

## **Item 1 – Cover Page**

The Evergreen Advantage Management, Inc.

1424 4<sup>th</sup> Street, Suite 777

Santa Monica, CA 90401

(310) 587-3500

Form ADV Part 2A- Firm Brochure

Date of this Brochure: March 29, 2019

This Brochure provides information about the qualifications and business practices of The Evergreen Advantage Management, Inc. (“Adviser” or “TEAM”). If you have any questions about the contents of this brochure, please contact Dan Zuckerman at (310) 587-3500 or [danzuckerman@gmail.com](mailto:danzuckerman@gmail.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

TEAM is registered as an investment advisor with the SEC. Registration of an investment adviser does not imply any level of skill or training.

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

## **Item 2 – Material Changes**

Not applicable.

### Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes .....	ii
Item 3 -Table of Contents.....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation.....	1
Item 6 – Performance-Based Fees and Side-By-Side Management.....	3
Item 7 – Types of Clients .....	3
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	3
Item 9 – Disciplinary Information.....	5
Item 10 – Other Financial Industry Activities and Affiliations .....	6
Item 11 –Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	6
Item 12 – Brokerage Practices.....	8
Item 13 – Review of Accounts .....	8
Item 14 – Client Referrals and Other Compensation .....	8
Item 15 – Custody.....	8
Item 16 – Investment Discretion .....	8
Item 17 – Voting Client Securities .....	8
Item 18 – Financial Information .....	8

## **Item 4 – Advisory Business**

### **The Advisor**

The Evergreen Advantage Management, Inc., a California corporation (“TEAM”), was established in June 2009. TEAM is owned equally by four shareholders: Dan Zuckerman, Jesse Brunner, Maurice Singer and Steve Adler. Messrs. Zuckerman, Brunner, Singer and Adler manage TEAM’s day-to-day operations and are its only employees, officers and directors. In addition, they are the only individuals engaged in TEAM’s investment advisory and management services.

### **Investment Services**

TEAM is the manager of, and provides investment advisory and management services exclusively for, The Evergreen Advantage, LLC, a California limited liability company (“TEA”), which is qualified to be taxed as a real estate investment trust. TEA invests in loans to private parties that are secured by deeds of trust or mortgages on real estate throughout the United States but principally in California. As such, TEAM focuses its services on those types of loans and trust deeds which meet the specific investment requirements of The Evergreen Advantage, LLC, as set forth in its operating agreement and private placement memorandum. TEAM does not participate in wrap fee programs.

### **Assets under Management**

As of March 21, 2019, TEAM manages \$204,319,000 in assets for TEA on a discretionary basis, which represents all the assets of TEA. See the Private Placement Memorandum of TEA for important information regarding its offering of shares.

## **Item 5 – Fees and Compensation**

TEAM receives fees and compensation for its advisory and management services from several sources. As described below, these fees and compensation can be categorized into two classes: a) compensation paid by TEA, and b) compensation paid by third parties. Lower fees for comparable services may be available from other sources. These fees and other forms of compensation will reduce the returns which might otherwise be available to investors in TEA.

### **A. Compensation paid by TEA**

**Asset Management Fee.** As provided in the TEA operating agreement, TEAM may earn an asset management fee paid by TEA. This fee, which is not negotiable, is payable monthly in arrears, is deducted directly from TEA assets and can be up to two percent (2.0%) of the Fund’s assets on an annual basis. As the manager of TEA, TEAM may, in its sole discretion, modify, waive or defer (with interest) all or any portion of the asset management fee for any period.

**Loan Servicing Fee.** As provided in the TEA operating agreement, TEAM may earn a loan servicing fee paid by TEA. The loan servicing fee, which is not negotiable, is payable monthly in arrears, is deducted directly from TEA assets and can be up to one and one-half percent (1.5%) annually of the principal amount of each loan, determined on a loan by loan basis.

**Loans to TEA.** In the event TEAM or an affiliate makes a loan to TEA for funding a loan or for other purposes, TEAM or such affiliate will earn interest on such loan but not in excess of the then current yield of TEA's loan portfolio.

**Recovery of Deferred Compensation.** If TEAM defers payment of any of fees or compensation owed to it by TEA, it will be entitled to recover the same at a later time. In such event, TEAM will be entitled to interest on any deferred compensation at the rate of six percent (6%) per annum. Such deferred compensation will be treated as a loan to TEA and shown on TEA's financial statements. TEAM has no obligation to defer any portion of its compensation at any time. Since the date in 2009 when TEAM commenced providing advisory services to TEA, no compensation earned by it has been deferred.

**B. Compensation Paid by Third Parties**

**Origination Fees.** TEAM earns loan origination or discount fees, also known as "points", which are paid upon the closing of a loan. These loan origination fees are paid directly by borrowers or other parties in a loan transaction such as the licensed real estate broker of record. Such fees received by TEAM typically range from one percent (1.0%) up to three percent (3.0%) of the loan amount, but could be higher or lower depending on market conditions.

**Extension, Modification and Forbearance Fees.** TEAM may earn fees in connection with the extension or modification of a loan, or an agreement by TEA to forbear from taking certain action against a borrower, such as filing a notice of default to initiate foreclosure. These fees are paid to TEAM by borrowers. Such fees are typically between one percent (1.0%) and two percent (2.0%) of the loan amount but could be higher or lower depending on market rates and conditions.

**Processing, Documentation and Other Similar Fees.** TEAM may earn loan processing, loan documentation and other similar fees for each loan transaction. These fees are paid by the borrower upon the closing of a loan based upon prevailing industry rates and typically range from \$2,500 to \$5,000 per transaction.

**Foreclosure Fees.** In the event TEA acquires real estate through foreclosure, TEAM is entitled to earn a fee upon the sale of that real estate of up to fifty percent (50%) of the net profits from such sale, if any. In addition, TEAM or its affiliates may earn a real estate commissions to list and sell any such real estate of up to six percent (6%) of the sale price.

**Other Loan Fees.** Other fees paid by borrowers which may be earned by TEAM are late charges and prepayment penalties. TEAM may share some or all of these fees with a third party loan servicing company.

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

TEAM does not charge any performance-based fees and does not engage in side-by-side management.

## **Item 7 – Types of Clients**

TEAM provides investment advisory and management services on a discretionary basis exclusively for TEA and has no other clients of any nature. TEA invests in loans to private parties that are secured by deeds of trust or mortgages on real estate throughout the United States but principally in California.

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

The following is a summary of the investment strategies and methods of analysis used by TEAM on behalf of TEA. A more detailed description of such strategies and methods are included in TEA's private placement memorandum and operating agreement. There can be no assurance that the investment objectives will be achieved.

### **Method of Analysis**

TEAM utilizes several methods of analysis and investment strategies in formulating investment advice and managing assets.

**Loan-to-value Ratio.** TEA's charter documents define the type of loans that it is authorized make. The primary criterion relates to the loan-to-value ("LTV") ratio, which is the proposed loan amount, combined with all other outstanding debt secured by any senior deed of trust or mortgage, expressed as a percentage of the value of the real property securing the loan. Specifically, TEA is authorized to make a loan provided the LTV ratio of that particular loan does not exceed sixty-five percent (65%) and provided the overall loan-to-value ratio of the entire loan portfolio does not exceed sixty percent (60%), calculated on a weighted average basis. Accordingly, in formulating its investment advice, TEAM carefully analyzes the value of real estate proposed as security for a loan to determine the LTV ratio.

TEAM employs various tools in such analysis including: appraisals performed by licensed appraisers, written opinions of value prepared by licensed real estate professionals, review of tax returns or financial statements including cash flow and income statements, analysis of any senior debt, site inspections, consideration of key metrics including capitalization rate, gross rent multiplier and debt service coverage ratio, and other real estate valuation methods for determining the true or actual LTV ratio.

There is risk involved in such LTV analysis. Real estate valuation is an inexact science and is never an absolute predictor of actual value, which can only be determined by willing and able parties to a specific purchase transaction. No assurance can be given that such appraisals will, in any or all cases, be accurate. Moreover, since an appraisal is based upon

the value of real property at a given point in time, subsequent events could adversely affect the value of real property used to secure a loan. Such subsequent events may include deflation, general or local economic conditions, neighborhood values, vacancy rates, interest rates and new construction.

**Priority of Lien.** TEAM also considers lien priority or position securing each loan when evaluating investment opportunities for TEA. The lien securing each loan will generally be a first position trust deed or mortgage which will be recorded in the public records against the real property serving as collateral for the loan. However, depending on the LTV, the lien securing one or more loans could be in a junior position, such as a 2<sup>nd</sup> or 3<sup>rd</sup> trust deed or mortgage. TEAM relies on title reports and title insurance for determining the lien priority of any proposed loan. These reports and insurance tend to be highly reliable and there is little or no risk associated with this analysis.

**Credit Evaluation.** In addition to LTV and lien position as described above, TEAM may consider the income level and general creditworthiness of a borrower to determine his or her ability to repay a loan. Loans may be made to borrowers who are in default under other obligations or who are in bankruptcy or who do not have sources of income that would be sufficient to qualify for loans from other lenders such as banks or savings and loan associations. A person's credit score is obtained from third party scoring agencies. A person's credit score, however, does not provide any certainty about a borrower's ability to repay a loan, and so there is substantial risk in relying upon credit scores to the exclusion of LTV analysis.

### **Risk of Loss**

The following is a general summary of the risk factors associated with investing in trust deeds. Additional information on investment risks are described in the private placement memorandum.

**No Assurance of Investment Returns.** TEAM cannot give any assurance that investments will generate returns or that returns will be commensurate with the risks of investing in the type of transactions that fall within TEA's investment objectives.

**Lack of Liquidity of Investments.** TEA's investments will consist of short-term debt instruments secured by trust deeds or mortgages on real estate. These types of loans are not traded on organized exchange markets and the only possible market for trading such loans would be to other private investors. The liquidity of TEA's portfolio investments will therefore depend on private investors. Trading in loans is subject to delays as transfers may require extensive and customized documentation, and the payment of certain title and recording fees. The resulting illiquidity of TEA's debt instruments may make it difficult or impossible to sell them if the need arises. If TEA needs to sell all or a portion of its portfolio over a short period of time, it may realize significantly less value than the value at which it had previously recorded those investments. There can be no assurance that TEA will be able to generate returns for its investors or that the returns will be commensurate with the

risks of investing in the types of instruments described herein. As noted above, there is a possibility of partial or total loss of capital as a result of such constraints.

**General Risks Associated with Investment in Private Real Estate Debt.** The basic risk of lending and direct ownership of commercial real estate mortgages is borrower default on the loan and declines in the value of the real estate collateral. Defaults can be complicated by borrower bankruptcy and other litigation including the costs and expenses associated with foreclosure which can decrease an investor's return. Declines in real estate value can result from changes in rental or occupancy rates, tenant defaults, extended periods of vacancy, increases in property taxes and operational expenses, adverse general and local economic conditions, overbuilding, deterioration in the physical condition of the asset, environmental issues at the mortgaged property, casualty, condemnation, changes in zoning laws, taxation and other governmental rules. Capital markets volatility can also impact the liquidity and valuation of both mortgages and the underlying properties and may include such items as changes in interest rates, availability and pricing of mortgage capital, and the return requirements used in the valuation of real estate by prospective purchasers. Increases in interest rates can also directly reduce the market value of a fixed rate loan. Commercial mortgage investments are also very dependent on the financial health, operational expertise, and management skills of the borrower.

**Leverage.** TEA may, in certain instances, borrow and may utilize various other forms of leverage. Although leverage presents opportunities for increasing TEA's total return, it has the effect of potentially increasing losses as well. If income on investments made with borrowed funds are less than the cost of the leverage, the total return of the leveraging fund will decrease. Accordingly, any event which adversely affects the value of a portfolio investment would be magnified to the extent a fund is leveraged. The cumulative effect of the use of leverage in a market that moves adversely to the TEA's investments or in the event investments experience credit quality deterioration could result in a substantial loss that could be substantially greater than if TEA were not leveraged. In addition, contractual demands by a lender to reduce its leverage may force TEA to sell investments on an emergency basis at prices less than those obtainable in a more orderly liquidation. To the extent that a creditor has a claim on TEA, such claim would be senior to the rights of an investor in TEA. As a result, if TEA's losses were to exceed the amount of capital invested, an investor could lose its entire investment.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of TEAM or the integrity of TEAM's management.

There are no such facts or events for TEAM to disclose pursuant to this Item.



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

Neither TEAM nor any of its management persons has an application pending to register as a broker-dealer, or as a registered representative of a broker-dealer.

Neither TEAM nor any of its management persons has an application pending to register as a futures commission merchant, commodity pool operator, commodity trading advisor or an associated person of any of those foregoing entities.

Neither TEAM nor any of its management persons has any relationship or arrangement that is material to TEAM's advisory business or to TEAM's client with any person listed below:

1. broker-dealer, municipal securities dealer, or government securities dealer or broker.
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency
9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships

TEAM does not recommend or select other investment advisors for its client nor does it have relationships with other investment advisers that are material to its advisory business or clients.

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

### **Code of Ethics**

TEAM has adopted a Code of Ethics ("Code"). The Code establishes the fundamental principle that all TEAM personnel have a fiduciary duty to place TEAM's clients' interests ahead of their own. The Code sets forth standards of business conduct expected of TEAM personnel and establishes policies to address conflicts that may arise.

TEAM will provide a copy of its Code to any client or prospective client upon request.

## **Participation or Interest in Client Transactions**

**Loan Origination Fees.** TEAM receives loan origination fees from borrowers in connection with TEA's investment, as described in Item 5 – Fees and Compensation. Any increase in such charges may have a direct, adverse effect upon the interest rates that borrowers will be willing to pay TEA, thus reducing the overall rate of return. Conversely, if TEAM reduces the loan fees charged, a higher rate of return might be obtained for TEA. This conflict of interest will exist in connection with every loan TEA makes.

**Loan Servicing Fee.** As set forth above under Item 5 – Fees and Compensation, TEAM will receive compensation for servicing TEA's loan portfolio. TEAM has reserved the right to retain other firms in addition to, or in lieu of, TEAM acting as servicer to perform loan servicing in connection with the TEA's loan portfolio, as further described in TEA's private placement memorandum. Such other firms may or may not be affiliated with TEAM. Loan servicing firms not affiliated with TEAM may provide comparable services on terms more favorable to TEA. TEAM has engaged FCI Lender Services, Inc., a professional loan servicing company, to provide loan servicing for TEA's loan portfolio. TEAM is unaffiliated with FCI Lender Services, Inc.

**Purchase, Sale and/or Hypothecation of Loans.** TEAM and its affiliates may sell, buy or hypothecate loans (use loans as collateral for another loan) to TEA, provided such loans meet the underwriting criteria set forth in TEA's private placement memorandum. TEA may pay a price greater or less than the remaining balance on such loans. The price at which existing loans are bought and sold is normally a function of prevailing interest rates and the term of the loan. Therefore, TEAM or its affiliates may make a profit on the sale of an existing loan from TEAM to TEA. There will be no independent review of the value of such loans or of compliance with the conditions set forth above.

**Sale of Real Estate to Affiliates.** In the event TEA becomes the owner of any real property by reason of foreclosure on a loan, TEAM's first priority will be to arrange for the sale of the property for a price that will permit TEA to recover the full amount of its invested capital plus accrued but unpaid interest and other charges, or so much thereof as can reasonably be obtained in light of current market conditions. In order to facilitate such a sale, TEAM may, but is not required to, arrange a sale to persons or entities controlled by it. TEAM will be subject to conflicts of interest in arranging such sales since it will represent both parties to the transaction. TEA may sell a foreclosed property to TEAM or an affiliate at a price which is fair and reasonable for all parties, but no assurance can be given that TEA could not obtain a better price from an independent third party.

**Co-Lending with TEAM or Affiliates.** In certain circumstances, TEAM may advise TEA to participate in co-lending, where co-lenders may include TEAM or affiliates of TEAM. In such situations, the loan by TEAM or its affiliates will be subordinated to the TEA loan.

## **Personal Trading**

The Code requires that TEAM personnel's personal investment activities comply with all applicable laws and regulations.

## **Item 12 – Brokerage Practices**

TEAM does not select or recommend any broker-dealers for any client transactions. Neither does TEAM aggregate the purchase or sale of securities for client accounts because the purchase or sale of securities is not a part of TEAM's advisory services.

## **Item 13 – Review of Accounts**

TEAM reviews the accounts of TEA not less frequently than every month. This review is conducted by all of the officers of TEAM.

TEAM delivers monthly reports to TEA and its investors on a monthly basis. The reports summarize TEA's portfolio performance and investors' capital account balances.

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

TEAM does not engage anyone to provide investment advice or other advisory services to TEAM's client. Neither TEAM nor any related person directly or indirectly compensates any person for client referrals.

## **Item 15 – Custody**

As the manager of TEA, a pooled investment vehicle, TEAM is deemed to have custody of TEA's funds and securities, even though those assets are held by an independent qualified custodian. Quarterly, or more frequent, account statements are sent directly to the members of TEA from the qualified custodian. In addition, TEAM intends to annually engage an independent accounting firm registered with the Public Company Accounting Oversight Board to conduct an audit of TEA and distribute the audited financial statements prepared in accordance with generally accepted accounting principles to all member of TEA within 120 days after TEA's fiscal year end.

## **Item 16 – Investment Discretion**

TEAM exercises discretionary authority to manage the notes and trust deeds in TEA's account. TEAM exercises its investment discretion consistent with the investment strategy and subject to the restrictions specified in TEA's operating agreement and private placement memorandum.

## **Item 17 – Voting Client Securities**

None of the notes and trust deeds in TEA's account are voting securities.

## **Item 18 – Financial Information**

TEAM has no financial conditions that are reasonably likely to impair its ability to meet its contractual commitments to its client. TEAM has not been the subject of a bankruptcy proceeding.