



## MARCUS PARTNERS

### **Investment Adviser Brochure**

**March 30, 2022**

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**This brochure provides information about the qualifications and business practices of Marcus Partners, Inc. If you have any questions about the contents of this brochure, please contact Alison Bernard, Chief Compliance Officer, at (617) 556-5200. 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.**

**Additional information about Marcus Partners, Inc. is also available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).**

**Marcus Partners, Inc. is an SEC registered investment adviser. This registration does not imply a specific level of expertise, skill or training nor does it imply a recommendation by the SEC or by any state securities authority.**

**This cover page constitutes Item 1 to the Marcus Partners, Inc. Brochure on Form ADV, Part 2A.**

## **Item 2. Material Changes**

In addition to routine updates to the Brochure dated December 31, 2020, we have included in this Brochure information concerning Marcus Capital Partners Fund IV, L.P. As noted on the Cover Page (Item 1) to the Brochure, Alison Bernard has been appointed as the Chief Compliance Officer of Marcus Partners, Inc.

### Item 3. Table of Contents

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## Item 4. Advisory Business

Marcus Partners, Inc., a Massachusetts corporation (“we,” “us” or the “Firm”), is a privately owned real estate, and real estate related investment, development and investment management company, headquartered in Boston, Massachusetts that has been a registered investment advisor since March 28, 2012 (SEC Registration Number 801-74632). The Firm provides investment management services to pooled investment vehicles that invest in real estate and real estate related assets. The Firm does not provide investment advisory services to clients apart from its management of private real estate capital limited partnerships and parallel investment vehicles sponsored by the Firm (individually, a “Fund” and together, the “Funds”).

The Firm was founded in March of 2008 by Paul R. Marcus, the sole shareholder, President and CEO of the Firm. Prior to the formation of the Firm, Mr. Marcus, in conjunction with a third party, sponsored real estate and real estate related investments. Most of these investments were property-specific syndicated investment vehicles over which Mr. Marcus and his former partner maintained management control and which were capitalized by high net worth individuals and institutional joint venture partners. Certain of those entities constitute pooled investment vehicles that are co-managed by Mr. Marcus and his former partner. The co-managed entities are fully invested in real estate and real estate related assets. The Firm, on behalf of Paul Marcus, co-advises other ventures with the former partner. The Firm also provides asset management services to those other ventures.

The Firm currently provides investment management services to three closed end commingled real estate funds: (i) Marcus Capital Partners Fund II, L.P. (“Fund II”); (ii) Marcus Capital Partners Fund III, L.P. (“Fund III”); and (iii) Marcus Capital Partners Fund IV, L.P. (“Fund IV”). The Firm’s primary responsibility is to identify, review and select investment opportunities that it believes will achieve the investment objectives of the applicable Fund. The Firm also provides administrative services to the Funds. The Firm previously provided investment management services to Marcus Capital Partners Fund I, L.P., which Fund made its final liquidating distribution and was dissolved effective December 31, 2019. The investment period for Fund II ended on January 2, 2020. Fund III had its final closing on January 27, 2021 and is authorized to make investments through April 1, 2024. Fund IV held its initial closing on February 15, 2022.

The Firm has complete discretion over the investment of the Funds’ capital commitments and reinvestment of capital and profits subject to certain investment restrictions on the general partner of the Funds. Although the Firm may invest Fund capital anywhere in the United States, the Firm’s focus is to invest in major metropolitan markets on the East Coast. The current investment focus of the Firm is to acquire a diversified portfolio of value added and opportunistic real estate and real estate related investments, emphasizing residential, warehouse/distribution, industrial, office, medical office, life science, research and development, and mixed-use properties. . Leverage is employed in accordance with leverage restrictions in the applicable Fund’s partnership agreement.



Investment in real estate and real estate related investments has inherent risks. Please refer to Item 8 below, for a summary of the risks associated with an investment in real estate and real estate related investments.

As of December 31, 2021, the Firm managed a total of \$1.1B of discretionary capital on behalf of the Funds, including \$337M of capital contribution commitments.

## **Item 5. Fees and Compensation**

The Firm receives management fees which are based on a percentage of Invested Capital and capital committed to investment for Fund II and capital commitments under management for Fund III and Fund IV, in each case with a \$50,000 per year minimum after the Fund's investment period. These fees are paid in advance in monthly installments on the first business day of each month to the General Partner of Fund II and Fund III and will be paid in advance in monthly installments on the first business day of each month to the General Partner of Fund IV. Investors do not pay the fees directly. Please refer to Appendix A for the management fee structure of Fund II, Fund III and Fund IV. In the event that the General Partner is removed or withdraws as the General Partner of Fund II, Fund III or Fund IV, it shall cease providing management services thereto and shall only be entitled to receive and retain management fees computed through the date of removal or withdrawal.

Affiliates of the Firm provide property management, leasing and construction/redevelopment management services to certain assets of the Funds and other third-party owners and receive fees for those services in amounts that they believe are market rates. With respect to each of Fund II, Fund III, and Fund IV, fees paid to the Firm or its affiliates will not exceed: (i) three percent (3%) of property gross revenues for property management (plus customary reimbursements); (ii) three percent (3%) of construction costs (including general conditions reimbursements) for construction management; (iii) three percent (3%) of project costs for redevelopment management services; and (iv) market rate leasing fees for leasing services. All such payments to the Firm and its affiliates are disclosed in the audited financial statements of the Funds.

## **Item 6. Performance Based Fees and Side-by-Side Investing**

### **Carried Interest**

In addition to management fees and expense reimbursements for the investment, management and disposition of real estate and real estate related investments within the Funds as noted above, the Firm and its principals and senior management are entitled to receive performance based distributions ("Carried Interest") from the Funds if predetermined rates of return are met. Such performance based fees are described in Item 19 Appendix A for each of Fund II, Fund III, and Fund IV.

It should be noted that the existence of a Carried Interest has the potential to create an incentive to make more speculative investments on behalf of a Fund than it would otherwise make in the absence of such incentive. In addition, due to the method of calculating the Carried Interest, the



distributions to the holder of the Carried Interest may be affected by the timing of dispositions and other factors within the control of the Firm. We believe that the foregoing conflicts will be mitigated to a substantial extent by: (i) the fact that affiliates of the Firm have a substantial cash investment in each of the Funds; and (ii) the fact that, before any Carried Interest is paid, investors must have received a return of their capital contributions plus a cumulative preferred return thereon.

### **Side-by-Side Investment**

The Principals and certain members of senior management of the Firm, through a separate entity, have an interest in the capital, profits, losses and distributions of the Funds. The Principals, along with other firm employees, also invest in the Funds as limited partners either directly or through affiliated entities.

### **Expense Reimbursements**

In addition to the management and service fees and Carried Interest paid to the Firm and its affiliates, the Funds incur/incurred expenses which are/were subject to payment by the Funds. Each Fund will be responsible for all out-of-pocket expenses incurred by its General Partner and its affiliates in connection with the Fund's business, including: (a) all expenses of organizing the Fund and offering the Interests in the Fund, including legal, accounting, tax advice and other consulting fees, investor relations, marketing and advertising, syndication and printing costs, and filing and qualification fees, subject to an overall aggregate cap of seven hundred thousand dollars (\$700,000) for Fund II, one million dollars (\$1,000,000) for Fund III and one million two hundred and fifty thousand dollars (\$1,250,000) for Fund IV; and (b) costs and expenses incurred in connection with the General Partner's performance of its duties as general partner, including: (i) third-party costs, fees and other out-of-pocket expenses directly related to the identification and investigation of investment opportunities (whether or not consummated); (ii) third-party costs and expenses related to the evaluation, structuring, negotiation, acquisition, ownership, management, financing, valuation, hedging, or sale or other disposition of Investments and the formation of any Fund Subsidiaries, including, without limitation, any Subsidiary REIT (including, without limitation, any cost of obtaining shareholders for any subsidiary REIT); (iii) third-party costs and expenses related to management information systems, administration, record keeping, investor relations and investor mailing and communications; (iv) costs and expenses arising from travel, lodging, meals, public relations, marketing and advertising, courier, mail, printing and copying; (v) costs and expenses of meetings with the Fund Investors; (vi) fees and expenses of auditors, accountants (including, with respect to Fund IV, the reasonable time-based costs and expense of in-house fund accountants), engineers, architects, appraisers and other professionals, consultants and legal counsel (including the reasonable cost and expense of in-house legal counsel, if any); (vii) expenses (including (A) reasonable costs and expenses of independent legal counsel and (B) reasonable travel and other out-of-pocket expenses) of the Fund Advisory Committee; (viii) costs related to insurance for the Fund or its subsidiaries; (ix) costs relating to the Fund's indemnification of the indemnified parties; (x) litigation fees and expenses; (xi) interest on and fees and expenses arising out of all borrowings of the Fund and its subsidiaries; (xii) expenses incurred in connection with liquidating the Fund; (xiii) any taxes,



fees or other governmental charges levied against the Fund or its subsidiaries and all expenses incurred in connection with any tax, regulatory or compliance audit, investigation, settlement or review of the Fund or its subsidiaries, and (xiv) the costs of any third parties (including third party fund administrators). Costs and expenses that may be attributed to more than one Fund or a Fund and the Firm will be allocated in good faith by the General Partner taking into account the nature of the activity generating the costs and expenses and the parties involved in such activity.

## **Item 7. Types of Clients**

The Firm provides investment management services to the Funds. Investors in the Funds include institutional investors, high net worth individuals, family offices, and trusts (collectively “Investors”), who are not clients of the Firm. The minimum investment requirement of Investors in Funds managed by the Firm will vary depending on the Fund.

### **Important Notice**

This Brochure may be provided to prospective investors (“Investors”) in a Firm Partners-sponsored Fund, Parallel Vehicle or affiliated partner, together with the specific investment vehicle’s private placement memorandum (“PPM”), organizational documents and other related documents (“Governing Documents”), in connection with Investor’s consideration of an investment. While this Brochure may include information about the vehicles sponsored by the Firm, it does not represent a complete discussion of the features, risks or conflicts associated with the investment vehicles. More complete information is included in the PPM and other Governing Documents.

**In no event should this Brochure be considered an offer of equity interests in an investment vehicle sponsored by the Firm or be relied upon in determining whether to invest in the vehicle sponsored by the Firm. It is also not an offer of, or agreement to provide, advisory services directly to any Investor.** Rather, this Brochure is designed only to provide information about us to comply with regulatory requirements under the Investment Advisers Act of 1940. Information in this Brochure may differ from the information provided in the PPM. If there is any conflict between the information in this Brochure and similar information in the PPM, Investors should rely on the information in the PPM with respect to their investment in various investment vehicles sponsored by the Firm.

## **Item 8. Methods of Analysis, Investment Strategies & Risk of Loss**

### **Methods of Analysis**

In estimating the value of target acquisitions, three methods of analysis are normally considered prior to arriving at a determination of a target investment’s reasonable acquisition price. These



methods consider factors relative to the income producing potential of the investment opportunity, an analysis of probable market response to investment characteristics by comparison to sale transactions involving similar types of investment opportunities and, where appropriate, the replacement cost of the investment opportunity.

The Firm uses the discounted cash flow analysis method as the primary method of determining if an investment opportunity is likely to generate acceptable returns over a projected hold period. This analysis method focuses on several factors, such as the future income stream that the investment can provide, after adjustments based upon projected operating expenses, capital expenditures and third-party financing terms, as well as other factors such as residual value assumptions and reasonable discount rates given the risk profile of the investment.

In addition to employing the discounted cash flow analysis method, the Firm also incorporates an analysis of the sale transactions involving similar types of investments. With the sales comparison method the investment opportunity is compared to recently sold, comparable investments. However, because no two investments are identical, the sales prices of the comparable investments must be adjusted for each of the differences between the subject investment and the comparable investment.

The final method of analysis employed, is a comparison of the replacement cost of the investment to the target acquisition price. While this element of the analysis is given less weight, it is deemed to be an appropriate factor to consider.

## **Investment Strategy**

Each Fund's investment strategy is to provide attractive risk adjusted returns to its Investors by investing in a diversified portfolio of value added and opportunistic real estate and real estate related investments. The Firm's value-add approach to investing includes repositioning, change of use, management turn-arounds, and development/redevelopment opportunities. It is anticipated that investments will be held for up to seven years; however, investments may be held for shorter or longer periods. The investment focus of Fund III and Fund IV is and will be on office, medical office, life science, industrial, warehouse/distribution, residential, parking, and mixed-use properties, which may include retail components, or land in conjunction with the development of any of the foregoing. Such investments are and will be located primarily in major metropolitan markets on the East Coast of the United States in the corridor from Virginia to Massachusetts and Southern New Hampshire and may include other select markets determined by Marcus Partners, including markets where its affiliates have made investments or developed relationships with operating partners. Leverage is employed in accordance with the Funds leverage restrictions.

***The strategy noted above is meant to be general in nature and is not intended to be all inclusive.***



## Environmental, Social, and Governance Principles

The Firm's approach is underpinned by a strong ethical foundation which provides the basis for how it invests and how it interacts with Investors, tenants, partners, employees and service providers. As individuals and as a team, our employees are committed to living and working in adherence with high ethical standards. We believe that this approach has resulted in a reputation that is consistent throughout the Firm's history and markets, one that is characterized by integrity, honesty, transparency, and an unwavering sense of fiduciary responsibility. As a result, many of our Principals, employees, service providers and business associates have maintained long-term relationships with the Firm. In an era of accelerating disruption and uncertainty, Marcus Partners believes that working with trustworthy partners with a history of consistent business practices is of utmost importance.

We believe that responsible consideration of environmental, social, and governance ("ESG") factors is important not only ethically, but also for the long-term success of our investment programs. As a result, we consider numerous ESG-related goals and their impact as we acquire assets and implement business plans. Regarding environmental actions, the firm is an active sponsor of diverse environmental initiatives, provides and subsidizes responsible transportation choices, implements operational improvements, and mitigates climate change risk. Regarding social actions, the Firm empowers its employees, cares for its tenants, fosters industry inclusion, and donates time and funds to various philanthropic initiatives. We endeavor to treat vendors, service providers, contractors, and employees with fairness, dignity, and integrity. Regarding governance, Marcus Partners maintains steadfast governance principles, upholding high standards of accountability to Investors, ensuring that the General Partner's interests are at all times aligned with those of the Investors, and offering Investors transparency and accountability. The Firm will not engage in projects or activities when there is ethical ambiguity. We firmly believe this approach is not only correct morally, but also ultimately serves our Investors' best long-term interests.

## RISK FACTORS

An investment in real estate and real estate related assets entails a high degree of risk and is suitable only for sophisticated institutions and high net worth individuals who fully understand and are capable of bearing the risks of an illiquid investment. There can be no assurance that an investment in a real estate private equity fund will meet its investment objectives or otherwise be able to successfully carry out its investment program. The risks described below are not the only risks relating to an investment in a Fund and other risks also may adversely affect an investment in a Fund.

***Management of a Fund - Lack of Control by Investors.*** Investors will not have an opportunity to evaluate the investments made by the Fund or the terms of any particular investment. Investors should expect to rely solely on the ability of the General Partner to make appropriate investments for a Fund and to appropriately manage and dispose of the investments. The business of a Fund will generally be managed by the General Partner who will have significant discretion in managing a Fund's business. The rights and obligations of investors will be subject



to the limitations set forth in a Fund agreement, and except for the rights specifically reserved to them by a Fund agreement and applicable law, investors will have no part in the management and control of a Fund.

***Investment Policies and Strategies.*** A Fund may not meet its stated investment strategy and goals, and the General Partner has the right to vary from its strategy and policies if it determines it is in the best interests of a Fund, subject to the terms of a Fund agreement.

***General Risks.*** A Fund will be subject to risks incident to the ownership of real estate, including: changes in general economic or local conditions; changes in tenant preferences that reduce the attractiveness of a Fund's properties to tenants; fluctuation in occupancy rates, operating expenses and rental schedules; costs associated with the need to periodically repair, renovate and re-lease space; withdrawal of tenants and difficulty replacing tenants; tenant defaults; changes in supply of or demand for competing properties in an area, such as an excess supply resulting from over-building; changes in interest rates, zoning and other governmental regulations and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive; increases in maintenance, insurance and other operating costs, including real estate taxes, associated with one or more properties, which may occur as other circumstances such as market factors and competition cause a reduction in revenues from such properties; inflation; changes in tax laws and rates; and imposition or extension of rent controls by governmental authorities.

***Tenant Default and Bankruptcy.*** A tenant's default in performing its lease obligations, or the tenant's bankruptcy, could adversely affect cash flow from a real estate investment and cause a Fund to incur legal costs and other costs that would not likely be recouped. An early termination of a lease by a bankrupt tenant would result in unanticipated expenses to re-let the premises. In addition, a Fund may encounter additional risks and uncertainties with respect to the treatment of tenants under the laws of the various jurisdictions in which a Fund may invest, including, without limitation, in circumstances involving a tenant's bankruptcy.

***Non-Renewal of Leases.*** A Fund's real estate investments will be subject to the risks that, upon expiration, leases for space may not be renewed, the space may not be re-leased, or the terms of renewal or re-lease, including the cost of required renovations or concessions, may be less favorable than current lease terms. In the event of any of these circumstances, cash flow from a Fund's real estate investments and, therefore, the value of an investment in a Fund, could be adversely affected. These risks may be particularly acute for single-tenant properties.

***Fixed and Variable Cost Risks.*** Many costs associated with a real estate investment, such as debt service and real estate taxes, are not reduced even when a property is not fully occupied, or other circumstances cause a reduction in income from the investment. These fixed costs intensify the risk to a Fund of a tenant default or an unanticipated delay in achieving occupancy of a new or redeveloped property or reletting a property upon lease expiration. Some costs associated with a real estate investment, such as maintenance and repairs, and other operating costs, may be subject to cost increases beyond the control of a Fund. Variable rate debt in a time of rising interest rates could also result in unanticipated cost increases.



**General Economic and Other Conditions.** A Fund's properties may be adversely affected from time to time by such matters as changes in general economic, industrial and international conditions, changes in taxes, prices and costs, and other factors of a general nature that are beyond the control of a Fund.

**Risk of Uninsured Losses.** Despite carrying customary comprehensive liability and casualty insurance, certain disaster insurance (such as earthquake insurance) may not be available or may be available only at prohibitive cost. In addition, losses may exceed insurance policy limits, and policies may contain exclusions with respect to various types of losses or other matters. Consequently, all or a portion of a Fund's properties may not be covered by disaster insurance, and insurance may not cover all losses.

**Due Diligence and Analytic Risks.** There is generally limited publicly available information about real properties, and a Fund must therefore rely on due diligence conducted by the General Partner and/or its affiliates. Should the General Partner's and/or its affiliates' pre-acquisition evaluation of the physical or financial condition of each new investment fail to detect certain defects or necessary repairs, the total investment cost could be significantly higher than expected. Furthermore, should the General Partner's estimates of the costs of improving, repositioning or redeveloping an acquired property prove too low, or its estimates of the time required to achieve occupancy or other revenue targets prove too optimistic, the profitability of the investment may be adversely affected.

**Joint Venture Risks.** Instead of making investments directly, a Fund may make investments through partnerships, joint ventures, corporations, companies, or other entities. Such investments may involve risks not present in wholly-owned investments, including for example, the possibility that a co-venturer or partner of a Fund might commit fraud, become bankrupt, or may have economic or business interests or goals which are inconsistent with those of a Fund, or that such partner or co-venturer may be in a position to take action contrary to the instructions or the requests of a Fund or contrary to a Fund's policies or objectives or otherwise have certain rights with respect to the investments, which may limit a Fund's ability to protect its position and make decisions with respect to its investments. In addition, in certain circumstances, a Fund may rely upon the joint venture partner for operational expertise, which reliance may ultimately not be justified. Furthermore, if such co-venturer or partner defaults on its funding obligations, it may be difficult for a Fund to make up the shortfall from other sources. Any default by such co-venturer or partner could have an adverse effect on a Fund, its assets, and the interests of the investors. In addition, a Fund may be liable for actions of its co-venturers or partners. While the General Partner will attempt to limit the liability of a Fund by reviewing qualifications and previous experience of co-venturers or partners, such action may not be sufficient to protect a Fund from liability or loss.

Reporting to investors concerning investments with third parties may be dependent on information provided by such third parties. Such information may be delayed or inaccurately provided by such third parties, which could impair the ability of a Fund to provide timely and accurate reporting, and to file tax returns without an extension.



**Valuation Risk.** Because there is a significant uncertainty in the valuation of, or in the stability of the value of, certain of a Fund's possible investments, fair values of such investments as reflected in a Fund's results of operations may not reflect the prices that a Fund would obtain if such investments were actually sold. A Fund may be required to hold illiquid investments for several years before any disposition can be effected.

**Risks of Engaging in Development and Redevelopment Activities.** A Fund may undertake to develop and redevelop some properties in which it is investing (including excess land). Development and redevelopment activities often involve construction projects on the properties or reconstruction of the properties. Although the Sponsor is experienced in handling such development and redevelopment projects, a Fund will be subject to various risks, including those set forth above in "*General Risks*" and the risk that there may be unanticipated delays in the completion of such development and redevelopment projects due to factors beyond the control of a Fund. These factors may include:

- material and labor shortages;
- increases in the costs of labor and materials;
- rising energy costs;
- strikes;
- adverse weather;
- earthquakes and other "force majeure" events;
- changes in building plans and specifications;
- zoning, entitlement and regulatory concerns, including changes in laws, regulations, elected officials and government staff;
- unanticipated soil problems; and
- delays caused by any of the foregoing (which could result in unanticipated increased costs, the expiration of permits, unforeseen changes in laws, regulations, elected officials and government staff, and losses due to market timing of any sale that is delayed).

Delays in completing any development or redevelopment project will cause corresponding delays in the receipt of operating income and, consequently, the distribution of any cash flow by a Fund with respect to such project. In addition, the estimated costs and schedules of developing or redeveloping and constructing buildings and related landscaping may be affected by changes in construction plans and specifications or by other unforeseen events, any of which may cause additional expenses to be incurred, which likely will be borne by a Fund.

**Competition for Investments.** The activity of identifying, completing, and realizing attractive acquisitions of real estate assets in a Fund's targeted sectors is highly competitive. A Fund will compete for these opportunities with many other real estate investors, including public and private REITs, other real estate funds, and institutional investors. These competitors may have more experience, more resources and may be willing to accept more risk than a Fund. This competition may increase prices, reduce returns, and eliminate investment opportunities. There



can be no assurance that a Fund will be able to locate and acquire investments that satisfy its investment objectives.

***Investment Concentration.*** Because a Fund has the ability to concentrate its investments in few investments (with as much as 15% of the Capital Commitments invested in one investment, or even higher in certain circumstances), the overall adverse impact on a Fund of adverse movements in the value of a single property (including as a result of market conditions in which such property is located such as an economic downturn or one or more natural disasters) will be considerably greater than if a Fund were not permitted to concentrate its investments to such an extent. In addition, a Fund may make investments in some transactions with the intent of refinancing or selling a portion thereof, and in such cases, there will be the risk that a Fund will be unable to complete the refinancing or sale which could lead to increased risk as a result of a Fund having an unintended long-term investment and reduced diversification.

***Geographic Investment Concentration.*** Because a Fund's investment strategy is primarily focused on the corridor from Virginia to Massachusetts and Southern New Hampshire (including the greater Nashua and Manchester areas) and other select markets determined by the General Partner, economic and real estate conditions in such particular geographic area will significantly affect a Fund's performance. Business layoffs or downsizing, industry slowdowns, changing demographics and other similar factors may adversely affect the economic climate of the targeted markets. Any resulting oversupply or reduced demand in such area would therefore have a disproportionate negative impact on a Fund's performance and limit a Fund's ability to make distributions to its Limited Partners.

Some of a Fund's investment activities could occur in regions with a high concentration of technology-related industries. Therefore, the success of a Fund's investments may be tied to market conditions in the technology-related industries, which are highly cyclical. Because the success of some of a Fund's investments may be dependent on the demand of technology-related companies for commercial real estate, any downturn in any technology-related industry could have a material adverse effect on a Fund's investments. In addition, the positive ripple effects in any region created by growing technology-related industries (including work force growth and the demand for real estate by the supply and demand chains related to any such industries) lead to increased risks of negative ripple effects on the value of real estate investments in any region that experiences any technology-related industry downturn.

***Investment in Troubled Assets.*** A Fund may make investments in nonperforming or other troubled assets that involve a degree of financial risk and there can be no assurance that a Fund's return objectives will be realized or that there will be any return of capital. Furthermore, investments in properties operating in workout modes or under Chapter 11 of the Bankruptcy Code may, in certain circumstances, be subject to additional potential liabilities that could exceed the value of the investor's original investment, including equitable subordination and/or disallowance of claims or lender liability. In addition, under certain circumstances, payments to a Fund and distributions by a Fund to the Limited Partners may be reclaimed (i) if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment under applicable law or (ii) in such circumstances set forth in a Fund



agreement, if a Fund lacks the resources to pay its indemnification obligations to the General Partner and its affiliates.

***Leverage Risks.*** The purchase price or development cost of a Fund's investments is expected to be financed subject to the limitations contained in a Fund agreement. The degree of leverage could have important consequences to investors, including limiting the ability of a Fund to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general corporate purposes and making a Fund more vulnerable to a downturn in business or the economy generally. Further, a Fund may enter into a credit facility in order to finance investments or pay expenses. As a result, the General Partner may assign certain of a Fund's rights with respect to investor subscription commitments, including the right to draw down such capital commitments.

***Loan Default Risks.*** The mortgage loan documents for a Fund's properties will generally contain customary covenants, such as requirements relating to the maintenance of the property securing the debt, restrictions on pledging and creating other liens on the property, restrictions on incurring additional indebtedness and restrictions on transactions with affiliates. Failure by a Fund to make timely payments of principal and interest on mortgage loans or to observe these loan covenants could result in the declaration of a default by the lender. The consequences of a declaration of default include foreclosure of the mortgage, resulting in loss of both the property and the income it produces, the incurrence of substantial legal costs, the imposition of a deficiency judgment if the foreclosure sale does not result in proceeds sufficient to satisfy the mortgage, and potential adverse tax consequences to the investors. In addition, if any loan contains cross-default provisions, a default under one loan could result in default under other loans.

***Refinancing Risks.*** Mortgage loans on a Fund's properties may be subject to relatively short maturities, which may require refinancing before the properties are disposed of. There is no assurance that replacement financing can be obtained or, if it is obtained, that interest rates and other terms would be as favorable as for the original loans. Inability to refinance a loan on favorable terms may compel a Fund to attempt to dispose of the property or other properties on terms less favorable than might be obtained at a later date.

***Acquisition and Origination of Loans.*** As part of a Fund's business strategy, a Fund may originate or acquire existing uninsured and non-investment grade mortgage loans and mortgage assets, including mezzanine loans. While holding these interests, a Fund is subject to risks of borrower defaults, bankruptcies, fraud and special hazard losses that are not covered by standard hazard insurance. Also, the costs of financing the mortgage loans could exceed the return on the mortgage loans. In the event of any default under such mortgage loans, a Fund will bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the mortgage loan (and may incur substantial foreclosure expenses). Mezzanine loans involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property due to a variety of factors, including the loan becoming unsecured as a result of foreclosure by the senior lender. In





addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans resulting in less equity in the property and increasing the risk of loss of principal.

***Reliance on Third Parties.*** A Fund relies on certain third parties to provide certain services, which reliance may ultimately not be justified. Any default by such service provider could have an adverse effect on a Fund, its assets, and the interests of the investors. In addition, a Fund may be liable for actions of its service providers. While the General Partner will attempt to limit the liability of a Fund by reviewing qualifications and previous experience of all service providers, such action may not be sufficient to protect a Fund from liability or loss.

***Lack of Liquidity of Investments.*** A Fund's real estate investments will generally be highly illiquid compared to other asset classes. Given the nature of real estate investments, a Fund may be unable to realize its investment objectives by sale or other disposition at attractive prices within any given period of time, or may otherwise be unable to complete any exit strategy for its investments. In some cases, a Fund may be prohibited by contract from selling investments for a period of time, or there may be contractual rights or obligations that may otherwise significantly affect price and/or liquidity. In addition, it is expected that investments will not be sold until a number of years after they are made. The types of investments held by a Fund may be such that they require a substantial length of time to liquidate. In the event a loan repayment or other funding obligation arises at a time in which a Fund does not have sufficient cash assets to cover such payment, a Fund may have to liquidate certain investments at less than their expected returns to satisfy the obligations thereby, resulting in lower realized proceeds to a Fund than might otherwise be the case.

***Zoning and Environmental Laws.*** Governmental zoning and land use regulations may exist or be promulgated that 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. Such regulations could adversely affect the value of any of a Fund's properties. In recent years, the value of real estate has also sometimes been adversely affected by the presence of hazardous substances or toxic waste on, under, or in the environs of the real estate. A substance (or the amount of a substance) may be considered safe at the time the real estate is purchased but later classified by law as hazardous. Under environmental laws, owners of properties have been liable for substantial expenses to remedy chemical contamination of soil and groundwater at their real estate even if the contamination predated their ownership. Although a Fund will exercise reasonable efforts to assure that no real estate is acquired that gives rise to such liabilities, environmental contamination cannot always be detected through readily available means, and the possibility of such liability cannot be excluded.

***Americans With Disabilities Act.*** Under the Americans with Disabilities Act of 1990, as amended (the "ADA"), all public accommodations and commercial facilities must meet certain Federal requirements related to access and use by disabled persons. Compliance with the ADA requirements could involve removal of structural barriers from certain disabled persons' entrances. Other Federal, State and local laws may require modifications to or restrict further renovations of properties with respect to such access. Noncompliance with the ADA or related laws or regulations could result in the imposition of governmental fines or the institution of



claims by private plaintiffs. Costs such as these, as well as the general costs of compliance with these laws or regulations, may adversely affect the value of a Fund's properties.

**Cybersecurity.** We collect and hold personally identifiable information of our investors, our employees and their dependents, and in some cases of tenants and prospective tenants in connection with leasing activities at our properties. In addition, we engage third party service providers that may have access to such personally identifiable information in connection with providing necessary information technology and security and other business services to us. Although we make efforts to maintain the security and integrity of these types of information technology networks and related systems and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging.

We face risks associated with security breaches, whether through cyber-attacks or cyber intrusions over the internet, malware, computer viruses, attachments to emails, phishing attempts or other scams, persons inside our organization or persons/vendors with access to our systems and other significant disruptions of our information technology networks and related systems. Our information technology networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations. Even the most well-protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases, are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

A breach or significant and extended disruption in the function of our systems could damage our reputation, generate third party claims, result in the unintended and/or unauthorized public disclosure or the misappropriation of proprietary, personally identifiable and confidential information and require us to incur significant expenses to address and remediate or otherwise resolve these kinds of issues. We may not be able to recover these expenses in whole or in any part from our service providers, our insurers or any other responsible parties. As a result, there can be no assurance that a Fund would not be adversely impacted.

**Health Emergencies and Market Disruption.** The occurrence of widespread health emergencies could have a material adverse effect on a Fund. The outbreak of COVID-19, which has been identified as a "pandemic", resulted in decreased economic activity and on-going health concerns, which adversely affected the broader global economy. Federal, state and local governments have taken a variety of actions in efforts to lessen the effects of the pandemic on individuals. Federal and global actions designed to reduce the adverse impact on the U.S. and non-U.S. economies have been taken and others may be forthcoming. The extent to which COVID-19 and resulting consequences may impact the Funds and their properties, and the duration of such impact, is uncertain. However, health emergencies such as COVID-19 or related significant public health and safety events, such as quarantine measures and travel restrictions, could have a material





adverse effect on a Fund's revenue, expenses and operations, liquidity and redemptions, acquisitions, financing and dispositions of assets, cash distributions, and property and portfolio values and prospects. At this time, we cannot determine whether any of the types of targeted investments will be more adversely affected than other investment property types, in the near term or over an extended period of time.

***Reliance on Key Individuals.*** The success of each Fund is substantially dependent on Paul Marcus, Alison Bernard, John Busby, Pete Cameron, Andrew Dolinsky, David Fiore, David Hooke, William McAvoy, Ryan McDonough, Levi Reilly, and Patrick Sousa (the "Principals"). These individuals generally possess institutional knowledge about the Funds or the real estate industry generally, have significant expertise in their fields and possess important leadership skills. The loss of any of the Firm's key employees could adversely affect a Fund's ability to execute its strategy. Moreover, these persons are not required to exclusively dedicate or devote their business time or efforts to the Fund. [See "*Potential Conflicts of Interests*" below.]

## **POTENTIAL CONFLICTS OF INTERESTS**

***Management of the Fund.*** Paul Marcus, Alison Bernard (Fund IV), Andrew Dolinsky, David Hooke (Funds II and III) William McAvoy, Pete Cameron, David Fiore, Ryan McDonough and Levi Reilly (all principals of the Firm) serve on the Investment Committees for the Funds and intend to devote a sufficient portion of their business time to fulfill their duties to the General Partner as is necessary for the operation of the Funds. However, the Principals provide services to other existing Firm clients and may devote a portion of their business time and attention to other projects during the life of a Fund. Accordingly, conflicts of interest may arise in allocating management time, services or functions among the Funds and such other projects. In addition, certain employees own or may own interests in private real estate or certain publicly available real estate related investments; provided, however, the Firm's Code of Ethics sets forth a process for the preapproval of those investments based upon an assessment of potential conflicts of interest.

***Carried Interest of the General Partner.*** The existence of the Carried Interest may create an incentive for the General Partner to make more speculative investments on behalf of a Fund than it would otherwise make in the absence of such incentive. In addition, due to the method of calculating the Carried Interest, the distributions to the General Partner may be affected by the timing of dispositions and other factors within the control of the General Partner. The General Partner believes that the foregoing conflicts will be mitigated to a substantial extent by:

1. the fact that the General Partner and its officers collectively will have an investment in a Fund; and
2. the fact that the Carried Interest will be calculated based on a preferential return to the Partners of their total capital invested in a Fund, plus an annual return thereon.

***Diverse Membership.*** Investors typically include taxable and tax-exempt entities and may include persons or entities organized in various jurisdictions. As a result, conflicts of interest



may arise in connection with decisions made by the General Partner that may be more beneficial for one type of Investor than for another type of Investor. In selecting investments appropriate for a Fund, the Firm will consider the investment objectives of the Fund as a whole, not the investment objectives of any Investor individually.

***Parallel Investors.*** Certain limited partners in parallel investment vehicles that will invest with a Fund may be offered different terms, conditions, distributions, allocations, and concessions than those that apply to the Fund. Except as expressly agreed to by the General Partner in its sole discretion, no Limited Partner will have a right to any terms solely because they were offered to a limited partner in another parallel investment vehicle.

***Investment Opportunities.*** Conflicts of interest may arise in connection with the allocation of investment opportunities between the General Partner and its affiliates and the Fund. For example, the General Partner may decide that a particular opportunity is not appropriate for the Fund (e.g., because of an increased risk profile), whereas simultaneously an affiliate of the General Partner determines that the opportunity is appropriate for an investment vehicle other than the Fund. In other situations, a certain opportunity may be appropriate for both the Fund and another investment vehicle, in which case a conflict will arise.

Prior to the termination of the investment period of Fund III, any potential investment opportunities that may be made by more than one entity or person advised or managed by the General Partner or its affiliates will be allocated in good faith based upon the investment objectives of such entities or persons and other relevant factors such as cash available for investment, maximum investment limit per investment, diversification, estimated income tax effects, leverage policies, return expectations, regulatory restrictions and length of time funds have been available for investment.

***Investment Operations.*** Conflicts of interest may arise between the Fund and other investment vehicles because of competition for tenants or the services offered by service providers to any particular investment.

## **Item 9. Disciplinary Information**

As of the date of this Brochure, neither Marcus Partners, Inc. nor any of its management persons or owner, is or has been involved in any disciplinary action that would be material to an Investor in evaluating the Firm or the integrity of its management.

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

The Firm is a member of several real estate related industry groups. Through our affiliation with these organizations, we are able to gain a better understanding of trends and the issues that face the real estate investment industry.

Neither the Firm nor any of its management persons is registered or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer, or as a future



commission agent, commodities pool operator, commodities trading adviser, or an associated person of any of the foregoing.

As noted above, the Firm co-manages certain partnerships and joint ventures with The Davis Companies, a Boston, MA based registered investment adviser. Paul R. Marcus, Principal and CEO of the Firm, has an economic and management interest in such partnerships and joint ventures, but is not an affiliate of The Davis Companies.

## **Item 11. Code of Ethics**

The Firm's Code of Ethics, which complies with Rule 204A-1 of the Investment Advisers Act of 1940 (the "Code"), sets forth the high standard of business conduct expected of employees and is designed to assist employees in identifying and managing potential conflicts of interest. Specifically, the Code includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions and reporting related to personal trading by employees, restrictions on the giving and receiving of gifts and entertainment, restrictions on political contributions and restrictions related to outside business activities. Employees may be allowed to invest in real estate related private placements so long as the investment does not pose a conflict of interest with investors or the funds, and each transaction is preapproved by the Chief Compliance Officer. Purchases and sales of publicly traded securities of companies for which the Firm may possess material non-public information, purchases of securities in initial public offerings and purchases of securities in limited offerings (private placements) by our Access Persons and certain of their family members require pre-approval by our Chief Compliance Officer.

The Principals and other officers of the Firm, directly and indirectly, invest in the Funds as Limited Partners and accordingly, the Principals and officers of the Firm have material financial interests in the investment decisions that they make for the Funds. We believe that these financial interests align the interests of the Principals and officers of the Firm with the interests of the other Investors in the particular Fund. The potential conflicts of interests between the General Partner of each Fund and the Investors attributable to the Carried Interests is described in Item 6 of this Brochure.

A copy of the Code is available to current and prospective Investors upon request made to the Firm's Chief Compliance Officer.

## **Item 12. Brokerage Practices**

The Firm invests in real estate and real estate related investments. These investments are typically acquired directly from owners and may involve the services of a real estate broker. The seller, as opposed to the buyer, of a real estate investment typically pays the brokerage commission on the transaction.



## Item 13. Review of Accounts

Investor accounts are reviewed quarterly. The Firm keeps Fund books on the accrual basis of accounting for tax purposes, on a GAAP (fair value) basis for reporting purposes, and the cash basis for determining distributions to investors. Reporting is customized based on the needs of each client. The following is a summary of the various reports sent to Investors along with the frequency of reporting.

*Quarterly Financial and Investor Statements.* Within 45 days after the end of each calendar quarter, the General Partner uses its commercially reasonable efforts to provide the Investors with a quarterly investor statement that summarizes the account activity that occurred in the preceding calendar quarters. This statement shows the current value of the Investor's account based on fair values attributed to Fund investments and also reflects all cash flows into and from Investor accounts. In addition, the General Partner provides an unaudited financial statement containing: (i) a balance sheet, statements of operations, cash flows and Investors' equity, in conformance with GAAP (fair value); (ii) a statement of reimbursed amounts and fees paid to the Firm or its affiliates; and (iii) a valuation of the real estate and real estate related assets of each Fund.

*Annual Reporting.* Within 120 days after the end of each calendar year, the General Partner uses its commercially reasonable efforts to provide the Investors a report containing: (i) a balance sheet, statements of operations, cash flows and Investors' equity, in conformance with GAAP (fair value) and accompanied by an auditor's report; (ii) a reasonably detailed statement of transactions that have closed since the most recent report; (iii) a statement of reimbursed amounts and fees paid to the Firm or its affiliates; and (iv) a valuation of the real estate and real estate related assets of each Fund that have been owned, directly or indirectly, by the Fund.

## Item 14. Client Referrals and Other Compensation

The Firm does not compensate any individual or organization for client referrals. The Firm also has not utilized a third-party placement agent or broker dealer to solicit equity commitments from new investors. To the extent that the Firm retains the services of a third-party placement agent or broker dealer when soliciting equity commitments from new investors in the future, such use will be in accordance with SEC rules and regulations and any related finder's fees or placement agent fees shall be paid by the Firm or General Partner, and not the Fund or Investor.

## Item 15. Custody

Given the nature of the Firm's investment activity in acquiring and managing real estate and real estate related investments, the Firm does not use a third-party custodian for client assets. The General Partner, and thereby the Firm, has custody of the applicable Fund bank accounts. Bank accounts have controlled access limited to authorized signors.



The Firm provides Investor statements and Fund updates on a quarterly basis which disclose individual Investor account activity, investment returns and detailed information regarding Fund investment activity.

Investors also receive audited financial statements that comply with U.S. generally accepted accounting principles (fair value basis) within 120 days following the Fund's fiscal year end.

The Firm urges Investors to carefully review the audited financial statements.

## **Item 16. Investment Discretion**

As noted above, the Firm invests Fund capital on a discretionary basis.

The Firm, in conjunction with the general partner of each Fund, has full investment discretionary authority to manage such Fund and therefore does not require, and does not seek, approval from the Fund or the investors in the Fund with respect to buy or sell investment decisions of interests in Fund on behalf of these investors. There are no Funds which are sub-advised by either affiliated or non-affiliated investment managers. Each Fund's investment strategy is set forth in detail in its respective PPM and/or governing documents. Individual investors in the Funds do not have the ability to impose limitations on the Firm's discretionary authority (except as set forth in the Funds' governing documents). Prospective investors are provided with a PPM and/or applicable Fund governing documents prior to their investment in a Fund and are encouraged to carefully review all offering materials and to be sure that the proposed investment is consistent with their investment goals and tolerance for risk. When applicable, prospective investors must also execute a subscription agreement, in which they make various representations, including representations regarding their suitability to invest in a Fund.

## **Item 17. Voting Client Securities**

The General Partners of the Funds will vote proxies in accordance with policies and procedures which are designed to ensure compliance with Rule 206(4)-6 of the Investment Advisers Act. In this regard, proxies will be voted on behalf of a Fund based on a determination of the best interest of a Fund, consistent with the objective of maximizing long term investment returns for the Investors. Where a Fund has made an investment in equity interests or debt instruments secured by mortgages on properties with a view towards acquiring the underlying properties, we will vote proxies to facilitate such transaction taking into account the investment goals and objectives of a Fund. No Investor may direct the voting of proxies on any particular matter. Investors may obtain information on how proxies have been voted upon written request addressed to us at our office. Copies of our Proxy Voting Policy are available upon request.

## **Item 18. Financial Information**

We are not aware of any financial condition of Marcus Partners, Inc. that impairs our ability to meet contractual and fiduciary commitments to the Funds or their Investors.



## Appendix A: Summary of Fund Management Fees

The following is a summary of the management fees of Fund II, Fund III and Fund IV:

Breakpoint	Management Fee
<25% Capital Commitments invested	1.00% of aggregate Capital Commitments
25% to 50% Capital Commitments invested	1.25% of aggregate Capital Commitments
>50% Capital Commitments invested	1.50% of aggregate Capital Commitments
Subsequent to completion of the Fund Investment Period	1.50% of Invested Capital (plus, for Fund II only, undrawn Capital Commitments that are committed to investment as of the end of the Investment Period) subject to a minimum fee of \$50,000 per year through final liquidation and dissolution of Fund II, Fund III and Fund IV

Fund II, Fund III and Fund IV notes:

- 1) The provisions in the side letters of certain major investors in Fund II, Fund III and Fund IV include variations to the management fee structure outlined above.
- 2) For Fund II only, during the final year of the Investment Period, the fee on uncommitted capital was reduced to 75 bps.

The following is a summary of the Carried Interests of the General Partners of Fund II, Fund III and Fund IV:

Recipient	Funds II, III and IV
N/A	No carried interest payments until Investors receive Distributable Cash Flow equal to (i) an 8% per annum return on invested capital, and (ii) a return of invested capital.
General Partner	50% of Distributable Cash Flow remaining after the payment to Investors of (i) an 8% per annum return on invested capital, and (ii) a return of invested capital, and continuing until the General Partner receives 20% of distributions to Investors in excess of returns of invested capital.

General Partner	Thereafter, 20% of remaining Distributable Cash Flow.
General Partner	Carried Interest Tax Distributions may be made to the General Partner if and to the extent the combined federal and Massachusetts tax liability on the Carried Interest is less than the Carried Interest Distributions made to the General Partner. Carried Interest Tax Distributions will be non-repayable advances against future Carried Interest Distributions.

The provisions in the side letters of certain major investors in Fund II, Fund III, and Fund IV include variations to the Carried Interest Distribution structure outlined above.