

# **ADV Part 2A – Firm Brochure**



## **IVY EQUITIES II, LLC**

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**Dated March 23, 2019**

**This ADV Part 2A brochure provides information about the qualifications and business practices of Ivy Equities II, LLC. If you have any questions about the contents of this brochure, please contact us at 203- 987-3392. Information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Ivy Equities II, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Ivy Equities II, LLC is an SEC-registered investment adviser. This registration does not imply any level of skill or training.**

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**Item 2: Material Changes**

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The Material Changes section of this Brochure will be updated annually and it will update, identify and discuss material changes that have occurred since the previous release of the Firm Brochure.

This brochure dated March 2019 amends the brochure dated March 2018. The following is a summary of only the material changes to this brochure since the last brochure dated March 2018.

- (i) As of December 31, 2018, Ivy Equities II, LLC has \$268,283,374 in assets under management.

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**Form ADV: Part 2A****Item 4: Advisory Business**

- (A) Ivy Equities II, LLC ("Ivy") was established in 2007 and is based in Greenwich, Connecticut. The firm also maintains an office in New Jersey. Russell F. Warren, Jr. and Anthony P. DiTommaso, Jr. are the co-founders and principal owners of Ivy and serve as Co-Chief Executive Officers.
- (B) Ivy provides advisory and management services primarily to private real estate funds which have individuals, businesses and institutions as investors. Ivy's advisory and management services on behalf of the funds primarily involve investing in commercial real estate properties including distressed and underperforming properties and providing management assistance to such properties. The primary advisory services that Ivy currently provides are as a fund manager of:
- Ivy Realty Fund II, L.P.
  - Ivy Realty Fund III, L.P.
  - Ivy Realty Fund IV, L.P. (collectively, the "Funds")
- Please see Item 8 for a detailed description of the Investment Strategy and Methods of Analysis for each of the above Funds.
- (C) In its role managing the above Funds, Ivy provides investment advice tailored to the investment objectives and policies of the Funds. Except as provided for in the Funds' respective investment policies, the Funds may not impose any other restrictions on the types of real estate investments that Ivy selects for the Funds.
- (D) Ivy does not participate in wrap fee programs.
- (E) As of December 31, 2018, Ivy has \$268,283,374 in assets under management. All assets are managed on a discretionary basis.

**Item 5: Fees and Compensation**

- (A) Ivy is compensated for its advisory services by payment of both a management fee and performance fee. The management fee that a Fund or client generally will pay is set forth in the limited partnership agreements, offering documents and advisory agreements of the respective Funds and in the advisory agreements with other clients. These general fee arrangements may also be negotiated. The management fee for each of the above-named Funds is:

Ivy Realty Fund II, L.P.	The management fee is 2% per annum until the end of the investment period which is the fifth anniversary of the final closing of the initial sale of the interests in the Fund; after such investment period, the fee is 1.25% per annum on outstanding capital invested and reserves.
Ivy Realty Fund III, L.P.	The management fee is 1.75% per annum until the end of the investment period which is the fourth anniversary after the final closing of the initial sale of the interests in

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	the Fund; after such investment period, the fee is 1.75% per annum on outstanding capital invested and reserves.
Ivy Realty Fund IV, L.P.	The management fee is 1.50% per annum until the end of the investment period which is the fourth anniversary after the final closing of the initial sale of the interests in the Fund; after such investment period, the fee is 1.50% per annum on outstanding capital invested and reserves.

In addition, Ivy will hire an affiliate of Ivy ("Manager") to operate some or all of the Investments. The Manager will be compensated at market rates for its property management services, which include but are not limited to, property and construction management fees, leasing commissions, refinancing fees, reimbursement of gross salaries, bonuses, taxes and benefits of property personnel employed by Ivy and/or affiliates to work onsite at the property and a proportionate share of other employees assigned to the property, and reasonable miscellaneous costs paid by the Manager that are directly related to the property operations.

- (B) Fees are deducted from the client's assets. The management fee is calculated and paid quarterly in advance. Ivy may reduce or waive this and other fees with respect to one or more investors.
- (C) Ivy's clients generally invest into Funds managed by Ivy. In addition to management fees, additional expenses that each respective Fund may incur include (but are not limited to) organizational and placement costs, expenses associated with investing in real estate (valuation and appraisal, advertising, zoning, property rehabilitation, disposition, taxes, insurance and investigation of investment opportunities) audit fees, legal fees, administrator fees (such as bookkeeping and accounting fees, tax advice, preparation of tax returns and partnership reporting and other expenses), custodian fees, transaction costs and expenses and meetings of Limited Partners or meetings of members of any advisory committee. Please see Item 6 in relation to the performance fee which may also be payable. Brokerage fees are not incurred in connection with the types of real estate investments made by Ivy on behalf of clients. Certain commissions or fees may be paid to third party intermediaries in connection with purchases or sales of real estate interests.
- (D) Ivy's Fund clients pay management fees quarterly in advance. Investors may be credited for management fees paid in advance for any period in which they no longer have capital in a Fund.
- (E) Neither Ivy nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sales of mutual funds.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

In addition to the management fee described in Item 5, Ivy receives a performance fee equal to 16%-20% of the sum of all profits distributed to the Limited Partners pursuant to a schedule set forth in each Fund's private placement memorandum and other partnership agreements. Net proceeds from the disposition of Fund investments, together with interest, dividends and other income received with respect thereto are distributed at least quarterly. Amounts not attributable to

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any Fund investments are distributed at any time as determined by the General Partner of the Fund.

**Item 7: Types of Clients**

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Ivy currently provides discretionary investment advisory services to private investment funds. Ivy provides such services directly to the Funds and not to the Funds' investors. The minimum investment required for Ivy Realty Fund II, L.P. was \$250,000 for individual investors and \$5 million for institutional investors. Ivy Realty Fund III, L.P. minimum was \$5 million and Ivy Realty Fund IV, L.P. is \$1 million for all investors, although Ivy may accept less than the minimum amounts in its sole discretion. The Funds are limited to investors that meet certain suitability standards.

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

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**(A) Investment Strategy and Methods of Analysis**

- **Focused Investment Strategy:**

- Investing in securities involves risk of loss that clients should be prepared to bear.
- Ivy targets investments in value-added real estate related assets and portfolios where it believes unique opportunities exist to enhance cash flow and capital appreciation. Ivy's primary investment focus is on properties in the north eastern United States and south eastern portion of Florida with a primary emphasis on commercial office properties balanced by select investments in industrial, retail and residential properties.
- Ivy's real estate investments include equity or equity related interests (or options or leaseholds related thereto) in real estate related assets or real estate investment trust and any debt interests secured by real estate and real estate related assets. Ivy normally makes investments with an expected holding period of between one and ten years.
- The Funds seek to generate risk adjusted returns by investing in properties that can be acquired at discounts to their replacement costs in markets with attractive supply and demand characteristics; by acquiring distressed or underperforming properties where the seller's ability to market the property may be limited or the properties are poorly managed; by adding value to acquired properties through hands-on management, expense control initiatives, aggressive leasing and, where appropriate, controlled redevelopment; and by introducing properties for sale after the assets have stabilized and have become marketable to traditional real estate investors.
- The strategy may entail having a concentration of investments in a given geographic area and in a limited number of investments at any given time.

**(B) Material Risks**

- **Real Estate Risks**

Investments are subject to risks incident to the ownership and operation of real estate which include the general economic climate including the condition of the

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domestic and international financial markets, local real estate conditions, governmental regulations, geographic or market concentration, fluctuations in value and ability of the General Partner or other property manager to successfully manage the property.

Real estate investing involves the burden and costs of ownership of real property which includes paying expenses and taxes, maintaining the property and making any improvements thereon, removal or remediation of any hazardous substances and liability therefore and ultimately disposing of the property under different and fluctuating market conditions. Any acquisition of real estate entails the risk that such investments will fail to perform in accordance with expectations. Redevelopment and new project development are subject to numerous risks, including construction delays and cost overruns, receipt of governmental approvals and permits, unavailability of permanent financing and force majeure, all of which may increase costs.

Real estate historically has experience fluctuations and cycles in value and local market conditions may result in reductions in the value of real property. Additionally, changes in supply and demand for competing properties in a geographic area, changes in interest rates, changes in land use regulations, changes in real estate tax rates, the cost and availability of property insurance, including insurance covering natural disasters, terrorism and other acts, the unavailability of mortgage funds and other issues specific to a particular property such as tenants, energy supply, and environmental protections or required remediation of hazardous or toxic substances may render the sale of a particular property difficult.

- ***Investments in Illiquid or Restricted Assets***

Investments in real estate tend to be illiquid and long-term. Illiquidity may result from the absence of an established market for the investments as well as contractual or legal restrictions on resale. Investments may not produce a realized return for several years and the ability to dispose of underperforming assets may be a difficult and lengthy process all of which may affect the performance of the Funds. The Funds also invest in securities subject to restrictions on resale because they were acquired from the issuer in a private placement. Because resales of such securities may only be made under limited conditions, the Funds may not be able to sell these investments when it is desirable to do so. Lack of liquidity or market depth can affect the valuation of an investment.

- ***Economic Conditions***

Changes in economic conditions, including, for example, interest rates, inflation rates, employment conditions, competition, political events, changes in governmental regulation and tax laws can affect substantially and adversely the business and prospects of any investment.

- ***Market Risk***

The investment strategy for certain assets may rely, in part, upon local market recoveries during the term of the investment. No assurance can be given that any such markets will recover since this will depend in part upon events and factors outside the control of the Funds or the Adviser.

- ***Leverage***

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The Funds employ leverage in connection with their respective investments. Use of leverage will subject the investments to risks normally associated with debt financing, including the risk that cash flows will be insufficient to meet required payments of principal and interest, the risk that indebtedness on the investments will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of the existing indebtedness. The cost of leverage may exceed the return on the investments acquired with the proceeds of leverage, thereby diminishing rather than enhancing the investment return with respect to those investments.

- **Limited Diversification**

The Funds may invest in a limited number of properties, and as a consequence, the aggregate returns realized may be adversely affected by the unfavourable performance of a small number of such investments. The Funds may also make investments that may not be diversified geographically. If the Funds make an investment in a single transaction with the intent of refinancing a portion of the investment, there is a risk that the Funds will be unable to successfully complete such refinancing which could lead to increased risk.

**(C) Particular types of securities and material risks**

In addition to the risks of investing in real estate set forth above in Item 8 (B), there are a number of additional risks associated in particular with real estate investing. For example, certain investments purchased by the Funds may be unsecured and structurally or contractually subordinated to substantial amounts of senior indebtedness, all or a portion of which may be unsecured which involves the risk that any claims by the Funds would be subordinated to the senior indebtedness and thereby decreasing potential recoveries. Certain properties may be operating in workout modes or under Chapter 11 of the U.S. Bankruptcy Code and may be subject to certain additional liabilities which may exceed the value of the Funds' original investment. For example, under certain circumstances, lenders who have exercised control of management of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by other parties as a result of such actions. In other circumstances, any payments made to the Funds and distributions by the Funds to the Partners may be reclaimed if such payments are later determined to have been a preferential payment.

**Item 9: Disciplinary Information**

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Ivy has never been the subject of a disciplinary, regulatory or legal complaint. To the best of our knowledge, no employee has ever been the subject of disciplinary, regulatory or legal complaint.

**Item 10: Other Financial Industry Activities and Affiliations**

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- (A) Neither Ivy nor any management persons are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- (B) Neither Ivy nor any management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- (C) Ivy or its management persons do not have any relationships or arrangements with related persons that would be material to the advisory business of Ivy or to the clients of Ivy.



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- (D) Ivy does not select or recommend other investment advisers for our clients. Accordingly, Ivy does not receive any such fees or compensation from other investment advisers.

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

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- (A) Ivy has adopted a Code of Ethics pursuant to SEC rule 204A-1, for all employees and supervised persons of the firm describing Ivy's high standard of business conduct and fiduciary duty to its clients. The Code of Ethics sets out the standards of conduct expected of all staff and addresses conflicts that arise from personal trading and includes provisions in relation to our general ethical principles, insider trading, reporting personal securities trading (including initial public offerings and private placements), reporting ethical violations and violations of the Code of Ethics, distribution of the Code of Ethics and review and enforcement. The Code of Ethics is designed to protect clients by deterring misconduct, educating supervised persons regarding expectations and laws governing their conduct, and reminding them that they are in a position of trust and must act with complete propriety at all times, protect Ivy's reputation and guard against violation of the securities laws. The Code of Ethics also establishes procedures for supervised persons to follow so that Ivy may determine whether they are complying with ethical principles and applicable rules. Ivy will provide a copy of the Code of Ethics to any client or prospective client upon request.
- (B) Ivy invests primarily in real estate interests on behalf of the Funds. Prior to initial and subsequent closings of the Funds, the General Partner may identify and make one or more investments prior to such closing. Any such investments are identified to the Limited Partners prior to the closing and will be purchased from the General Partner by the Funds on the closing date at the General Partner's cost, plus the cost of carry.
- (C, D) Members of the General Partner, Ivy and their affiliates agree to make minimum capital contributions into the Funds through the General Partner and as Limited Partners in order to demonstrate their respective commitment to the Funds. Additionally, the General Partner in its sole discretion may offer to one or more non-defaulting Limited Partners the opportunity to co-invest directly with the Funds in certain investments. These investments do not compete with the Funds. Many of these investments generally are held for long periods of time and are not traded in the marketplace.

**Item 12: Brokerage Practices**

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**(A) Selection of broker-dealers****(1) Research and Other Soft Dollar Benefits**

Not Applicable. Ivy does not use broker-dealers for the types of real estate investments in makes on behalf of the Funds or other clients and therefore does not receive research or any other soft dollar benefits.

**(2) Brokerage for Clients Referrals**

Not Applicable. Ivy does not engage broker-dealers in connection with its particular investments in real estate.

**(3) Directed Brokerage**

Not Applicable. Ivy does not engage broker-dealers in connection with its particular investments in real estate and therefore does not direct brokerage transactions of any kind.

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**(B) Aggregation of the sale and purchase of securities**

Where possible and appropriate, Ivy will aggregate the purchase or sale of real estate investments or other short-term cash investments for various client accounts. Such aggregation is based on an equitable pro rata basis based upon each client's investment objectives and policies and available cash with which to make investments.

**Item 13: Review of Accounts**

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- (A) Ivy reviews client accounts on a quarterly basis. The review is conducted by the Chief Financial Officer. In addition, to the above, ongoing reconciliations of all cash, custody and client holdings are undertaken by the Fund Accountant and overseen by the Chief Financial Officer.
- (B) Accounts are reviewed following capital commitments, capital calls and acquisitions of investments. Accounts may also be reviewed in conjunction with purchasing or selling a position across client accounts in addition to the above review, where applicable. A full reconciliation is undertaken at the end of each month between Ivy's client account records and that of its custodian.
- (C) Ivy sends quarterly financial reports to each Client which include an investment letter and a report describing the activities of each of the Funds' investments. Audited financials for the Funds, Form K-1s for tax reporting purposes, Customer Disclosure Statements and Privacy Notices are delivered to investors annually.

**Item 14: Client Referrals and Other Compensation**

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- (D) Neither Ivy nor any of its employees receives any economic benefit (including sales awards or other prizes) from any person who is not a client.
- (E) Ivy currently does not directly or indirectly compensate any person for client referrals.

**Item 15: Custody**

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Ivy maintains client funds and securities with TD Bank, a qualified custodian. The qualified custodian sends a monthly account statement to Ivy. Ivy reviews such statements carefully and promptly after receipt.

**Item 16: Investment Discretion**

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Ivy has discretionary authority over the accounts that it manages with respect to investors in a Fund. The limitations (if any) which are imposed on Ivy are set out in the limited partnership agreement of each respective Fund. Investors must review offering documentation and execute a subscription document before investing in a Fund.

**Item 17: Voting Client Securities**

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Not Applicable. Ivy does not hold securities where it would be expected to vote

**Item 18: Financial Information**

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- (A) Ivy does not require prepayment of client fees longer than three months in advance.

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- (B) Ivy has discretionary authority over client accounts. There is no financial condition that is reasonably likely to impair Ivy's ability to meet contractual commitments to clients.
- (C) Ivy has not been the subject of a bankruptcy petition at any time.

**Item 19: Requirements for State-Registered Advisers**

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This Item is not applicable to Ivy as it is not a State-Registered Adviser.