEM distributes to Real Estate Fund investors quarterly reports which generally include a schedule of current investments, asset management summaries, account statements, quarterly letters and unaudited financial statements. GEM distributes to Hedge Fund investors monthly portfolio summary reports and accounts statements and quarterly letters. Also, on a weekly basis performance estimates are posted to the Hedge Funds’ administrator’s website.

GEM will also distribute special written reports to investors in the Funds, upon specific request provided that such reporting may be delivered without unreasonable effort or expense. Investors that request and receive such information may possess information regarding the business and affairs of the Funds that may not be known to other investors.

Item 14 Client Referrals and Other Compensation

GEM does not receive economic benefits from non-Clients for providing investment advice and other advisory services.

GEM does not directly or indirectly compensate any person who is not a supervised person, including placement agents, for investor referrals.

GEM employees and certain other relationships may obtain discounted rates, subject to availability, while staying at properties (i.e., hotels or resorts) owned by the Real Estate Funds, while traveling for business or personal reasons.

Item 15 Custody

GEM is subject to Rule 206(4)-2 under the Advisers Act (the “Custody Rule”) for the Hedge Fund and Real Estate Funds. However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the provisions of the so-called “Pooled Vehicle Annual Audit Exception”, which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

Item 16 Investment Discretion

GEM Realty Securities and GEM Realty Properties serve as the management companies with discretionary investment authority to each Client.

GEM Realty Securities and GEM Realty Properties’ investment decisions and advice with respect to each Client are subject to each Client’s investment objectives and guidelines, as set forth in its offering documents.

GEM Realty Securities and GEM Realty Properties entered into investment management agreements or similar agreements, with the Clients for which they serve as management company, pursuant to which GEM was granted discretionary investment authority.

Item 17 Voting Client Securities

In compliance with Advisers Act Rule 206(4)-6, GEM has adopted proxy voting policies and procedures.

GEM Realty Securities has the authority and responsibility to vote proxies in the best interests of the Hedge Funds. GEM Realty Securities has retained a third party service provider to help facilitate the voting process. In general, GEM Realty Securities votes in favor of routine matters such as the election of directors and the ratification of auditors, and against proposals that restrict the rights of shareholders. Non-routine proposals are evaluated on a case-by-case basis with the goal of maximizing the value of the Clients’ investments. To the extent that GEM Realty Securities identifies a material conflict of interest associated with a proxy proposal, the Chief Compliance Officer will carefully review the issue and work with the Investment Committee to determine an appropriate course of action.

GEM will usually abstain from electing to participate in a class action consent solicitation for matters which, in either case, appear to have no material bearing upon the current or likely future trading levels of a portfolio security, regardless of the probable outcome of the consent solicitation. In addition, GEM will normally abstain from voting proxies or acting on consents in appropriate circumstances, such as situations where a security is no longer held by a Client, or where Client expense or the time and attention required to be devoted by employees to the consent matter(s) at issue appear to outweigh any apparent prospective economic value add to Clients. In the case of non-routine actions on consents, GEM's policy is to participate whereby failure to participate in an action could have a material adverse effect on a security position held in Clients' accounts. GEM may also engage a third party class actions claims service to apply for class action settlement claims to which its Clients may be entitled. Any amounts recovered (net of fees) shall be returned to the Client on whose behalf the claim was successfully made.

The Real Estate Funds tend to not hold interests in publicly traded securities, so GEM Realty Properties rarely has the opportunity to vote proxies or participate in class actions. To the extent that voting opportunities do arise, the Investment Committee or a designee determines the appropriate way to vote or whether to participate in class actions. The Chief Compliance Officer works with the Investment Committee to evaluate and appropriately resolve any conflicts of interest that may arise.

GEM has adopted written policies and procedures governing the proxy voting process, which are available to current and prospective investors upon request. Information about the specific ways in which GEM voted proxies is also available to investors upon request. Current and prospective investors may contact GEM's Chief Compliance Officer, Jonathan Romick, at (312) 915-2900 for more information about proxy voting.

Item 18 Financial Information

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