

# Evolution Investment Management LLC

Form ADV Part 2A

3801 N. Capital of Texas Hwy, Suite E205  
Austin, TX 78746  
512-615-5612

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This brochure provides information about the qualifications and business practices of Evolution Investment Management LLC. If you have any questions about the contents of this brochure, please contact us at [bgreen@evolutionim.com](mailto:bgreen@evolutionim.com) or (512) 615-5612. 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. Registration as an adviser does not imply any level of skill or training.

Additional information about Evolution Investment Management LLC is also available on the SEC's website at <http://www.adviserinfo.sec.gov>.

## Item 2. Material Changes

Since our last annual amendment dated March 31, 2023, we have the following material changes to report.

**Item 4 – Advisory Business** has been updated to reflect that as of December 31, 2023, Evolution had \$118,049,467 in discretionary regulatory assets under management.

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## Item 4. Advisory Business

Evolution Investment Management LLC (“Evolution,” “us” or “we”) is a Texas limited liability company established in September 2022. Evolution Investment Partners LLC, a Texas limited liability company, is the sole member of Evolution Investment Management LLC. Kent Ledbetter and Jim Wilson are the members and principal owners of Evolution Investment Partners LLC.

We provide discretionary investment advisory services to a number of private investment funds (the “Funds”). The Funds, sponsored by Evolution Investment Management LLC (or its affiliates), are organized as limited liability companies for which an affiliate serves as the sole managing member. The Funds predominantly invest in equity and equity related investments in entities that hold, manage or develop real property but may also invest opportunistically in debt and equity-linked debt investments in such entities as well as other real estate-related economic interests.

We manage each Fund pursuant to the objectives specified in the materials by which each Fund offers its ownership interests to investors. The Funds’ investors do not have the right to specify, restrict, or influence their Funds’ investment objectives or any investment or trading decisions.

**Please refer to Item 8 of this Brochure for additional information regarding our methods of analysis and investment strategies, and their associated risks. The information provided above merely summarizes the detailed information provided in the appropriate fund offering and organizational documents. Prospective investors should be aware of additional risks and requirements associated with any investment and should refer to the appropriate fund offering and organizational documents for important additional information and considerations.**

As of December 31, 2023, Evolution had \$118,049,467 in discretionary regulatory assets under management.

## Item 5. Fees and Compensation

Each Funds pays us a management fee at the beginning of each calendar quarter. Those fees are generally equal to a specified percentage (a “Quarterly Fee Rate”), multiplied by the value of the investors’ capital commitments to that Fund during the Investment Period (generally three years) and the investors’ invested capital thereafter. Our Quarterly Fee Rate is 0.375% per quarter (or 1.50% per year).

In addition, affiliates of Evolution are entitled to receive incentive or performance based compensation from the Funds (“Incentive-Based Compensation”) in the form of a carried interest distribution generally equal to 20% of the investment proceeds distributable by the Fund in excess of the capital invested by the Fund’s investors and their allocable share of fees and expenses. Such carried interest will only be payable after investors receive a priority return or performance hurdle of 8% on all capital used to make realized investments and pay Fund expenses.

### Other Expenses

Each Fund also pays all of the expenses of its administration and operation. These expenses generally include, among other things:

- interest on borrowings;
- investment transaction costs;
- bookkeeping, accounting and audit fees and expenses;
- legal fees;
- expenses that we incur for investment research and due diligence;
- tax preparation fees;
- other professional fees;
- governmental fees and taxes;
- travel and travel-related expenses that we incur in connection with investment activities (including attending professional investment and industry specific conferences);
- costs of reporting to investors;
- cost of governance activities (such as obtaining investor consents); and
- all other reasonable expenses related to the management and operation of the Fund or the purchase, sale or transmittal of Fund assets, all as we determine in our sole discretion.

Each Fund also bore certain costs in connection with its organization and the initial offering and sale of ownership interests in it, and each Fund also continues to bear the costs of its ongoing offering of those ownership interests.

We may advance costs described above for a Fund and the Fund must reimburse us. We provide office personnel and space required for the performance of our services for the Funds.

### Prepayment of Fees

As noted above, the Funds pay management fees to us quarterly in advance. If we were to terminate our (or our affiliate's) status as general partner or investment manager of a Fund at a time other than as of the end of a quarter, we would refund to the Fund a portion of the management fee that was paid at the beginning of the termination quarter, prorated based on the number of days remaining in that quarter.

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

Each Fund pays us Incentive-Based Compensation which is based on a percentage of net profits, as described above under "Item 5: Fees and Compensation."

This Incentive-Based Compensation is generally payable as investments are realized and/or capital is distributed. The timing and amount of Incentive-Based fees or allocations are described in the relevant offering and/or other governing documents of the applicable Fund.

While we have the right to waive Incentive-Based Compensation as to particular investors in a Fund, we manage each Fund's assets as an undivided pool. As a result, we do not believe that we favor any particular Fund over another because of our Incentive-Based Compensation arrangements. Our potential to receive Incentive-Based Compensation creates an incentive for us to make investments that are riskier or more speculative than would otherwise be the case.

## Item 7. Types of Clients

Evolution provides investment advisory services to pooled investment vehicles operating as private investment funds.

Generally, investors in the Funds are required to be "accredited investors" within the meaning set forth in Rule 501(a) of Regulation D under the Securities Act and "qualified clients" as defined in Rule 205-3 under the Advisers Act. Each Fund imposes certain minimum investment requirements and investor eligibility criteria, which are detailed in each Fund's offering materials and other governing documents, which are furnished to each investor.

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

### **Methods of Analysis and Investment Strategies**

As noted in Item 4 above, we provide investment advice to private real estate funds focused on making primarily sponsor and non-control real estate and real estate-related investments, independently and with third party real estate operators, in a variety of real estate sectors throughout the United States in order to implement the Funds' value-add strategy. Such investments will be predominantly in the form of equity and equity-related investments in entities that hold, manage or develop real property but may also opportunistically be debt and equity-linked debt investments in such entities as well as other real estate-related economic interests.

***Investing in securities involves a risk of loss that investors should be prepared to bear.***

### **Risk of Loss**

The following is a summary of some of the material risks associated with our investment strategy. As a summary, it is inherently incomplete and does not attempt to describe all of the risks associated with those strategies. Please refer to each Fund's offering and legal documents for a full description of risks.

*Risks of Acquiring Real Estate Property.* There is no assurance that the operations of any Fund will be profitable or that cash from operations will be available for distribution to investors. Because real estate, like many other types of long-term investments, historically has experienced significant fluctuations and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of a Fund's investments. The marketability and value of a Fund's investments, and the revenues generated by a Fund's

investments will depend on many factors beyond the control of the Fund, including, without limitation: (i) changes in national or local economic conditions, (ii) changes in overall real estate market, (iii) changes in supply of, or demand for, housing in an area, (iv) competition from other housing alternatives, (v) fluctuations in occupancy and rental rates; (vi) changes in interest rates and in the availability, cost and term of mortgage funds and other financing; (vii) promulgation and enforcement of governmental regulations, including rules relating to land-use and zoning restrictions, rent control, environmental protection and occupational safety; (viii) technological innovations that dramatically alter space and demand requirements, (ix) the ongoing need for capital improvements, (x) the financial condition of tenants, buyers and sellers of Investments; (xi) changes in real estate tax rates and other operating expenses; (xii) changes in applicable laws; (xiii) various uninsured or uninsurable risks and losses; (xiv) energy and supply shortages; (xv) acts of God and natural disasters; and (xvi) civil unrest, acts of war or terrorism.

*Risk of Limited Number of Investments.* Each Fund may participate in a limited number of real estate investments and, as a consequence, the aggregate return to investors may be materially adversely affected by the unfavorable performance of any one real estate investment. Furthermore, to the extent that the capital raised is less than the targeted amount, a Fund may participate in fewer real estate investments and thus be less diversified. Investment in a Fund should not be considered a complete investment program.

*Highly Competitive Market for Investment Opportunities.* The activity of identifying and acquiring attractive real estate Investments is highly competitive and involves a high degree of uncertainty. There can be no assurance that a Fund will be able to locate, consummate and exit investments that satisfy its investment objectives, or that a Fund will be able to invest fully the committed capital. If a Fund is unable to make suitable real estate investments in a timely manner, its investment returns may suffer.

*Risks of Development/Redevelopment.* While a Fund will generally not engage in ground-up construction, a Fund may acquire direct or indirect interests in underdeveloped land, unstabilized property, or properties which the Fund intends to renovate, reposition, or redevelop. To the extent that a Fund invests in such assets, it will be subject to the risks normally associated with such assets and development activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of the Fund, such as weather or labor conditions or material shortages), irregular accounting or other fraudulent practices, risks that the properties will not achieve anticipated occupancy levels or sustain anticipated rent levels and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the Fund and on the amount of funds available for distribution to investors. Properties under development or properties acquired for development may generate little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. In addition, market conditions may change during the course of development, making such development less attractive than at the time it was commenced.

Furthermore, newly developed or newly renovated properties do not have the operating history that would allow us to make objective pricing decisions in acquiring these properties, and the purchase prices of these properties are expected to be based upon projections as to the expected operating results of such properties, subjecting a Fund to risks that such properties may not achieve anticipated operating results or may not achieve these results within anticipated time frames. Additionally, development or redevelopment projects can carry an increased risk of litigation with contractors, subcontractors, suppliers, partners and others, and may be financed under lines of credit or other forms of secured or unsecured financing.

*Investment in Troubled Assets.* A Fund may make Investments in underperforming or otherwise troubled assets or undercapitalized real estate companies which involve a degree of financial risk. The success of such investments may hinge on the Fund's ability to reposition such assets to increase returns. There can be no assurance the Fund may be successful in such endeavors.

*General Economic and Market Conditions.* The real estate industry generally, and the success of a Fund's investment activities in particular, will both be affected by general economic and market conditions in the U.S. economy, and to a lesser extent the global economy generally, as well as by changes in applicable laws, trade barriers, currency exchange controls, the rate of inflation and local, national and international political and socioeconomic circumstances. These factors may affect the level and volatility of real estate prices, which could impair the Fund's profitability or result in losses. In addition, general fluctuations in the market prices of securities and interest rates may affect a Fund's investment opportunities and the value of a Fund's Investments.

A recession, slowdown and/or sustained downturn in the U.S. real estate market, and to a lesser extent, the global economy (or any particular segment thereof) will have a pronounced impact on a Fund and could adversely affect a Fund's profitability, impede the ability of a Fund's assets to perform under or refinance their existing obligations, and impair a Fund's ability to effectively deploy its capital or realize upon investment on favorable terms.

*Local Real Estate Market Conditions.* A Fund's strategy in some investments may be based, in part, upon the premise that real estate businesses and assets in certain gateway cities and elsewhere will be available for purchase by a Fund at prices that we consider favorable. No assurance can be given that real estate businesses and assets can be acquired or disposed of at favorable prices or that the market for such assets will remain stable, recover or continue to improve, as the case may be, since this will depend, in part, upon events and factors outside of our control. In addition, there can be no assurance that current market conditions may not deteriorate during the life of a Fund, which could have a materially adverse effect on the assets of the Fund. Actual or perceived trends in real estate markets do not guarantee, predict, or forecast future events, which may differ significantly from those implied by such trends.

*Unfavorable Changes in Market and Economic Conditions Could Hurt Occupancy or Rental Rates.* Market and economic conditions in the markets where a Fund makes investments may significantly affect occupancy or rental rates in a Fund's investments in those markets, and consequently impact the income generated from a Fund's investments and their underlying values. The risks that may affect conditions in those markets include the following: (i) industry slowdowns, plant closing, or other factors that adversely affect the local economy; (ii) an oversupply or, or a reduced demand for, housing; (iii) a decline in household formation or employment or lack of employment growth that adversely affects occupancy or rental rates; (iv)



the inability or unwillingness of residents to pay rent increases; and (v) rent control or rent stabilization laws, or other laws regulating housing, that could prevent the Fund's Investments from raising rents to offset increases in operating costs.

*Public Health Crisis and COVID-19 Risk.* Any outbreak of an infectious disease or serious environmental or public health concern, including the COVID-19 pandemic, could have a significant negative impact on economic and market conditions, could exacerbate pre-existing political, social and economic risks in certain countries or regions and could trigger a prolonged period of global economic slowdown, which may impact a Fund and its investments. Specifically, the COVID-19 pandemic has led to significant death and morbidity, and concerns about its further spread resulted in the closing of schools and non-essential businesses, cancellations, shelter-in-place orders, lower consumer spending in certain sectors, social distancing, bans on large social gatherings and travel, quarantines, government economic stimulus measures, reduced productivity, rapid increases in unemployment, increased demand for and strain on government and medical resources, border closings and global trade and supply chain interruptions, among others. The extent of the impact from COVID-19 has created significant uncertainty and enhanced investment risk across many asset classes, including real estate. The full effects, duration and costs of the COVID-19 pandemic are impossible to predict, and the circumstances surrounding the COVID-19 pandemic will continue to evolve. The pandemic may affect certain countries, industries, economic sectors, companies and investment products more than others, may exacerbate existing economic, political, or social tensions and may increase the probability of an economic recession or depression. The COVID-19 pandemic, and any other outbreak of an infectious disease or serious environmental or public health concern could affect a Fund's ability to effectively acquire, manage, develop and dispose of investments, which could adversely affect a Fund's financial condition, results of operations, cash flow and ability to make distributions to Members.

*Interest Rate Fluctuations.* General fluctuations in interest rates may adversely affect the value of a Fund's investments. Instability and volatility in interest rates may also increase the risks inherent in a Fund's investments. In a rising interest rate environment, a Fund and entities in which it invests may be unable to obtain debt at fixed rates or may only be able to obtain fixed rate debt at very high interest rates, which could increase a Fund's interest expense and adversely affect a Fund's financial condition, results of operations, cash flow, and ability to make distributions. The ability to refinance debt may depend on the ability to sell new securities in the debt and equity markets, to borrow from banks or otherwise, which may not be achievable on favorable terms or at all. A deterioration of the global debt markets (particularly the U.S. debt market), any possible future failures of financial services companies or a significant rise in market perception of counterparty default risk will likely significantly reduce investor demand and liquidity for senior bank high-yield and investment grade debt, which in turn is likely to lead some banks and other lenders to be unwilling, or significantly less willing, to finance new investments or to only offer financing for investments on less favorable terms than had been prevailing in the past. A Fund's ability to generate attractive investment returns may be adversely affected to the extent a Fund is unable to obtain favorable financing terms for its investments. In the event that a Fund is unable to obtain debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, a Fund may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned.

*Leverage.* Each Fund expects that the joint ventures in which it makes LP investments or makes GP Investments through the provision of Sponsor Equity will employ leverage, which may be secured by the properties owned by such joint venture. In addition, the Fund may, on a limited basis, employ a line of credit for short-term borrowings (not to exceed 120 days) for cash management purposes, which may or may not be secured by the assets of the Fund. Such leverage will increase the exposure of the Fund's portfolio to adverse economic factors, such as rising interest rates, economic or market downturns, or the deterioration in the financial condition of its real estate investments. In the event the investments are unable to generate sufficient cash flow to meet debt service payments or there are other defaults under any loan documents underlying its indebtedness, the lender will be entitled to exercise the remedies specified under the loan documents, as well as its remedies under law. These remedies may include acceleration of the indebtedness and foreclosure on any collateral securing the loan. A lender seeking to enforce its claims may have recourse to the Fund's assets generally and not be limited to any particular asset, such as the asset giving rise to or securing the liability. Debt also may not be available to the Fund or the relevant joint venture on the terms and conditions and at the rates or in amounts that are consistent with the Fund's or the relevant joint venture's investment strategy.

*Competition for Acquisitions.* Competition exists for investment opportunities in most sectors of the real estate industry, including the sectors in which the Fund intends to operate. A Fund may be competing for assets with entities that have lower investment return requirements or that may generally be able to accept more risk than our Fund believes is prudent. Competition may generally reduce the number of suitable prospective investment properties available to a Fund and increase the bargaining power of property owners seeking to sell, thereby increasing prices. Accordingly, a Fund may not be able to identify a sufficient number of properties that are suitable for investment and consistent with the Fund's investment strategy and investment objective in order to deploy all of the capital commitments.

*Property Competition.* The operation of commercial real estate properties is highly competitive. The principal means of competition are rental rates, amenities offered, level of services, location and the nature and condition of the property. The investments may receive direct competition from existing or to-be-built properties within their respective markets. The opening of other competitive properties near a Fund property may have an adverse effect on, among other things, effective rental rates, occupancy and operating cash flow of a Fund property, as well as on its market value.

*Reliance on Controlling Persons and Third Parties.* Each Fund expects to hold title to real estate assets indirectly through structures which may include GP investments, the provision of Sponsor Equity, and joint ventures in which the Fund has a controlling interest. The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, a Fund may suffer a significant loss.

Joint venture investments may, under certain circumstances, involve risks that would not be present with respect to a wholly owned property. For example, a joint venture partner may experience financial difficulties, such partner may at any time have economic or business interests or goals that are inconsistent with the business interests or goals of a Fund, or such

partner may take action contrary to the instructions, requests, or policies and objectives of a Fund.

Actions by (or litigation involving) such a partner might have the result of subjecting the property owned by the joint venture to liabilities in excess of those contemplated by the joint venture agreement. In addition, there is a risk of impasse between the parties because either party may disagree with a proposed transaction involving the property and impede any proposed action. Each Fund will generally require that, in the event of a proposed sale of a property initiated by its joint venture partner, the Fund must have either a right of first refusal to purchase the other party's interest or other rights to control the sale of the property. There is no assurance, however, that the Fund would have the financial resources to exercise any such right of first refusal.

*Difficulty in Selling Properties.* Generally, real estate assets are illiquid in nature. There is risk that a Fund will be unable to realize its investment objectives through the sale or disposition of a property at an attractive price or within a desired period of time or will otherwise be unable to complete an exit strategy within the term of the Fund. In particular, these risks could arise from absence of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in interest rates or the availability of secured financing, changes in national or international economic conditions, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. Furthermore, in some cases, a Fund may have certain contractual obligations to tenants or joint venture partners in connection with a sale or disposition that may limit or prohibit the ability to complete an exit strategy in a timely fashion. Any of the foregoing factors could limit the ability of a Fund to execute its investment strategy rapidly in response to changes in economic and other conditions.

*Failure to Complete Projects.* There is a risk that a Fund may contract to acquire properties from sellers that fail to complete construction or that do not satisfactorily lease up newly constructed properties prior to closing with the Fund. If these situations occur, closing on a property may be delayed until the conditions have been satisfied or the Fund may choose not to proceed with the acquisition of a property. There can be no assurance that steps taken by us to minimize risks of contracting with a nonperforming seller will in all cases protect the Fund against financial loss. Moreover, to the extent a Fund is not able to purchase properties because of a seller's failure to cause completion thereof, the Fund may have lost the opportunity to make investments in other properties, and there may be a corresponding delay in the investment of the Fund's capital.

*Renovation Risks.* Renovation activities conducted in connection with real property investments require additional time, which may delay the realization of a Fund's investment objectives for such investment. During such delay, an investment may suffer a significant decline in value due to adverse economic and market changes or other conditions affecting such investment. In addition, renovation activities may not be completed within budget or on schedule because of cost overruns, work stoppages, shortages of building materials, the inability of contractors to perform their obligations, defects in plans and specifications or other factors. Any delay in completing the renovation of an investment property may adversely affect the investment returns to the Fund.

*Lack of Additional Funds.* Following its initial investment in a project, a Fund may have the opportunity to make a follow-on investment. There is no assurance that a Fund will make follow-on investments or that a Fund will have sufficient resources to make such investments. Any

decision not to make follow-on investments or a Fund's inability to make them may have a substantial negative impact on a project in need of such an investment or may result in missed opportunities for that Fund.

*Environmental Considerations.* A Fund may be exposed to substantial risk of loss arising from Investments involving undisclosed or unknown environmental problems, health or occupational safety matters, or inadequate reserves, insurance or insurance proceeds for such matters that have been previously identified. Under the laws, rules and regulations of various jurisdictions, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances, including asbestos, on or in such property. Such laws may impose joint and several liability, which can result in a party being obligated to pay for greater than its share, or even all, of the liability involved. Such liability may also be imposed without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances and the person bearing liability may incur substantive costs in defending claims of liability. The cost of any required remediation and the owner's liability therefor as to any property are generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on a Fund's return from such investment. Environmental claims with respect to a specific investment may exceed the value of such investment, and under certain circumstances, subject the other assets of the Fund to such liabilities. In addition, even in cases where a Fund is indemnified by the seller with respect to an investment against liabilities arising out of violations of environmental laws and regulations, there can be no assurance as to the financial viability of the seller to satisfy such indemnities or the ability of a Fund to achieve enforcement of such indemnities. Furthermore, some environmental laws create a lien on contaminated property in favor of governments or government agencies for costs they may incur in connection with the contamination.

The ongoing presence of environmental contamination, pollutants or other hazardous materials on a property (whether known at the time of acquisition or not) could also result in personal injury (and associated liability) to persons on the property and persons removing such materials, future or continuing property damage (which may adversely affect property value) or claims by third parties, including as a result of exposure to such materials through the spread of contaminants.

In addition, a Fund's operating costs and performance may be adversely affected by compliance obligations under environmental protection statutes, rules and regulations relating to investments of the Fund, including additional compliance obligations arising from any change to such statutes, rules and regulations. Statutes, rules and regulations may also restrict development of, and use of, property. Certain clean-up actions brought by state, country and local agencies and private parties may also impose obligations in relation to investments and result in additional costs to the Fund.

Additionally, there has been litigation and concern about indoor exposure to certain types of toxic mold, and it is impossible to eliminate all mold and mold spores in the indoor environment. The continued presence of certain types of toxic mold could materially decrease property values,

cause a Fund to incur substantial remediation costs and lead to an increased risk of lawsuits by affected persons.

Uninsured Losses. Each Fund or the Project Company subsidiaries through which the Fund holds title to its investments will attempt to maintain adequate and prudent insurance coverage on the real property to the extent such coverage is available in the market and at commercially reasonable rates. Each Fund will attempt to maintain insurance coverage against liability to third parties for injury and property damage in amounts determined by us. However, the insurance market varies from year to year and, as a result, the actual premiums payable by a Fund and the deductibles to which a Fund is subject may be substantially different than those available in the current environment or that were underwritten at the time a property is acquired. Further, insurance against certain risks such as earthquakes, floods, windstorms, biological agents (e.g., mold) or damage by terrorism, may be commercially unavailable or economically unaffordable, available in amounts that are less than the full market value or replacement cost of the investments, or subject to large deductibles. Additionally, there can be no assurance that the particular risks that are currently insurable will continue to be insurable or insurable on a reasonable economic basis. There is no guarantee that any insurer will pay the full amount of any claim, that the insurer will not dispute or refuse to pay on any claim of loss or that the insurer will be solvent or financially able to pay any claim, especially in the case of a catastrophic loss in one geographical area. Additionally, all of the properties owned by the Fund may be at risk in the event of an uninsured loss or uninsured liability to third parties.

Real Estate-Related Regulatory Risks. The investments in each Fund are subject to various laws and regulations, including building codes, laws and regulations pertaining to fire safety and handicapped access (including the Americans with Disabilities Act), and other laws and regulations that may from time to time be enacted. Each Fund may be required to incur significant costs to comply with any future changes in such laws or regulations. Further, noncompliance with the existing or future laws and regulations to which Fund properties are subject could result in substantial capital expenditures to bring the properties into compliance, as well as the imposition of fines or an award of damages to private litigants, which might adversely affect a Fund.

Possible Lack of Diversification. Although it is anticipated that each Fund's investments will ultimately consist of a diversified portfolio of real estate properties, such diversification may not exist during the initial stages of a Fund's existence, and no assurance can be given that a Fund will achieve its overall diversification goals. It is possible that a significant portion of the properties will be concentrated in a single sector or single geographic market. A Fund's revenue from, and the value of, its properties located in any single market may be affected disproportionately by a number of factors, including local real estate conditions (such as oversupply of reduced demand for properties of a particular type) and the local economic climate. Business layoffs, downsizing, industry slowdowns, changing demographics, and other factors may adversely impact the local economic climate. A downturn in either the local economy or in general real estate conditions for any market in which the properties are concentrated could adversely affect the Fund's financial condition, results of operations, cash flow, and ability to make distributions.

Litigation. With regard to certain Investments, it is a possibility that a Fund may be a plaintiff or defendant in civil proceedings. The expense of prosecuting claims, for which there is no guarantee of success, and/or the expense of defending against claims by third parties and paying any

amounts pursuant to settlements or judgments would generally be borne by a Fund and would reduce distributable cash flow or may, pursuant to applicable law and the Fund's agreement, require investors to contribute capital or return previous cash distributions to a Fund.

*Time Required to Maturity of Investment; Illiquid Investments.* It is anticipated that investments may take a significant period of time from the date of initial investment to reach a date when a favorable realization of investment profits may be achieved. Based on historical realization periods for investment funds such as each Fund, it is reasonable to assume that no significant capital return, if any, from the disposition of a Fund's investments will occur until several years from the final closing. It is impossible to predict when or if a Fund will be able to liquidate its investments, or whether there will be any distributable proceeds to the investors from such liquidation.

*Targeted Returns.* There can be no assurance that a Fund's investments will perform as well as the past investments and actual results may be materially different. Target returns are not intended to be projections. Actual events are difficult to predict, and results could be affected by a number of factors including changes in interest rates, asset mix, a Fund's use of leverage, recent changes in the competitive nature of the value-added market, financial and legal uncertainties and performance of the underlying assets that are beyond our control.

*Investments Longer than Term.* A Fund may make investments which may not be advantageously disposed of prior to the date that the Fund will be dissolved, either by expiration of the Fund's term or otherwise. Although we expect that investments will be disposed of prior to dissolution, the Managing Member of a Fund has a limited ability to extend the term of the Fund, and the Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. In addition, all of the Fund's assets may not be liquidated for a significant period of time following the Fund's dissolution date, which would delay investor's receipt of their final liquidating distributions from the Fund.

*Reliance on Key Personnel.* Our investment advice depends on the judgment and analysis of our investment professionals. Should those professionals terminate their relationship with us, die or become otherwise incapacitated for any period of time, our Funds could experience losses.

## Item 9: Disciplinary Information

Neither Evolution nor its employees have been involved in any legal or disciplinary events that would be material to an investor's evaluation of Evolution or its personnel.

## Item 10: Other Financial Industry Activities and Affiliations

Evolution is not registered and does not have an application pending to register, as a broker-dealer, a futures commission merchant, commodity pool operator, or a commodity trading advisor.

## Item 11: Code of Ethics, Participation or Interest in Client Transactions & Personal Trading

### Code of Ethics

Evolution Investment Management LLC's Code of Ethics (the "Code of Ethics") is designed to meet the requirements of Rule 204A-1 of the Advisers Act. The Code of Ethics applies to all employees and sets forth a standard of business conduct that takes into account Evolution Investment Management LLC's status as a fiduciary and requires employees to place the interests of the Funds and Investors above their own interests. The Code of Ethics requires employees to comply with applicable federal securities laws. Further, employees are required to promptly bring violations of the Code of Ethics to the attention of the Chief Compliance Officer. All employees are provided with a copy of the Code of Ethics and are required to acknowledge receipt of the Code of Ethics on at least an annual basis. We have adopted a Code of Ethics that describes the standards of business conduct that we require of employees and establishes procedures intended to prevent us, and our personnel and certain of their relatives, from inappropriately benefiting from our relationships with the Funds.

Our Code of Ethics provides that:

- Our Funds' interests come before our employees' interests and, except to the extent otherwise provided in offering documents agreements, before our own interests;
- We must disclose all material facts about conflicts of which we are reasonably aware between ourselves and our employees' interests, on the one hand, and our Funds' interests, on the other;
- Our employees must operate on our and their own behalf consistently with our disclosures to, and arrangements with, our Funds regarding conflicts and our efforts to manage the impacts of those conflicts;
- We and our employees must not take inappropriate advantage of our or their positions of trust with or responsibility to our Funds; and
- We and our employees must comply with all applicable securities laws.

The Code of Ethics also contains restrictions on and procedures to prevent inappropriate trading while we are in possession of material nonpublic information (including information about our trading activity for Funds). Our Code of Ethics is available to existing or prospective investors upon request.

As required by Rule 204A-1 of the Advisers Act, Evolution Investment Management LLC requires its employees to report their securities transactions on a quarterly basis and disclose their securities holdings upon employment and on an annual basis thereafter.

## Item 12: Brokerage Practices

The ultimate investments of the Funds are real estate assets, and the Funds generally do not purchase or sell registered securities. We do not currently have, nor do we expect in the future to have, a relationship with any securities broker-dealer.

## Item 13: Review of Accounts

We review the Funds' holdings on a regular basis. Those reviews may include such matters as asset allocation, cash management, the prospects of individual real estate assets, occupancy and rental rates, and budget and timeline of project renovations.

We do not provide formal reports to the Funds, as we (or our affiliate) are their sole general partner or investment manager. Each Fund's financial statements are audited annually by an independent certified public accounting firm and those audited financial statements are provided to investors. The Funds also provide periodic unaudited financial reports and performance updates to investors. The Funds also provide each investor with a Schedule K-1 or other appropriate information to enable investors to prepare their income tax returns.

## Item 14: Client Referrals and Other Compensation

We do not currently compensate independent third parties for investor referrals.

## Item 15: Custody

Pursuant to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), Evolution is deemed to have custody of the assets held by the Funds because we or our affiliate serve as managing member of the Funds.

The Custody Rule generally requires SEC-registered investment advisers that have custody of their clients' assets to have a reasonable belief, after due inquiry, that a qualified custodian sends account statements detailing holdings and transactions directly to clients at least quarterly and impose certain other obligations. However, advisers to privately offered pooled investment vehicles like the Funds need not comply with those requirements if, among other things, the Funds are subject to annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board in accordance with its rules and such Funds provide investors with audited financial statements prepared in accordance with generally accepted accounting principles ("GAAP") by a specified time each year. We satisfy those conditions and therefore are exempt from the custodial account statement delivery obligations and will be deemed to have complied with the surprise examination requirement under the Custody Rule. Evolution Investment Management LLC will provide investors in the Funds with audited financial statements, prepared in accordance with U.S. GAAP, within 120 days of the end of the Funds' respective fiscal years. In the event of a liquidation of a Fund, we will obtain a final liquidation audit of the Fund's financial statements in



accordance with GAAP and distribute it to Investors in the relevant Fund promptly after completion of the audit.

### Item 16: Investment Discretion

Our agreements with our Funds generally grant us complete discretion to manage the Funds' investments, without any specific limitations. See the description above in "Item 4: Advisory Business" and "Item 8: Methods of Analysis, Investment Strategies and Risk of Loss."

### Item 17: Voting Client Securities

Our Funds invest solely in real estate assets and do not invest in publicly traded securities. Therefore, we do not take any action or render any advice with respect to the voting of proxies.

### Item 18: Financial Information

We do not charge or solicit pre-payment of more than \$1,200 in fees per client six months or more in advance. We have never filed for bankruptcy and are not aware of any financial conditions that are reasonably likely to impair our ability to meet our contractual obligations to clients.