

FAIRBRIDGE ASSET MANAGEMENT LLC

Form ADV, Part 2A BROCHURE



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This brochure provides information about the qualifications and business practices of our firm, Fairbridge Asset Management LLC (“Fairbridge”). If you have any questions about the contents of this brochure, please contact us at 475-259-0089 or Brian@FairbridgeLLC.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about Fairbridge also is available on the SEC’s website at www.Fairbridgeinfo.sec.gov.

Registration with the SEC or with any state authority does not imply any level of skill or training.

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Item 2 - Material Changes

The following material changes have been made since our last annual amendment dated March 31, 2023:

- Updated **Item 4 – Advisory Business** to reflect current regulatory assets under management.

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Item 4 - Advisory Business

FIRM DESCRIPTION

Fairbridge Asset Management LLC ("Fairbridge") was formed in Delaware in 2018 and is a registered investment adviser with the SEC under Section 203 of the Investment Advisers Act of 1940, as amended (the "Advisers Act"). The firm's principal owners are Brian Walter, John Lettera and Steven Wissak.

SERVICES PROVIDED

Fairbridge provides advisory services on a discretionary basis to its clients, which are certain pooled investment vehicles (each, a "Fund" and collectively, the "Funds"). Fairbridge is an asset-based lender that originates and manages a pool of short-term bridge loans, generally secured by a lien on real estate assets.

Fairbridge's investment advisory services to the Funds are principally focused on originating short term loans, typically between six months and three years, secured by a lien on real estate collateral. The loan-to-value ratio of these loans is typically targeted to be 40%-70% and the underlying interest rates have typically been 10%-13%. The collateral securing the loans is generally multi-family assets (or 1-4 tenant residential buildings). However, Fairbridge may also originate loans secured by other assets including, but not limited to, land, industrial, retail, hospitality, office, and healthcare. Fairbridge manages a portfolio of real estate loans and does not tailor the portfolio to meet the needs of any individual client.

Fairbridge provides advice to its Funds based on the specific investment objectives and strategies of the Funds. Fairbridge does not tailor advisory services to the individual needs of an investor in the Funds. Funds may impose guidelines and limitations on investing in certain securities or certain types of securities. A description of the services provided by Fairbridge to the Funds, as well as the fees, investment guidelines, and other relevant terms are set forth in the organizational documents, investment management agreements, offering materials, or other related documents (collectively, "Governing Documents") of each Fund.

Fairbridge is not permitted to assign (within the meaning of the Advisers Act) a management agreement without consent from the applicable Fund. Termination of an advisory relationship is subject to the applicable Governing Documents. In some cases, the Funds or Fairbridge could be permitted to terminate the corresponding management agreement at-will with advance written notice. Fees will be charged through the date service is terminated.

As of December 31, 2023, Fairbridge had approximately \$348,627,964 in regulatory assets under management, all of which is managed on a discretionary basis.

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Item 5 - Fees and Compensation

FEE SCHEDULE

All fees are subject to negotiation based on several factors including, but not limited to, investment size.

In general, Fairbridge receives a management fee based on either net asset value ("NAV") and a portion of all originations, extension and exit fees received from borrowers. In addition, Fairbridge deducts management and performance fees from clients' assets. NAV statements are distributed (typically monthly) showing these deductions.

The management fee is payable to Fairbridge by the Funds as compensation for the activities conducted by Fairbridge.

Fairbridge receives fees in connection with the origination or acquisition of loans or other assets or the holding of a loan or asset, including origination fees, unused facility fees, prepayment premiums, amendment fees, extension fees, exit fees, late fees and other similar fees, payments or compensation. Origination and extension fees are the most common fees received with origination fees generally in the 1%-3% range and extension fees generally in the 0.5%-1.5% range for a six-month extension. Generally, origination, extension, and exit fees are shared between Fairbridge and the Funds. However, this is not always the case with every Fund. In addition, Fairbridge may generate fees in respect of loans when it is the lead arranger of such loans, which may include structuring and/or underwriting and arrangement fees from loan syndication activities, administrative loan agency fees, and investment advisory fees. Such fees will be retained by Fairbridge and will not offset the fees paid by, or otherwise shared with, the Funds.

In addition to the management fee, Fairbridge will incur out-of-pocket costs and expenses including (i) ongoing offering expenses, administrative and extraordinary expenses and legal, tax, audit, escrow, fund accounting, marketing and printing expenses; (ii) interest expenses on any borrowings it may make; (iii) fees in connection with the custody of assets, and (vii) extraordinary expenses, including expenses relating to litigation, proceedings or examinations by or involving the Internal Revenue Service or other governmental bodies or self-regulatory organizations.

Fairbridge's fees are exclusive of expenses including, organizational costs, accountant related costs for tax return preparation, financial statement preparation, and/or audits, legal fees and costs, filing, licensing, or other governmental fees, other third-party audits, loan servicing fees, administration costs, capital acquisition fees and costs (including payment to duly licensed third parties who are contracted by Fairbridge or its affiliates to raise capital, loan origination and/or other fees associated with any credit facilities, costs associated with ownership of real property, e.g., property improvement and rehabilitation costs not

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otherwise capitalized, sales commissions, property taxes, property management, hazard insurance, utilities, and any other expenses associated with operation of Fairbridge or its assets.

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

Arrangements for performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a Fund), if any, are negotiated with each Fund on an individualized basis and will in all cases be in compliance with Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

Generally, the payment of performance-based compensation for a Fund will be subject to a specified “hurdle” rate or preferred return. When measuring a Fund’s assets for the calculation of performance-based fees, Fairbridge may include realized and unrealized capital gains and losses. Performance-based fee arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee-paying accounts over other accounts in the allocation of investment opportunities and an incentive to favor accounts based on differential pecuniary interests.

Performance-based fees are calculated after deducting management fees and fund expenses.

Fairbridge can grant certain preferential terms to certain investors in the Funds, including a waiver or reduction of management fees or other performance-based fees or a blended management fee, lower than those generally applicable to investors in the Funds.

Fairbridge seeks to treat all clients in a fair and equitable manner and in the best interests of the Funds. Accordingly, Fairbridge has various procedures designed and implemented to ensure that the clients are treated fairly and in accordance with our fiduciary obligations.

Item 7 - Types of Clients

Fairbridge provides discretionary investment advice to the Funds. Any initial and additional subscription minimums are disclosed in the applicable Governing Documents for such pooled investment vehicle. Fairbridge can waive such minimums for an investor at its discretion. The minimum size for non-pooled investment vehicles is determined by Fairbridge on a case-by-case basis.

Interests in the Funds are not registered under the Securities Act of 1933, as amended (the “Securities Act”), and such Funds are not registered under the Investment Company Act of 1940, as amended. Accordingly, interests in the Funds are offered and sold exclusively to

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investors satisfying the applicable eligibility and suitability requirements, as set forth in such Fund's Governing Documents. Generally, investors participating in the Funds are required to meet certain suitability and net worth qualifications, such as being an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act and/or "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "Investment Company Act"). Also, investors of the Funds will be required to make certain representations when investing, including, but not limited to, that (i) they are acquiring an interest for their own account, (ii) they received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment and that (iii) they have the ability to bear the economic risk of an investment.

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

INVESTMENT STRATEGIES; METHODS OF ANALYSIS

Fairbridge generates income by originating, managing and holding for investment real estate mortgage loans secured by real property. Fairbridge favors a strategy weighted toward targeting debt investments below the radar of institutional-sized investors with significant potential value creation. Fairbridge also purchases and holds for investment participations in existing mortgage loans originated by others and sell participations in real estate mortgage loans originated. Fairbridge's focus is to originate superior risk-adjusted returns primarily through originating and investing in a diversified portfolio of short-term, secured commercial real estate loans ("Mortgage Loans") secured by improved real property with terms typically ranging from six to twenty-four months. The Mortgage Loans are typically made to experienced real estate investors in order to finance the investor's purchase and often repair or rehabilitation of the mortgaged property in contemplation of a sale or a conversion of the related mortgaged property to a rental unit. In order to finance such repairs or rehabilitation projects the Mortgage Loans often require the mortgagee to fund additional amounts once the mortgagor achieves certain predetermined milestones in the repair or rehabilitation of the mortgaged property.

Fairbridge actively pursues lending opportunities with property owners who need short-term interim financing until permanent financing can be obtained or the property is sold.

Fairbridge utilizes various investment methods to analyze lending opportunities. One such method is loan-to-value ("LTV"), which is often used to determine the risk of a loan. The smaller the LTV, the more real estate asset value there is covering the loan principal. Value is determined by (1) looking at comparable collateral values experienced through existing sales data, (2) a third-party appraisal and/or (3) cap rates. Cap rates are a common valuation tool used in real estate. The net operating income ("NOI") of the property is divided by the cap rate to estimate the value of the property.

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LTV is only one measure of analysis and is highly dependent on the valuation method used to determine the “V” of LTV. Using comparable metrics can be helpful; however, two properties are rarely alike and property conditions can sometimes be challenging to provide accurate comparisons. Cap rates can also vary by property type and region and are related to the current level of interest rates. A volatile interest rate environment can make determining current cap rates more challenging.

In addition, determining the NOI can also present a challenge. Certain developers have more infrastructure and density of ownership and can manage a property for less than a single-asset property owner, leading to varying NOI margins across borrowers.

Predicting the level of lease/rental rates to determine NOI can also change as supply and demand vary. The cost approach relies on the cost to build a project including labor and raw materials. These can sometimes be difficult to predict and cost overruns can occur due to many factors. Fairbridge uses third-party appraisals to perform valuations; however, it is important to note that appraised values can differ from one appraiser to the next.

RISK OF LOSS

Investing involves a risk of loss that investors in one or more Funds should be prepared to bear. Identifying investment opportunities and managing those investments can be difficult. There can be no assurance that any client account managed by Fairbridge will be able to make or realize any particular investment or generate returns. Please refer to the Governing Documents for the applicable Fund for more complete and detailed information regarding its investment strategies and methods of analysis, and the corresponding risks associated with those investment strategies and analysis. These risks typically include the following:

General Risks. The investments of the Funds will be subject to the risks generally incident to the investments in, ownership of, and operation of real estate, including: uncertainty of cash flow to meet fixed and other obligations; adverse changes in local market conditions, population trends, neighborhood values, community conditions, general economic conditions, local employment conditions, interest rates, and real estate tax rates; condemnation; changes in fiscal policies; and uninsured losses and other risks that are beyond the control of Fairbridge, the Funds and their respective affiliates.

High-Risk Investments. All investments in real estate and real estate-related opportunities involve a degree of risk that the entire investment may be lost. There can be no assurance that the Funds will be able to identify investments on terms satisfactory to the Fund or that any investments will produce a positive return or will not result in losses. No assurance can be given that the Funds’ investment programs will be successful.

Risks Related to Mortgage Loans. The Mortgage Loans often do not meet agency standard underwriting guidelines. Following the financial crisis, nearly all mortgage loans originated

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in the U.S. residential mortgage market have been underwritten to the standards of GSEs or to qualify for U.S. government insurance through the USDA, FHA or VA and other originations. Banks, mortgage companies, credit unions and others have reduced lending to mortgagors, whose loans would not qualify for (i) sale to the GSEs, (ii) insurance or guaranty by the USDA, FHA or VA or (iii) sales to investors in prime jumbo loan originations, which has left a large segment of the U.S. population with limited access to mortgage credit. The Mortgage Loans were originated to mortgagors who do not generally qualify for traditional agency, government or private label non-agency jumbo products due to a number of factors, including but not limited to, loan size, lower credit scores and the business entity nature of the borrower. Originating loans to mortgagors that do not generally qualify for traditional agency, government or private label jumbo products that do not meet the requirements of Fannie Mae or Freddie Mac may increase the risks associated with such loans.

Risks Related to The Nature of The Mortgage Loans. The Mortgage Loans typically consist of performing, fixed-rate, interest-only, non-owner-occupied mortgage loans to experienced real estate investors, secured by first liens on a variety of properties typically with original terms to maturity of 6 - 24 months. As such, these Mortgage Loans contain risks that are not present in typical mortgage loans. These risks include:

- the Mortgage Loans are short-term interest-only loans, with the full amount of principal due at maturity, and the mortgagors generally rely on the sale or refinancing of the related mortgaged properties to generate the funds necessary to repay the balloon payment due at maturity;
- the Mortgage Loans are secured by non-owner-occupied mortgaged properties;
- the Mortgage Loans often require construction repairs or rehabilitation projects, and the mortgaged properties are often in a general state of disrepair, and construction delays can cause risks associated with an investment in the notes;
- multiple Mortgage Loans may have been made to the same mortgagor;
- the ability of a mortgagor to repay a Mortgage Loan may be based largely on the ability to sell the related mortgaged property or to convert the property to a rental property and the ability to refinance the Mortgage Loan into a longer-term loan;
- the Mortgage Loans may have had their maturity dates extended if the mortgagor is unable to make the required balloon principal payment;

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- the Mortgage Loans may have longer than expected liquidation timelines upon the occurrence of an event of default; and
- the mortgagors may be thinly capitalized.

These unique risks may lead to an increased risk of loss if losses on the Mortgage Loans are greater than anticipated, especially if the real estate market in the relevant jurisdiction declines or if mortgagors are unable to sell their mortgaged properties for any other reason in an amount sufficient to pay the principal balances of the Mortgage Loans.

Balloon Payment Mortgage Loans Increase Risk of Loss. The majority of the Mortgage Loans are Mortgage Loans that require ‘interest-only’ payments during the term of the Mortgage Loan. The entire original principal amount of each Mortgage Loan is due and payable on the respective scheduled maturity date and thus will require substantial principal payments (each, a “Balloon Payment”) at its slated maturity. Balloon Payment Mortgage Loans involve a greater degree of risk because the ability of a borrower to make a Balloon Payment typically will depend upon its ability either to timely refinance the Balloon Mortgage Loan or to timely sell or rent the related mortgaged property. The ability of a borrower to accomplish either of these goals will be affected by a number of factors, including the value of the related mortgaged property, the level of available mortgage rates at the time of sale or refinancing, the borrower’s equity in the related mortgaged property, the financial condition of the borrower, laws affecting the mortgaged property and the borrower and prevailing local, regional and national economic conditions.

Mortgagor Bankruptcy Considerations. A mortgagor may file for relief under the United States Bankruptcy Code at any time. In addition, mortgagors under other Mortgage Loans may file for relief under the United States Bankruptcy Code at any time. Virtually all actions by creditors against a mortgagor, including foreclosure actions, are stayed upon the filing of a bankruptcy petition. Frequently, no payments of interest or principal are made on a mortgage loan during the mortgagor’s bankruptcy case. In addition, a bankruptcy court may modify the payment terms of such Mortgage Loan. These and other aspects of bankruptcy proceedings could delay payments, reduce the yields, or, under certain loss scenarios, cause principal and interest received on the Mortgage Loans to be insufficient to pay the notes all principal and interest to which they are entitled.

The Rate of Default on Mortgage Loans that Are Secured by Investment Properties May Be Higher Than Other Mortgage Loans. All of the Mortgage Loans are secured by mortgaged properties that are investor properties. The mortgagors are business entities. An investor property is a property which, at the time of origination, the mortgagor represented would not be used as the mortgagor’s primary residence. Because the mortgagor is not living on the property, the mortgagor may be more likely to default on the mortgage loan than on a comparable mortgage loan secured by a primary residence. In addition, income expected

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to be generated from an investor property may have been considered for underwriting purposes in addition to the income of the mortgagor from other sources. Should this income not materialize or later disappear, it is possible the mortgagor would not have sufficient resources to make payments on the mortgage loan.

Potential Loss of Investment. Although Fairbridge seeks to lessen risk by diversifying the Fund's investments among a variety of Mortgage Loans, an investor nevertheless could lose all or a substantial portion of its investment in the Fund. There can be no assurance that the Fund as a whole will achieve its objectives.

Real Estate Risk. Our commercial real estate loans and other real estate-related assets will generally be directly or indirectly secured by a lien on real property that, upon the occurrence of a default on the loan, could result in our acquiring ownership of the property. We will not know whether the values of the properties ultimately securing our loans will remain at the levels existing on the dates of origination of those loans. If the values of the mortgaged properties drop, our risk will increase because of the lower value of the security associated with such loans. In this manner, real estate values could impact the values of our loan investments. Our investments in commercial real estate-related debt securities may be similarly affected by real estate property values. Therefore, our investments will be subject to the risks typically associated with real estate.

The value of each property is affected significantly by its ability to generate cash flow and net income, which in turn depends on the amount of rental or other income that can be generated net of expenses required to be incurred with respect to the property. Many expenditures associated with properties (such as operating expenses and capital expenditures) cannot be reduced when there is a reduction in income from the properties. These factors may have a material adverse effect on the ability of our borrowers to pay their loans, as well as on the value that we can realize from assets we originate, own or acquire.

Changes in Capital Markets and the Economy Generally May Materially and Adversely Affect Operations. Each investment is materially affected by conditions in the global capital markets and the economy generally. Concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices, wavering business and consumer confidence and sustained unemployment, have resulted in an unstable economy. All of these factors have contributed to increased likelihood of borrower default. In addition, small businesses borrowing at higher than-average interest rates may be particularly susceptible to such factors.

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Recent Congressional Budget Office projections show slower average GDP growth over the next ten years compared to the last ten years. Slower GDP growth will inevitably result in lower levels of real estate market activity.

A prolonged economic slowdown, a lengthy or severe recession or declining real estate values could harm our operations. Many of our investments are susceptible to economic slowdowns or recessions, which could lead to financial losses in our investments and a decrease in revenues, net income and assets. An economic slowdown or recession, in addition to other non-economic factors such as an excess supply of capital, could have a material negative impact on the values of both commercial real estate and residential real estate properties. Declining real estate values will likely reduce our level of new mortgage loan originations, since borrowers often use increases in the value of their existing properties to support the purchase or investment in additional properties. Borrowers may also be less able to pay principal and interest on our loans if the real estate economy weakens. Further, declining real estate values significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans in our portfolio as well as our ability to originate, sell and securitize loans, which would significantly harm our revenues, results of operations, financial condition, business prospects and our ability to make distributions to you.

The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations, cash flows and financial condition. The COVID-19 pandemic has caused, and may continue to cause, severe economic, market and other disruptions worldwide. We cannot assure you that conditions in the bank lending, capital and other financial markets will not deteriorate as a result of a resurgence of the pandemic, or that our access to capital and other sources of funding will not become constrained, which could adversely affect the availability and terms of future borrowings, renewals or refinancings. In addition, the deterioration of global economic conditions as a result of the pandemic may ultimately decrease occupancy levels and pricing across our portfolio and may cause one or more of our borrowers to be unable to meet their payment obligations to us in full, or at all, or to otherwise seek modifications of such obligations. In addition, governmental authorities may enact laws that will prevent us from taking action against borrowers who do not meet their payment obligations.

The extent of the COVID-19 pandemic's effect on our operational and financial performance will depend on future developments, including the duration, spread and intensity of the outbreak, all of which are uncertain and difficult to predict. Due to the speed with which the situation is developing, we are not able at this time to estimate the effect of these factors on our business, but the adverse impact on our business, results of operations, financial condition and cash flows could be material.

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Defaults on Loans by Borrowers Would Result in a Decrease in Income. The Funds originate uninsured and non-investment grade mortgage loans. While holding such mortgage loans, the Funds are subject to risks of borrower defaults and bankruptcies. Loan defaults would result in a decrease in interest income and a possible write down of the principal value of our loan portfolio. The decrease in interest income resulting from loan defaults may continue for a prolonged period as we seek to recover the principal balance, accrued interest, and default interest due to us, and due to our costs in legal proceedings, including foreclosure actions and bankruptcy and reorganization proceedings. Such legal proceedings could be expensive and time consuming. The decrease in interest income and the costs involved in seeking to recover the amount due to us would reduce the amount of cash available to meet our expenses, and could also have an adverse impact on the cash distributions and our ability to pay cash expenses.

Non-Payment Risk. Debt securities are subject to the risk of non-payment of scheduled interest and/or principal. Nonpayment would result in a reduction of income to the Funds, a reduction in the value of the security experiencing nonpayment and a potential decrease in the NAV of the Funds. There can be no assurance that the liquidation of any collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments, or that such collateral could be readily liquidated.

Changes in interest rates and/or credit spreads could negatively affect the value of any debt investments we may make, which could result in reduced earnings or losses and negatively affect the cash available for distribution to our shareholders. We may invest in fixed-rate debt investments with fixed distribution amounts. Under a normal yield curve, an investment in these instruments will decline in value if long-term interest rates increase or if credit spreads widen. We may also invest in floating-rate debt investments, for which decreases in interest rates or narrowing of credit spreads will have a negative effect on value and interest income. Even though a loan or other debt investment may be performing in accordance with its loan agreement and the underlying collateral has not changed, the economic value of the loan may be negatively impacted by the incremental interest foregone from the changes in interest rates or credit spreads. Declines in market value may ultimately reduce earnings or result in losses to us, which may negatively affect cash available for distribution to our shareholders.

Prepayments can adversely affect the yields on any debt investments we may make. Prepayments on debt instruments, where permitted under the debt documents, are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond our control, and consequently, such prepayment rates cannot be predicted with certainty. If we are unable to invest the proceeds of such prepayments received, the yield on our portfolio will decline. In addition, we may acquire assets at a discount or premium and if the asset does not repay when expected, our anticipated yield

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may be impacted. Under certain interest rate and prepayment scenarios we may fail to recoup fully our cost of acquisition of certain investments.

Inability of our borrowers to refinance or sell the underlying real property would lead to defaults on our loans. A majority of our mortgage portfolio is expected to be short term, and a significant component of our portfolio will most likely be due within one year. In addition, our borrowers are required to pay all or substantially all of the principal balance of our loans at maturity, in most cases with little or no amortization of principal over the term of the loan. In order to satisfy this obligation, at the maturity of a loan, a borrower will be required to refinance or sell the property or otherwise raise a substantial amount of cash. The ability to refinance or sell or otherwise raise a substantial amount of cash may be dependent upon factors that neither we nor our borrowers' control, such as business and economic conditions, government economic policies, and the level and volatility of interest rates. If a borrower is unable to pay the balance due at maturity, and we are not willing to extend or restructure the loan, we will in most cases be required to foreclose on the property, which can be expensive and time consuming and could adversely affect our loan portfolio and our ability to distribute cash.

We face strong competition for loans. The Funds engage in a business that may become increasingly competitive in the future as more firms enter the market, which may adversely affect the Funds' ability to achieve its investment objectives. The Funds will compete with equity REITs, investment banking firms, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, other opportunistic real estate funds sponsored by the foregoing entities, private investment funds and other lenders and other entities purchasing similar assets. At times we expect to compete based on yield, which may reduce returns on our loan portfolio. The Funds also compete by offering a rapid response time in terms of approval and closing. While the Funds' real estate lending expertise enables us to understand and structure complex loan transactions, many of our competitors have substantially greater assets than we expect to have and therefore have the ability to make larger loans. An increase in funds available to lenders, or a decrease in borrowing activity, may increase competition for making loans and may result in the loan opportunities available to us bearing higher risk or lower yields. In addition, we gain a competitive advantage by being able to underwrite and close loans within a short time frame.

We face risks relating to fluctuations in the real property markets. The Funds are subject to the general risks of the real estate market. These include adverse changes in general and local economic conditions, demographics, housing and retailing trends and traffic patterns, competitive overbuilding, casualty losses, and other factors beyond our control. The value of the collateral underlying our loans may also be negatively affected by factors such as the cost of complying with regulations and liability under applicable environmental laws, interest rate changes and the availability of financing. Income from a commercial or

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multifamily residential property would also be adversely affected if a substantial number of tenants are unable to pay rent, if tenants terminate or cancel leases, or if available space cannot be rented on favorable terms. Operating and other expenses of properties, particularly significant expenses such as real estate taxes, maintenance costs and casualty and liability insurance costs, generally do not decrease when income decreases. Even if revenues increase, operating and other expenses may increase faster than revenues.

Illiquid and Less Marketable Properties. Real estate-based investments are relatively illiquid, resulting in a limited ability to sell assets in response to changes in economic and other conditions. Less marketable or illiquid assets may be more difficult to value due to the unavailability of reliable market quotations. The sale of less marketable assets may require more time and result in lower prices, due to higher brokerage charges or dealer discounts and other selling expenses, than the sale of more marketable assets. In addition, the marketability and the financial viability of the Funds' portfolio projects will be dependent on numerous other factors, including interest rates, competition from other lenders and originators and general economic conditions.

Insurance. Certain losses of a catastrophic nature, such as wars, earthquakes, hurricanes, floods, terrorist attacks, or other similar events, as well as losses related to mold damage, may be either uninsurable or, insurable at such high rates that to maintain such coverage would cause an adverse impact on the underlying investment property. There can be no assurances that particular risks which are currently insurable will continue to be insurable on an economical basis or that current levels of coverage will continue to be available on an economical basis. In general, losses related to terrorism and mold damage are becoming harder and more expensive to cover with insurance. Most insurers are excluding terrorism coverage from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts and mold damage for additional premiums which can greatly increase the total costs of causality insurance for a property. As a result, the underlying real property, in which the Funds will be invested, might not be insured against terrorism or mold damage. If a major uninsured loss occurs, the Funds could lose both invested capital in and anticipated interest payments derived from the affected property.

Foreclosure Risk. Foreclosure is a legal procedure that allows the mortgagee to recover its mortgage debt by enforcing its rights and available legal remedies under the mortgage. If the mortgagor defaults in payment or performance of its obligations under the note or mortgage, the mortgagee has the right to institute foreclosure proceedings to sell the mortgaged property at public auction to satisfy the indebtedness.

Foreclosure of a mortgage loan can be an expensive and lengthy process that could have a substantial negative effect on the anticipated return on the foreclosed mortgage loan. Further, statutory rights to redemption and the effects of anti-deficiency and other laws

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may limit the ability for the Funds to timely recover the value of its loan in the event that a borrower defaults on a loan.

Litigation at the Property Level. The acquisition, ownership and disposition of real properties carry certain specific litigation risks. Litigation may be commenced with respect to a property acquired by the underlying investment entity in relation to activities that took place prior to the Funds' (indirect) investment in such property.

Unknown or Contingent Liabilities or Conditions. Through foreclosure, the Funds may acquire properties or entities that are subject to liabilities or that have problems relating to the physical condition of the property, including toxic mold or latent physical defects. In each case, the Funds' loan may be without recourse, or with only limited recourse, with respect to unknown liabilities or conditions. As a result, the Funds might be required to incur substantial expenses to defend or settle any action against the Funds with respect to such unknown liabilities or to remedy such physical conditions. The incurrence of such expenses could have a material adverse effect on the Funds financial condition, results of operations, cash flow and ability to make distributions to investors.

Possible Environmental Liability. Under various federal, state and local laws and regulations, an owner or operator of real estate may be held liable for the costs of removal or remediation of hazardous or toxic substances located on or in the property. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The costs of any required remediation or removal of such substances may be substantial. In addition, the Funds' liability as to any property is generally not limited under such laws and regulations and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to remediate such substances properly, may also adversely affect the owner's ability to sell or lease the property or to borrow using the property as collateral. Under such laws and regulations, an owner or entity who arranges for the disposal or treatment of hazardous or toxic substances at a disposal or treatment facility may also be liable for the costs of removal or remediation of all such substances at such facility, whether or not such facility is owned or operated by such person. Certain tenants of the Funds' REO properties may handle and store hazardous substances at such properties. As a result, in connection with the ownership of such properties or the disposal or treatment of such hazardous or toxic substances, the Funds may be liable for such costs. The Funds also may be liable for environmental contamination of properties that are sold or for the release of hazardous or toxic substances from such properties. Some laws and regulations impose liability for the release of certain materials into the air or water from a property, including asbestos, and such release can form the basis for liability to third persons for personal injury or other damages. Other laws and regulations can limit the development of and impose liability for the disturbance of wetlands or the habitats of threatened or endangered species.

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Default Risks Associated with Distressed Mortgage Loans. The Funds may purchase nonperforming and sub-performing mortgage loans, as well as mortgage loans that have had a history of delinquencies. These mortgage loans may presently be in default or may have a greater than normal risk of future defaults and delinquencies, as compared to a pool of newly originated, high-quality loans of comparable type, size and geographic concentration. Returns on an investment of this type depend on the borrower's ability to make required payments or, in the event of default, the ability to foreclose on and liquidate the mortgage loan or the security underlying the loan. Foreclosure and liquidation, particularly in a bankruptcy proceeding, may be time consuming and expensive. There can be no assurance that a defaulted mortgage loan can be liquidated successfully or in a timely fashion.

Risks of Leverage. The Funds may incur leverage in implementing its investment strategy. Certain fluctuations in the value of the Funds' assets may cause a default on debt limitation or other covenants in the Funds' credit agreements. Indebtedness may be incurred to fund REO acquisitions, development or capital improvements, restructure existing debt, or enhance returns. There can be no assurances that the Funds, upon the incurrence of debt, will be able to meet its debt service obligations. To the extent that it cannot, the Funds risk the loss of some or all of its assets to foreclosure. Adverse economic conditions could result in higher interest rates which could increase debt service requirements on floating rate debt and could reduce the amounts available for distribution to investors. In addition, the Funds may incur yield maintenance penalties or costs if it borrows or assumes fixed rate debt subject to such conditions. Adverse economic conditions could cause the terms on which borrowings become available to be unfavorable. In such circumstances, if the Funds are in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments at times which may not permit realization of the maximum return on such investments. In addition, to the extent that the Funds obtain a credit facility that is secured by the investors' funding obligations, under certain circumstances, the investors could be required to contribute capital to the Funds to enable it to meet its obligations under such credit facility. The terms of the Funds' credit agreements and other indebtedness are expected to require that the Funds be compliant with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage. These covenants may limit flexibility in the Funds' operations, and its failure to comply with these covenants could cause a default under the applicable debt agreement even if it has satisfied its payment obligations. Foreclosure on the Funds' assets could adversely impact the Funds' financial condition, results of operations, cash flow and ability to make distributions to investors. In addition, the Funds' credit agreements may contain certain cross-default provisions, which would be triggered in the event that its other material indebtedness is in default. These cross-default provisions could require the Funds to repay or restructure indebtedness

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under such credit agreements in addition to any mortgage or other debt that is in default, which could adversely affect the Funds' financial condition, results of operations, cash flow and ability to make distributions to investors.

The Funds may repay only a small portion of the principal of its debt prior to maturity. Accordingly, the Funds may need to refinance at least a portion of its outstanding debt as it matures. As the Funds' debt matures, there will be a risk that the Funds may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of its existing debt. If the Funds are unable to refinance or extend principal payments due at maturity or pay them with proceeds of other capital transactions, then the Funds' cash flow may not be sufficient in all years to make distributions to investors and to repay all such maturing debt. Furthermore, if prevailing interest rates or other factors at the time of refinancing (such as the reluctance of lenders to make commercial real estate loans) result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase.

The portfolio borrowers in which a Fund will invest may be highly leveraged, thereby increasing the credit risk inherent in each investment. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs. In addition, this leverage could accelerate and magnify declines in the value of a Fund's investments in the leveraged portfolio borrowers in a down market. In the event any portfolio borrower cannot generate adequate cash flow to meet debt service, the Fund may suffer a partial or total loss of capital invested in the portfolio borrower, which could adversely affect the returns of a Fund. Furthermore, the companies in which a Fund will invest generally will not be rated by a credit rating agency.

A Fund may borrow funds to pay expenses, make or facilitate new investments or for other purposes. The use of borrowed funds created the opportunity for greater total returns, but at the same time involves certain risks. A Fund may not be successful without the use of significant leverage in its portfolio investments and leverage may be costly or unavailable. See "Liquidity" above. The inability of a client to obtain desired amounts of leverage may limit the Fund's overall investment exposure, thereby reducing total returns. Borrowed funds are subject to interest, transaction and other costs, which may not be recovered by portfolio returns and therefore decrease investment returns.

Original Loan-to-Value Ratios Are Calculated Based on Appraised Value or Sales Price, Which May Not Be an Accurate Reflection of Current Market Value. The original loan-to-value ratios that are disclosed in this Memorandum are determined based on (i) for properties owned less than 12 months, the lesser of (y) the "as is" value of the mortgaged property or (z) its purchase price plus documented repairs and improvements or, (ii) in the case of properties owned more than twelve months, the "after repair value". The appraisals or alternative

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valuation reports obtained in connection with the origination of the Mortgage Loans were intended to establish the amount a typically motivated buyer would pay a typically motivated seller at the time the appraisals were prepared. In determining the price, a “typically motivated” buyer would be willing to pay, appraisers examine comparable sales in a specified locality and adjust the price upward or downward based on the characteristics of the related property. An appraisal does not reflect the insurance replacement value of a particular property. The price a “typically motivated” buyer would be willing to pay is subject to the appraiser’s subjective analysis and opinion and could be significantly higher than the amount that would be obtained from the sale of a mortgaged property under a distressed or liquidation sale. In addition, appraisers may use substantially different methods to establish or estimate a buyer’s “typical motivations” with respect to an individual property.

Appraisals are opinions of the related appraisers and may not accurately reflect the value or condition of the mortgaged property, particularly during periods of volatility in the applicable real estate market (whether local, regional or national). In addition, property values may have declined since the time appraisals were obtained. Accordingly, the loan-to-value ratios that are disclosed in this Memorandum may be lower, in some cases significantly lower, than the applicable loan-to-value ratios that would be determined if current appraised values of the mortgaged properties were used to determine those ratios. Prospective investors should consider that if an appraisal overestimates the prices at which mortgaged properties are actually sold, the proceeds of the Mortgage Loans may be significantly less than anticipated by investors.

Credit Scores May Not Accurately Predict the Likelihood of Default. Fairbridge generally uses credit scores as part of its underwriting process. Credit scores are generated by models developed by third party credit reporting organizations which analyzed data on consumers in order to establish patterns which are believed to be indicative of a mortgagor’s probability of default. A credit score represents an opinion of the related credit reporting organization of a mortgagor’s creditworthiness. The credit score is based on a mortgagor’s historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit, and bankruptcy experience. Credit scores can range from approximately 300 to approximately 850, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. A credit score purports only to be a measurement of the relative degree of risk a mortgagor represents to a lender, i.e., that a mortgagor with a higher score is statistically expected to be less likely to default in payment than a mortgagor with a lower score. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of most mortgage loans. Credit scores do not necessarily correspond to the probability of default over the life of the related mortgage loan, because they reflect past credit history, rather than an assessment of future payment performance.

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Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general. Therefore, credit scores do not address particular mortgage loan characteristics that influence the probability of repayment by the mortgagor. Credit scores should not be considered as an accurate predictor of the likelihood of repayment of the Mortgage Loans.

Construction and Rehabilitation Loans Carry Particular Risks. Construction and rehabilitation loans involve a number of particular risks, involving, among other things, the timeliness of the project's completion, the integrity of appraisal values, whether or not the completed property can be sold for the amount anticipated, unanticipated extra construction costs, and the length of ultimate sale process. If construction work is not completed (due to contractor abandonment, unsatisfactory work performance, or various other factors) and all the borrower loan funds have already been expended, then in the event of a default the Funds may have to invest significant additional funds to complete the construction work. Any such investment would be recuperated by the Funds prior to the investors being paid back on the investment. If the value of an uncompleted property is materially less than the amount of the construction loan even if the work were completed, then upon a default, the Funds might need to invest additional funds in order to recoup all or a portion of the investment. Default risks also exist where it takes a borrower longer than anticipated either to construct or then resell the property, or if the borrower does not receive sufficient proceeds from the sale to repay the corresponding borrower loan in full.

The Mortgage Loans May Have Limited Recourse to the Related Mortgagor, Which May Result in Losses with Respect to These Mortgage Loans. Some or all of the Mortgage Loans will be loans for which recourse may be restricted or unenforceable. Even with respect to those Mortgage Loans that provide for recourse against a mortgagor or guarantor and their assets generally, there can be no assurance that enforcement of the recourse provisions will be practicable or permitted by applicable law, or that the other assets or the mortgagor or the guarantor will be sufficient to permit a recovery in respect of a defaulted Mortgage Loan in excess of the liquidation value of the related mortgaged property. In addition, in light of the current regulatory environment, Fairbridge has no obligation, and may be reluctant, to pursue deficiency judgments, even where permitted by applicable law. Any risks associated with Mortgage Loans with limited recourse may affect the yields to maturity to the extent losses caused by these risks are not covered by credit enhancement or covered by the repurchase, indemnification or substitution remedies with respect to breaches of representations and warranties.

Item 9 - Disciplinary Information

Not applicable. There are no current disciplinary actions involving Fairbridge or any members of management. In addition, in the last ten years, there have been no material disciplinary actions involving Fairbridge or any members of management.

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Item 10 - Other Financial Industry Activities and Affiliations

Related Persons

We have relationships with and will utilize, suggest or recommend our own services or those of entities which are related to us and are affiliates of Fairbridge in connection with our activities. The particular services involved will depend on the types of services offered by affiliates of Fairbridge. Certain of our trading, advisory and other activity for the Fund can be delegated to Fairbridge affiliates at our discretion. These arrangements will generally involve sharing or joint compensation related to each entity's responsibilities for the Fund, subject to the requirements of applicable law.

Business Relationship with Fairbridge Credit LLC

Fairbridge manages several investment vehicles. Fairbridge Credit LLC has a "first-look" at all loans originated by Fairbridge. If it chooses to allocate a loan to another vehicle, Fairbridge informs the applicable Fund's limited partner advisory committee ("LPAC"), describing the reason for allocating the loan to another vehicle. If the LPAC objects to the reason, a discussion for its reasoning will occur and a decision will be made, memorializing why the decision was made.

Fairbridge's personnel also provide services to Fairbridge Credit LLC, and Fairbridge's personnel, including finance, accounting, legal and other employees, may provide services to Fairbridge Credit LLC in relation to the Funds and their respective investments.

These arrangements create conflicts of interest, as discussed below and in the Governing Documents for the Funds, but this conflict of interest may also arise in ways not contemplated in this brochure or the applicable Governing Documents. In general, however, Fairbridge addresses conflicts of interest arising from this business relationship through the Allocation Policy applicable to a Fund or other account, the Governing Documents of the Funds and by adhering to the requirements of the Advisers Act and other applicable law.

Fairbridge has a fiduciary duty under the Advisers Act to act in the best interest of the Funds.

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

Fairbridge has adopted a Code of Ethics ("Code"), pursuant to SEC rule 204A-1, that describes the standards of business conduct that it requires of employees and establishes procedures intended to prevent Fairbridge, and its personnel and certain of their relatives, from inappropriately benefiting from Fairbridge's relationships with its Clients. The Code is reviewed at least annually. The Code provides that:

- The policies and procedures are based on general concepts of fiduciary duty to Clients;

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- Clients' interests come before Fairbridge's or its employees' interests;
- Each employee's professional activities and personal investment activities must be consistent with this Code and avoid any actual or potential conflict between the interests of Clients and those of Fairbridge or the employee;
- Employees must abide by the standards set forth in Rule 204A-1 (the "code of ethics rule") for registered investment advisers under the Advisers Act;
- Fairbridge must disclose to Clients all material facts about conflicts of which it is aware between Fairbridge's and its employees' interests on the one hand and Clients' interests on the other;
- Employees must operate on Fairbridge's and their own behalf consistently with Fairbridge's disclosures to and arrangements with Clients regarding conflicts and its efforts to manage the impacts of those conflicts; and,
- All Employees will act with competence, dignity and integrity, in an ethical manner, when dealing with Clients and investors, the public, prospective clients or investors, third-party service providers and fellow employees.

Fairbridge's Employees are permitted to individually invest in vehicles or loans that Fairbridge originates; however, aside from waiving certain management and/or performance fees Fairbridge ensures that they receive no different treatment than an unaffiliated investor.

As required by Rule 204A-1 of the Advisers Act, Fairbridge requires Access Persons to report their securities transactions on a quarterly basis and disclose their securities holdings upon employment and on an annual basis thereafter.

Fairbridge will provide a copy of its Code of Ethics to any client or prospective client upon request. Such a request may be made by submitting a written request to Fairbridge via email or to the address on the cover page of this brochure.

Item 12 - Brokerage Practices

As a fiduciary with discretionary authority, Fairbridge acknowledges its responsibility to obtain best execution for client securities transactions whenever it is in a position to direct the execution of such transactions. Accordingly, Fairbridge utilizes brokers to help originate loans. Such broker is often compensated with a portion of the origination fees paid by the borrower.

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Item 13 - Review of Accounts

Fairbridge will monitor all portfolio investments on behalf of each Fund on an ongoing basis. Accounts with little or no activity may be reviewed on a less frequent basis, but no less frequently than monthly where there is activity. Reviews of accounts are performed in the context of each Fund's (i) adherence to the investment objectives and guidelines set forth in such Fund's Governing Documents and (ii) investment performance. Fund NAVs are reviewed monthly by Fairbridge and by Fairbridge's third-party administrator Opus Fund Services ("Opus").

In order to provide the highest quality portfolio monitoring, performance measurement, performance attribution, accounting and reporting, Fairbridge currently outsources all administrative and reporting functions to an unaffiliated third-party specialist provider that provides administrative, portfolio measurement and reporting services.

The Code of Ethics requires Fairbridge to conduct periodic audits and reviews by designated and independent audit personnel of Fairbridge or third-party auditors of system records and operations to ensure ongoing compliance, identify transactional violations, and program deficiencies.

Item 14 - Client Referrals and Other Compensation

Fairbridge often uses outside marketers to raise assets for the vehicles Fairbridge manages. Fairbridge pays these marketers a portion of the advisory fees related to investors introduced to the Firm who opt to subscribe to one or more Funds. Such fees are paid quarterly and reflect a percentage of fees earned by Fairbridge. Investors introduced by marketers do not pay higher fees as a result of these arrangements.

Item 15 - Custody

Fairbridge and certain affiliated entities are deemed to have custody of the assets of pooled investment vehicles. Each of Fairbridge and its affiliates comply with Rule 206(4)-2 under the Advisers Act, by annually providing investors with a copy of the Fund's Audited Financial Statements.

Client funds are held at a qualified custodian. Wires/ACH above a certain threshold (typically \$25,000) are required to be inputted by our administrator, Opus. The wires are then approved by Fairbridge. Opus prepares monthly NAV statements for investors, accessible electronically. We encourage investors to review these statements monthly and to contact Fairbridge if any discrepancies are found.

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Item 16 - Investment Discretion

Fairbridge will receive discretionary authority in writing from client accounts at the outset of an advisory relationship. In all cases, however, such discretion shall be exercised in a manner consistent with the stated investment objectives for the particular client account.

Investors invest funds into an investment vehicle managed by Fairbridge. Fairbridge has the discretion to originate and fund loans with these funds. The only limitations are those outlined in the subscription documents reviewed by clients before they subscribe.

Item 17 - Voting Client Securities

Fairbridge has the authority to act in the best interest of all clients to manage loans and enforce any remedies allowable under a set of loan documents. Whether to file a foreclosure action, demand full or partial default interest, extend a maturity or allow a forbearance to list a few decisions that may be necessary, it is all at the discretion of Fairbridge acting in the best interest of all clients as a fiduciary.

Fairbridge does not provide services in connection with public securities. Therefore, we do not take any action or render any advice with respect to the voting of proxies.

Item 18 - Financial Information

Financial information for any investment vehicle is available to clients of that vehicle upon request. An annual audit is also completed for many of the investment vehicles.