

## Form ADV Part 2A: Firm Brochure

### HGI Capital Management, LLC

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This brochure provides information about the qualifications and business practices of HGI Capital Management, LLC and its affiliates. If you have any questions about the contents of this brochure, please contact Christopher R. Gruszczynski, Chief Compliance Officer at [CCO@harborg.com](mailto:CCO@harborg.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about HGI Capital Management, LLC and its affiliates is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Any reference to HGI Capital Management, LLC as a “registered investment adviser” or as being “registered,” does not imply a certain level of skill or training.**

## **Item 2: Material Changes**

This brochure has been updated from the last firm brochure dated July 2023 to include updated risk factors, certain routine updates, and other changes seeking to improve and clarify the description of business practices, risk factors, compliance policies and procedures, and respond to evolving industry best practices.

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## Item 4: Advisory Business

For purposes of this brochure, “HGI Capital” means HGI Capital Management, LLC a Delaware limited liability company that was formed in 2013. HGI Capital is wholly owned by HGI RES, LLC, an affiliate of Harbor Group International, LLC.

Jordan E. Slone owns 25% or more (directly or indirectly) of HGI Capital.

HGI Capital serves as an investment manager and provides discretionary advisory and other services to several privately offered investment vehicles (collectively, the “Funds”), including: (i) Harbor Group International Real Estate Securities Fund, LP. (the “Onshore Fund”), a Delaware limited partnership; (ii) Harbor Group International Real Estate Securities Master Fund, LP (the “Master Fund”), a Cayman Islands exempted limited partnership; and (iii) Harbor Group International Real Estate Securities Offshore Fund, Ltd. (the “Offshore Feeder Fund”), a Cayman Islands exempted company incorporated with limited liability. The non-U.S. domiciled Funds operate through a mini-master-feeder structure pursuant to which the Offshore Feeder Fund invests substantially all of its assets in the Master Fund. The operating and trading activities of the Funds are conducted, and the portfolios of the Funds are held, by the Onshore Fund and the Master Fund. The Onshore Fund and the Master Fund are managed pari-passu, except to the extent HGI Capital determines it would not be appropriate to do so for tax, regulatory, operational or other reasons.

HGI Asset Management, LLC, a Delaware limited liability company, is the general partner (“General Partner”) of the Onshore Fund and Master Fund. The General Partner is controlled by HGGP RES, LLC, a Virginia limited liability company and an affiliate of HGI Capital. Unless and only to the extent that the context otherwise requires, references to “HGI Capital” includes the General Partner.

HGI Capital makes all investment decisions on behalf of the Funds, including identifying, reviewing and selecting investment opportunities for the Funds, subject to the oversight of the investment committee (“Investment Committee”) and, with respect to the Offshore Feeder Fund, the overall management and policies of the board of directors. With respect to the Funds, investment advice is provided directly to the Funds and not individually to the limited partners or members of the Funds (the “Investors”). HGI Capital manages the assets of the Funds in accordance with the terms of each Fund’s applicable confidential offering and/or private placement memorandum, individual limited partnership or operating agreement, and other governing documents applicable to a Fund (the “Governing Fund Documents”).

The investment objective of the Funds is to seek total return from both capital appreciation and current income through investing in a portfolio comprised primarily of publicly traded or otherwise liquid securities of or relating to the real estate industry, with a focus on preservation of Investor capital and risk mitigation through the employment of various hedging strategies. There can be no assurance that the investment objective of the Funds will be achieved.

HGI Capital from time to time may serve as a sub advisor to and actively manage Fund sub-accounts (the “Sub-Accounts”) in accordance with sub advisory agreements (the “Sub-Advisory

Agreements”). Such Sub-Advisory Agreements may contain provisions and trading restrictions that align with but are not identical to the investment strategy of the Funds.

HGI Capital serves as an investment manager and provides discretionary advisory and other services to several separate accounts (each, an “Account” and the clients for whom such Accounts are maintained, “Separate Account Clients”) in accordance with investment management agreements (the “Investment Management Agreements”). HGI Capital makes investment decisions on behalf of the Separate Account Clients, including identifying, reviewing, and selecting investment opportunities for the Separate Account Clients, subject to the oversight of the Investment Committee. The Investment Management Agreements contain provisions and investment restrictions that are generally aligned with, but broader than, the investment strategy of the Funds. The specific investment objectives of each Separate Account Client are detailed in the Investment Management Agreement with such Separate Account Client.

The Funds, the Sub-Accounts, and the Separate Account Clients are referred to herein as the “Clients.”

HGI Capital manages the Clients’ assets on a discretionary basis. As of December 31, 2023, the total assets under management of HGI Capital were \$186,498,978.

## **Item 5: Fees and Compensation**

HGI Capital generally charges Clients an asset-based advisory fee (the “Management Fee”) and a performance-based fee (the “Performance Allocation”), subject to certain thresholds, as applicable.

### **Management Fee**

The Funds. HGI Capital receives a quarterly Management Fee, calculated, accrued, and payable in advance at the beginning of each quarter, equal to 0.3125% of the value of an Investor’s investment in the Fund (approximately 1.25% annually). The Management Fee is paid by the Onshore Fund and the Master Fund. Investors in the Onshore Fund and the Offshore Feeder Funds are charged their allocable share of the Management Fee, which is prorated based on each Investor’s individual capital contributions and withdrawals during any calendar quarter.

The Accounts. HGI Capital generally receives a Management Fee with respect to certain Separate Account Clients, paid in accordance with the terms of the respective Investment Management Agreement between HGI Capital and each Separate Account Client.

HGI Capital does not charge certain Separate Account Clients a Management Fee; however, it is entitled to Performance Allocations as described below.

### **Performance Allocation**

The Funds. Subject to a loss carryforward as described below, HGI Capital and/or its affiliates is entitled to receive an annual Performance Allocation equal to fifteen percent (15%) of the net capital appreciation of an Investor’s investment in the Funds, if any. The Performance Allocation is

generally calculated and allocated at the end of each fiscal year and is made by the Onshore Fund and the Master Fund. Investors in the Onshore Fund and the Offshore Feeder Funds are charged their allocable share of the Performance Allocation, which is prorated based on each Investor's individual capital contributions and withdrawals during any calendar quarter.

The Performance Allocation is calculated subject to a loss carryforward whereby an Investor will not be subject to a Performance Allocation on an investment in a Fund, unless the value of such investment (net of any losses, for all years since admission) exceeds the higher of the following amounts: (i) the highest value of such investment as of the close of any year since admission; and (ii) the value of such Investor's investment on the date of admission. A Performance Allocation is not made with respect to any period in which an Investor's investment in a Fund decreases in value.

The Accounts. HGI Capital is entitled to a Performance Allocation with respect to each Separate Account Client. The Performance Allocation is calculated and paid in accordance with the terms of the respective Investment Management Agreement between HGI Capital and each Separate Account Client.

HGI Capital may provide investment advisory services to additional clients in the future. Future clients may have similar or different fees than those of the Clients. HGI Capital may waive, reduce, or rebate the Management Fee and/or Performance Allocation attributable to any investor, including, without limitation, any employee, agent, or affiliate of HGI Capital, which, to the extent permitted by applicable law, may not be disclosed to other Investors in the same Client. HGI Capital may also pay and/or allocate a portion of the Management Fee and/or Performance Allocation to certain investors, affiliates and/or other third parties.

### **Other Fees and Expenses**

The Clients bear all of their investment and operating expenses. HGI Capital bore the organizational expenses of the Clients in connection with their organization and the initial offering of their interests or shares, as applicable. "Investment Expenses" means the expenses associated with the investment program of the Clients, which includes, without limitation, brokerage expenses, commissions, dealing and spread costs (which vary depending on a number of factors, including, without limitation, the bank, broker or dealing counterparty utilized for the transaction, the particular instrument traded and the volume and size of the transaction), execution, give-up, exchange, clearing and settlement charges, delivery, custodial fees, escrow expenses, insurance costs, third party research, interest and borrowing charges on margin accounts and other indebtedness (including the costs and expenses incurred in obtaining, negotiating, entering into, effecting, maintaining, varying, refinancing or terminating such borrowings and commitments and interest arising therefrom), bank, broker and dealer service fees, interest expenses and consulting, advisory, investment banking and other professional fees relating to particular investments or contemplated investments and all other research expenses (including, without limitation, travel expenses related to research) and all other expenses directly or indirectly related to the Clients' investment programs. "Operating Expenses" means the Clients' operating expenses, including, without limitation, administrative expenses (including maintaining the books and records of the Clients or any external costs for a third-party administrator to maintain and oversee the Clients' books and records, even if there is some overlap in services performed by any third-party administrator and HGI Capital

personnel, and those fees paid to another registered investment adviser for administrative, advisory or other similar services), expenses related to meeting with one or more investors and/or prospective investors, costs incurred in connection with complying with the provisions of side letter arrangements, custodial expenses, legal expenses, depository expenses, currency conversion expenses, transfer expenses, compliance and regulatory expenses (including all fees, costs and expenses associated with the appointment and utilization of a representative to grant consents on behalf of a Client or any Client entity under the Advisers Act (as defined below) or any other applicable law or regulation), internal and external accounting expenses, financial reporting services expenses, audit and tax preparation expenses, interest, taxes, costs, all expenses incurred in connection with the offer and sale of interests or shares, and all other expenses associated with the operation of the Clients, including, without limitation, all extraordinary expenses (such as the cost of litigation, arbitration, settlement or indemnification payments, if any).

The Funds and, indirectly, the Investors, to the extent permitted by applicable law, will bear the costs of prosecuting or defending any legal action for or against the Funds, the Funds' General Partner, HGI Capital and/or their respective affiliates in connection with the offering of the Funds' securities to Investors as well as the Funds' investments and operations. The Separate Account Clients will bear the costs of prosecuting or defending any legal action for or against HGI Capital or their affiliates in connection with their respective Account investments and operations. In addition, the Clients will indemnify and hold harmless certain parties in connection with certain acts or omissions, as further described in the applicable Governing Fund Documents, Sub-Advisory Agreement, or Investment Management Agreement.

Investors must refer to detailed information found in each Fund's Governing Fund Documents for specific information about the fees that may be earned by HGI Capital and the fees and expenses potentially charged to the Funds. Separate Account Clients must refer to the detailed information found in their Investment Management Agreement for specific information about the fees that may be earned by HGI Capital and the fees and expenses potentially charged to the Separate Account Client.

### **Allocation of Expenses**

From time to time, HGI Capital will be required to decide whether certain fees, costs and expenses should be borne by a Client, on the one hand, or HGI Capital on the other hand. Such allocation determinations are inherently subjective and give rise to conflicts of interest due to inherent biases in the process. To the extent any of the expenses described herein are incurred by or on behalf of multiple Clients, such expenses shall generally be allocated among each such Client and the allocation methodology may differ depending on the particular expense.

### **Brokerage Fees**

When HGI Capital chooses to use a broker-dealer for particular transactions relating to a particular Client, such Client will incur brokerage and other transaction costs. For additional information regarding brokerage practices, please see *Item 12 (Brokerage Practices)* below.

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

With respect to certain Clients, HGI Capital or its affiliates receives annual Performance Allocations, which are based on a percentage of the net capital appreciation of their assets. These Performance Allocations may create an incentive for HGI Capital to make more speculative or riskier investments than would otherwise be made or make decisions regarding the timing and manner of realization of investments differently than if such Performance Allocations were not received. For more information, see Item 5 (Fees and Compensation).

Additionally, the receipt from some Clients of Performance Allocations at varying rates creates an incentive for HGI Capital to disproportionately allocate time, services, or functions to Clients from which HGI Capital receives Performance Allocations or receives Performance Allocations at a higher rate.

## **Item 7: Types of Clients**

HGI Capital currently provides investment advisory services solely to the Clients. With respect to the Funds, investment advice is provided directly to the Funds, subject to the oversight of the Investment Committee and, with respect to the Offshore Feeder Fund, the overall management and policies of the board of directors, and not individually to the Investors. Investors in the Funds may include, but are not limited to, high net worth individuals, sovereign investors, family offices, fund of funds, hedge funds, endowments, foundations, trusts, charitable organizations, pension plans, and corporate or business entities. Separate Account Clients may include, but are not limited to, high net worth individuals, corporate or business entities, or other institutional investors. HGI Capital may offer investment advisory services to other entities, individuals, or private investment funds in the future.

Interests in the Funds are offered pursuant to applicable exemptions from registration under the Securities Act of 1933, as amended (the “Securities Act”) and the Investment Company Act of 1940, as amended (the “1940 Act”). All Investors in a Fund must represent in writing that they are “accredited investors” (as defined in Rule 501 of Regulation D, adopted under the Securities Act), and in certain Funds “qualified purchasers” (as defined in the 1940 Act) and “qualified clients” (within the meaning of Rule 205-3(d)(1) under the Advisers Act).

The minimum commitment for an Investor is generally \$1 million for each of the Onshore and Offshore Fund. However, HGI Capital maintains discretion to accept less than the minimum investment threshold.

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

### Investment Strategy and Methods of Analysis Generally

The Funds will primarily invest in the common equity, preferred equity and other securities of companies that are principally engaged in the real estate industry (“Real Estate Companies”). Real Estate Companies include real estate investment trusts (“REITs”), as well as real estate operating



companies. HGI Capital defines a Real Estate Company as an entity which has, as its primary objective, owning, operating, leasing, developing, managing, brokering and/or selling commercial or residential real estate, land or infrastructure. Such companies may include, but are not limited to, companies that offer exposure to rental apartments, office buildings, shopping centers and malls, industrial facilities, warehouses, storage facilities, and hotels. The Funds may also invest in companies that directly or indirectly supply goods and services to, or in support of, Real Estate Companies.

The Funds may also at times invest in companies where the company's principal activity is not real estate as defined above, but where HGI Capital believes that value can potentially be extracted from such an investment via liquidation of assets or capital restructuring based on certain real estate related valuation metrics.

The Funds may also invest directly in financial institutions that originate real estate loans, such as commercial banks, finance companies, investment banks, and other entities, as well as financial institutions that are unrelated to real estate but which provide opportunities for interest rate hedges. In the future, HGI Capital may also employ other hedging strategies not yet identified.

Subject to each individual Client's investment objective and investment program, Clients will primarily invest in the common equity, preferred equity, and other securities of companies and, certain Clients may also invest in companies where HGI Capital believes that value can potentially be extracted from such an investment via liquidation of assets or capital restructuring based on certain valuation metrics. Certain Clients may also invest directly in financial institutions that originate loans such as commercial banks, finance companies, investment banks, and other entities, as well as financial institutions which provide opportunities for interest rate hedges. In the future, HGI Capital may also employ other hedging strategies not yet identified.

Certain Separate Account Clients for high-net-worth investors will primarily invest in equity securities with an emphasis on long-term capital growth. In the future, HGI Capital may also employ other hedging strategies not yet identified.

HGI Capital utilizes a multi-step investment process for constructing the Clients' investment portfolios that combines a broad fundamental driven geographic and property sector allocation with a detailed investment selection process.

Fundamental Analysis. HGI Capital first selects property sectors and geographic sub-regions in which to invest, and then determines the degree of representation of such sectors and sub-regions, through a systematic evaluation of listed and direct real estate market investment trends and conditions. HGI Capital conducts intensive market reconnaissance by conducting physical market and asset specific site visits as well as interviews with market leading property brokers and capital markets professionals.

In addition to the foregoing, analysis for the Separate Account Clients includes a bottom-up fundamental approach coupled with a top down macro-economic and thematic sector approach, review of economic strengths, geography, interest rate impacts and additional market sectors.

Investment Selection Process. HGI Capital applies a proprietary underwriting process to identify investments that it believes demonstrate superior current income and growth potential relative to peers. HGI Capital's proprietary valuation process examines several factors, including the geographic location of underlying real estate, value and quality of a company's properties, its capital

structure, strength of balance sheet, its strategy and ability of its management team to execute strategic objectives and previous track record.

The investment selection process generally includes, but is not limited to, the following steps:

- 1) Screening the listed property sector investment universe and understanding the property type and geographic exposures of each of the companies.
- 2) Reviewing company disclosures (press releases, financial statements, presentations) as well as third-party independent research reports on the companies.
- 3) Researching real estate market fundamentals relating to the company's portfolio. This involves interaction with investment professionals and acquisition officers employed by affiliates of HGI Capital, as well as discussions with industry experts and reputable equity research analysts.
- 4) Meeting with senior management of listed property companies to discuss strategy and assess track record.
- 5) Touring properties and meeting with company asset and property managers.
- 6) Forecasting cash-flows, dividend growth, internal rate of returns, implied cap rates, and net-asset-values, analyzing assumptions and drivers with various sensitivities in place, and crosschecking output with industry experts and equity research analysts and reports.
- 7) Analyzing valuation metrics on an absolute basis and relative to peers within a specific property type and/or capital structure position.
- 8) Outlining a buy/hold/sell (short) investment case based on an investment's risk profile, company management, liquidity, absolute, relative valuation, and other relevant factors.
- 9) Constructing portfolios with diversification and liquidity considerations.
- 10) Monitoring portfolios for potential rebalancing of securities. Each security holding is regularly reassessed and reviewed by HGI Capital and categorized as a buy, hold, or sell (short) investment opportunity.

There can be no assurance that the Clients will achieve their investment objectives. Investing in securities involves risk of loss that the Clients and their investors should be prepared to bear. HGI Capital has included the following risks that are applicable to the Clients. Not all risks are applicable to each investment strategy or Client. Please review each Fund's Governing Fund Documents or Separate Account Client's Investment Management Agreement, as applicable, for a complete description of the risks associated with a specific Client's investment strategy.

#### Summary of the Principal Investment Risks

Investing involves substantial risks, including the risk of total loss of capital, and may not be suitable for all investors. No guarantee or representation is made that the Clients' investment programs, including, without limitation, the Clients' investment objectives, diversification strategies or risk

monitoring goals, will be successful. Investment results may vary substantially over time. No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Investors should bear in mind the following risk factors:

### **Market Risks**

**Risk of Loss** - The profitability of the Clients ultimately depends upon HGI Capital correctly assessing the future price movements of the securities and other financial instruments in which the Clients invest as well as the movement of interest rates. Such price movements may be volatile and are subject to numerous factors which are neither within the control of nor predictable by HGI Capital. Such factors include, without limitation, a wide range of economic, political, competitive, market, legal, operational, and other conditions or events (including, without limitation, natural disasters, acts of terrorism or war) which may affect investments in general or a specific security or other financial instrument in which the Clients invest. There can be no assurance that HGI Capital will be successful in accurately predicting price movements. Accordingly, investors may incur substantial losses on their investments in the Clients, and it is possible that the Clients' performance will fluctuate substantially from period to period.

**Competition** - The securities industry, the various markets in which the Clients participate, and the varied strategies and techniques engaged in by HGI Capital are extremely competitive and each involves a high degree of risk. The Clients, the General Partner, and HGI Capital compete with firms, including, without limitation, many of the larger securities and investment banking firms, which have substantially greater financial resources, larger research staffs and more traders than HGI Capital has or expects to have in the future, which may place the Clients at a competitive disadvantage.

**Market Volatility** - Various sectors of the U.S. and global financial markets and the broader current financial environment have been, and continue to be, characterized by uncertainty, volatility and instability. The financial services industry generally and investment activities are affected by general economic, political, and market conditions, including interest rate volatility, availability of credit, lack of price transparency, inflation rates, systemic risks, economic uncertainty, changes in tax and other applicable laws and regulations, trade barriers, national and international and environmental and socioeconomic circumstances. Price movements of certain assets in which the Clients invest may be influenced by, among other things, interest rates, credit trends, changing supply and demand relationships, regulatory changes, and fiscal and monetary programs and policies of governments. These financial market fluctuations have the tendency to reduce the availability of attractive investment opportunities for the Clients and may affect the Clients' ability to make investments and the value of the investments held by the Clients. Instability in the securities markets and economic conditions generally may also increase the risks inherent in the Clients' investments. The public securities markets have seen increased volatility, and the ability of companies to obtain financing for ongoing operations or expansions may be severely hampered by the tightening of the credit markets and the ongoing financial turmoil. It is unclear what the repercussions of this market turmoil may be. Moreover, it remains unknown whether governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) will have a positive or negative effect on market conditions. There can be no assurance that the market will, in the future, become more liquid than it is at present and it may well continue to be volatile

in the foreseeable future. The ability to realize investments depends on political, market and economic conditions at the time of such realizations. There can be no assurance, particularly given the recent volatility in the financial markets and a potential lack of investor appetite for new issues in the public securities markets, that the Clients will be able to exit their investments. The trading market, if any, for any investment may not be sufficiently liquid to enable a Client to sell these securities when HGI Capital believes it is most advantageous to do so, or without adversely affecting the stock price. Continued or renewed volatility in the financial sector may have an adverse material effect on the ability of the Clients to buy, sell, or partially dispose of their investments. The Clients may be adversely affected to the extent that they seek to dispose of any of their investments into an illiquid or volatile market, and a Client may find itself unable to dispose of investments at prices that HGI Capital believes reflect the potential value of such investments. The duration and ultimate effect of current market conditions and whether such conditions may worsen cannot be predicted and there can be no assurances that conditions in the financial markets will not worsen or adversely affect one or more of a Client's investments. Weakness in both the capital markets generally and the fundamental real estate markets could recur and have a negative impact on the performance of the Clients' investments. Further, credit markets could experience significant contraction, deleveraging and reduced liquidity. These market conditions may impair borrowers' ability to refinance or sell their properties, which may contribute to higher delinquency and default rates. Borrowers seeking to refinance borrowings due to expire may not be able to find available replacement loans at comparably low interest rates, if at all, which may adversely impact the properties underlying the securities in which the Clients invest. As a general matter, the prices of certain of the assets in which the Clients will invest have recently exhibited high volatility in line with the heightened volatility and fluctuations of global capital markets. There can be no assurance that HGI Capital will be successful in accurately predicting price and interest rate movements despite efforts to identify and, if applicable, hedge such risks.

Failure of Brokerage Firms - U.S.-registered broker dealers which may carry the accounts of the Clients generally segregate all customer funds to be allocated to listed securities trading in compliance with SEC and FINRA regulations. If such assets were not so segregated, the Clients would be subject to the risk of the failure of the broker. Even given proper segregation, various brokers will trade with the relevant exchange as a principal on behalf of the Clients, in a "debtor-creditor" relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. Such broker could, therefore, have title to all of the assets of the Clients (for example, the transactions which the broker has entered into on behalf of a Client as principal, as well as the margin payments which such Client makes). In the event of the insolvency of the broker, the Clients may be subject to a risk of loss of its funds and may be able to recover only a *pro rata* share (together with all other securities customers of such broker) of its assets specifically traceable to the Clients' account. In certain broker insolvencies, customers have, in fact, been unable to recover from the broker's estate the full amount of their "customer" funds. In addition, under certain circumstances, such as the inability of another client of the broker or the broker itself to satisfy substantial deficiencies in such other client's account, a customer (including the Clients) may be subject to a risk of loss of its funds on deposit with a broker dealer, even if such funds are properly segregated. Furthermore, in the event of a broker's insolvency, the transactions which the broker has entered into as principal could default and the Clients' assets could become part of the insolvent broker's estate, to the detriment of the Clients. In the case of any such bankruptcy or loss,

the Clients might recover, even in respect of securities specifically traceable to it, only a *pro rata* share of all securities available for distribution to all of the broker's clients. The Clients may trade with or hold accounts at foreign broker dealers registered under the laws and regulations of other countries. Such brokers and/or dealers may not be subject to the same or similar customer fund regulations (including, without limitation, customer segregation requirements) as those existing in the United States. The financial failure of the parties with which the Clients trade in over-the-counter markets could also result in substantial losses, as the Clients will deal with such persons as principal, and there may not be a requirement that such parties segregate counterparty funds held by them in respect of such trading. The Clients do not currently, but may in future (subject to the terms of the applicable Governing Fund Documents and Investment Management Agreements), lend securities. Securities lending arrangements would subject the Clients to additional risks where the counterparty to the arrangement becomes insolvent and/or defaults on its obligations, including, without limitation, the risk that collateral will not be returned and/or repurchased or the Clients will not be permitted to exercise its remedies in accordance with the provisions of the relevant securities lending agreement. The Clients currently do not lend securities

Electronic Trading Facilities - The Clients, in their trading activities, may, in the sole and absolute discretion of HGI Capital, make use of electronic trading and/or communication networks. Most electronic trading facilities are supported by computer-based (including, without limitation, internet-based) component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary or prolonged disruption or failure. Trading on an electronic trading system may differ not only from trading in an open-outcry market or telephonic market but also from trading on other electronic trading systems. The Clients, in undertaking transactions on an electronic trading system, will be exposed to risks associated with the system, including, without limitation, the failure of hardware and software. The result of any system failure may be that a trade order is either not executed according to its instructions or is not executed at all. The Clients' ability to limit or recover certain losses may be subject to limits on liability imposed contractually or by, without limitation, foreign or domestic law or regulation, the Clients' own or its brokers' internet service provider, other systems providers, market factors, foreign or domestic banking or other market regulations and/or telephonic or other communications providers.

Systems Risk - The Clients depend on HGI Capital and its affiliates to develop and implement appropriate systems for their respective activities. In particular, HGI Capital and its affiliates will rely on computer programs and systems to trade, clear and settle transactions, to evaluate certain investments based on real-time trading information, to monitor their portfolios and net capital, and to generate risk management and other reports that are critical to the oversight of the Clients' investment activities. In addition, certain of HGI Capital's and its affiliates' operations interface with or depend on systems operated by third parties, including, without limitation, brokers and market counterparties and their sub-custodians and other service providers, and HGI Capital and its affiliates may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures or interruptions, including, but not limited to, those caused by computer "worms," viruses, and power failures. Any such defect or failure could have a material adverse effect on the Clients. For example, such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording, or processing of trades, and

cause inaccurate reports, which may affect a Client's ability to monitor its investment portfolio and its risks.

Cybersecurity - The Clients and/or one or more of their respective service providers may be subject to operational, information security and related risks resulting from failures of or breaches in cybersecurity. HGI Capital is responsible for developing, implementing, and operating appropriate systems and procedures to execute all investment transactions and monitor and control operational risk on behalf of HGI Capital and the Clients. HGI Capital relies on its execution, financial, accounting, and other data processing systems to trade, clear and settle all transactions, to evaluate and monitor potential and existing investments, and to generate risk management and other reports that are critical to oversight of Client accounts. Certain of HGI Capital's operations are dependent upon systems operated by third parties, including prime brokers, counterparties, electronic exchanges, other execution platforms and their various service providers. HGI Capital may not be in a position to verify the reliability of such third-party systems or data. A failure of, or breach in, cybersecurity (a "cyber incident") refers to both intentional and unintentional events, sometimes caused by an unauthorized third party, including the theft or corruption of data maintained online or digitally, denial of service attacks on websites, the unauthorized monitoring, release, misuse, loss, destruction, or corruption of confidential information, unauthorized access to relevant systems, compromises to networks or devices that are used to service operations, and operational disruption or failures in physical infrastructure or operating systems. The increasing reliance on internet-based programs and applications to conduct transactions and store data also creates increased security risks. Targeted cyber-attacks, or accidental events, can lead to a breach in computer and data systems and access by unauthorized persons to sensitive transactional or personal information. Data taken in breaches may be used by criminals to commit identity theft, obtain loans or payments under false identities, and other crimes. Cyber incidents could result in mistakes or delays in the execution, confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for, and may adversely impact the Clients, potentially resulting in, among other things, theft, data corruption, the inability to transact business, financial losses, violations of applicable privacy, consumer protection, and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Additional costs may also be incurred in mitigating the risks of, or trying to prevent, cyber-incidents.

Leverage - When deemed appropriate by HGI Capital and subject to applicable regulations, the Clients intend to utilize leverage, and may do so through, among other things, margin lending agreements, collateralized borrowing, securities lending, short-selling, and through the use of futures, forwards, contracts, options and other derivative instruments. While strategies, techniques, and instruments that employ leverage increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. If the Clients use leverage with respect to a position, any losses would be more pronounced than if leverage were not used, and a relatively small price movement in a security or other financial instrument may result in immediate and substantial losses to the Clients, including, without limitation, losses in excess of the amount invested. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of the Clients. In addition, the lender or counterparty, as the case may be, may have a security interest in, or otherwise acquire, all or a portion of the Clients' assets. In the event that the Clients default under any such arrangement, such lender or counterparty may have the right to become or remain the owner of all or that portion of the Clients'

assets secured pursuant to such arrangement. If such arrangement is terminated, the Clients' ability to meet its investment objective may be adversely impaired. The Clients will bear all of the costs and expenses incurred in connection therewith, including, without limitation, any interest expense charged on funds borrowed or otherwise accessed.

In addition, certain securities and other financial instruments which the Clients acquire may incorporate a certain, and sometimes high, degree of embedded leverage. Accordingly, even if not leveraged in the sense of being acquired with borrowings, the Clients may have highly leveraged exposure to certain securities and other financial instruments they acquire.

Subject to applicable regulations, certain Clients may not impose a limit on the leverage that may be employed. If the amount of borrowings which a Client may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of the Client's portfolio will have disproportionately large effects in relation to the Client's capital, and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional monies borrowed will generally cause the net asset value of the Clients to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the additional monies borrowed fails to cover their cost to the Clients, the net worth of the Clients will generally decline faster than would otherwise be the case.

Liquidity - Investments that are made by the Clients may lack liquidity or be thinly traded. Illiquidity may result from the absence of an established market for the investments, adverse changes to market conditions and real estate values, as well as legal, contractual, or other restrictions on their resale by the Clients. Dispositions of investments may be subject to legal, contractual, and other limitations on transfer (including pre-payment penalties) or other restrictions that would interfere with the subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. This could impact achieving the prices quoted and ineffectively trading the position(s). The Clients may invest in less liquid investments which could result in significant loss in value should the Clients be forced to sell the less liquid investments as a result of rapidly changing market conditions or as a result of margin calls or other factors. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, the Clients may find it more difficult to sell such investments when HGI Capital believes it advisable to do so or may be able to sell such investments only at prices lower than if the investments were more widely held. In such circumstances, it may be more difficult to determine the fair market value of such investments. Accordingly, the Clients may be forced to sell more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of less liquid investments. There may be no market for such investments or for a substantial percentage of such investments. To the extent there is a market for such investments, the market may be limited to a narrow range of potential counterparties, such as institutions and investment banks. These investments could prevent the Clients from liquidating unfavorable positions promptly and subject them to substantial losses. The possibility of partial or total loss of capital will exist and investors should not invest unless they can readily bear the consequences of such loss. Fund Clients can generally only make redemptions upon providing sufficient notice to HGI Capital. All payments of redemption proceeds for all Clients are subject to the liquidity of a Client's assets. As a result, a Client's ability to distribute proceeds to investors in a timely manner could be impaired or satisfied,

in whole or in part, with in-kind distributions. In certain circumstances, the Clients may also be contractually prohibited from disposing of investments for a specified period of time.

The disposition of less liquid investments often requires more time and results in higher transaction costs than the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. For the avoidance of doubt, HGI Capital will not designate any of the securities or other financial instruments held by the Clients as “side pockets”.

Accuracy of Public Information – HGI Capital selects investments for the Clients, in part, based on information and data filed by issuers with various government regulators or made directly available to HGI Capital by the issuers or through sources other than the issuers. Although HGI Capital generally evaluates such information and data and ordinarily seeks independent corroboration when HGI Capital considers it appropriate and reasonably available, HGI Capital is not in a position to confirm the completeness, genuineness or accuracy of such information and data and, in some cases, complete and accurate information is not available.

Concentration of Holdings - The Funds’ assets will be highly concentrated within a particular industry, and may become highly concentrated, including, without limitation, within a particular company, asset category, trading style or financial or economic market. As a result, the Funds will be more susceptible to fluctuations in value resulting from adverse economic conditions affecting the performance of that particular industry, company, asset category, trading style or financial or economic market, than a less concentrated portfolio would be. As a result, a Fund’s aggregate return may be volatile and may be affected substantially by the performance of only one or a few holdings. HGI Capital is not obligated to hedge the Funds’ positions. Nonetheless, the Funds generally seek to limit specific company concentration risk.

The Separate Account Clients’ equity is allocated among a number of investments, which may or may not be highly concentrated within a particular industry; however there are no fixed allotments. While HGI Capital seeks a diversified portfolio, there is a risk that one of the investments may have a disproportionate share of the Separate Account Clients’ assets, or that Account portfolios may be highly concentrated and more susceptible to adverse conditions, poor investment decisions or other factors which may negatively affect the performance of the Accounts.

Equity Securities - The Clients will invest in equities and equity derivatives. The value of these instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, the Clients may suffer losses if they invest in equity instruments of issuers whose performance diverges from HGI Capital’s expectations or if equity markets generally move in a single direction and the Clients have not hedged against such a general move. In its equity derivatives, the Clients are exposed to risks that issuers will not fulfill their contractual obligations to the Clients, such as, for example, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

Preferred and Hybrid Securities - The Clients may invest in preferred stock and hybrid securities, which may have special risks. Preferred and hybrid securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If the Clients own a preferred or hybrid security that is deferring its



distributions, the Clients may be required to report income for tax purposes even though it has not yet received such income. Some preferred and hybrid securities are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid.

There is no assurance that dividends or distributions on non-cumulative preferred securities in which the Clients invest will be declared or otherwise made payable or paid. Preferred and hybrid securities are subordinated to bonds and other debt instruments in an issuer's capital structure in terms of priority to corporate income and liquidation payments and, therefore, will be subject to greater credit risk than more senior debt instruments. Because preferred stock and hybrids are generally junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of such instruments than senior debt securities with similarly stated yield characteristics. Preferred and hybrid securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities. The Clients do not have control over the underlying properties and will have rights that are subordinate to those of lenders. Accordingly, the Clients may not be able to take the steps necessary to protect their investments in a timely manner or at all and there can be no assurance that the rate of return objectives of the Clients or any particular investment will be achieved. The residual value of the underlying property (after any outstanding debt) may be less than the outstanding amount of the Clients' investment. In cases in which a Client invests in preferred equity interests, its rights and level of security will generally be less than if it held a secured or unsecured loan.

Convertible Securities - The Clients may invest in convertible securities. Convertible fixed income securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. As with all fixed income securities, the market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock. Convertible securities rank senior to common stocks in an issuer's capital structure and consequently entail less risk than the issuer's common stock. The Clients may invest in convertible securities of any maturity and will determine whether to hold, sell or convert any security in which it has invested depending upon HGI Capital's outlook for the market value for such security, the security into which it converts and/or other factors.

Small Companies - The Clients may invest a portion of their assets in securities of small and/or unseasoned companies with small market capitalization. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. Such companies may not be well-known to the investing public, may not have significant institutional ownership, and may have cyclical, static or only moderate growth prospects. As a result, the securities of smaller companies may be subject to wider price fluctuations. When making large sales, the Clients may have to sell portfolio holdings

at discounts from quoted prices or may have to make a series of small sales over an extended period due to the lower trading volume of smaller company securities.

Smaller capitalization securities may be followed by relatively fewer securities analysts with the result that there tends to be less publicly available information concerning these securities compared to what is available for larger companies. The securities of these companies may have limited trading volumes and may be subject to more abrupt or erratic market movements than the securities of larger, more established companies or the market averages in general, and the Clients may be required to deal with only a few market makers when purchasing and selling these securities. Transaction costs in smaller capitalization securities may be higher than those for larger-capitalized companies. It is anticipated that the Clients would limit investments in smaller-capitalization companies and would generally require higher risk-reward ratios.

Material, Nonpublic Information - From time to time (including, without limitation, in connection with providing investment management services to other pooled investment vehicles and/or Client accounts), certain personnel of the General Partner, HGI Capital, the Investment Committee and/or their respective affiliates may come into possession of material, nonpublic information that would limit the ability of the Clients to buy and sell investments. The Clients' investment flexibility may be constrained as a consequence of HGI Capital's inability to take certain actions because of such information. The Clients may experience losses if it is unable to sell an investment that it holds because certain personnel have obtained material, nonpublic information about such investment.

Options – HGI Capital may utilize options in furtherance of its investment strategies. Option positions may include both long positions, where the Clients are the holder of put or call options, as well as short positions, where the Clients are the seller (writer) of an option. Although option techniques can increase investment return, they can also involve a higher level of risk compared with their underlying securities. For example, the expiration of unexercised long options effectively results in loss of the entire cost, or premium paid for the option. Conversely, the writing of an uncovered put or call option can involve, similar to short selling, a theoretically unlimited risk of an increase in the Clients' cost of selling or purchasing the underlying securities or other financial instruments in the event of exercise of the option.

Hedging Transactions - Hedging involves special risks, including, without limitation, the possible default by the other party to the transaction, illiquidity and, to the extent HGI Capital's view as to certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if such investment strategies had not been used. HGI Capital may utilize financial instruments for risk management purposes. The success of the hedging strategy of the Clients will be subject to HGI Capital's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Because the characteristics of many assets change as markets change or time passes, the success of the Clients' hedging strategy will also be subject to HGI Capital's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Clients may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Clients than if it had not engaged in any such hedging transactions. For a variety of reasons, HGI Capital may not seek to hedge certain portfolio holdings, or may not seek to establish or achieve a perfect correlation between such hedging instruments and

the portfolio holdings being hedged. Moreover, the portfolio may be exposed to certain risks that cannot be hedged.

When conducted outside the United States, hedging may not be regulated as rigorously as in the United States, may not involve a clearing mechanism and related guarantees, and may be subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities, currencies, and other financial instruments. The value of positions taken as part of non-U.S. hedging also could be adversely affected by (i) other complex foreign political, legal and economic factors; (ii) lesser availability of data on which to make trading decisions than in the United States; (iii) delays in the Clients' ability to act upon economic events occurring in foreign markets during non-business hours in the United States; (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States; and (v) lower trading volume and liquidity.

Non-U.S. Investments - The Clients may invest a portion of their assets in non-U.S. securities and interests denominated in non-U.S. currencies and/or traded outside of the United States. Such investments require consideration of certain risks not typically associated with investing in securities traded in the United States or other assets. Such risks include, among other things, (i) unfavorable currency exchange rate developments and costs associated with conversion of investment principal and income from one currency to another; (ii) differences in conventions relating to documentation, settlement, corporate actions, shareholder rights, and other matters; (iii) differences in the legal and regulatory environment or enhanced legal and regulatory compliance, including potential currency control regulations, and potential restrictions on repatriation of investment income and capital; (iv) imposition of exchange control regulation; (v) differences between U.S. and foreign securities and real estate markets, including potentially higher price volatility and relative illiquidity of some markets; (vi) economic, political, or social instability in foreign nations, including the risk of sovereign defaults, regulatory change, and the possibility of expropriation or confiscatory taxation, and other adverse economic and political developments; (vii) the possible imposition of non-U.S. taxes on income and gains and gross sales or other proceeds recognized with respect to such investments; (viii) less developed corporate laws regarding stakeholder rights, creditors' rights (including the rights of secured parties), fiduciary duties and investor protections; and (ix) political hostility to investments by foreign or private equity investors. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the United States, and certain non-U.S. companies may not be subject to accounting, auditing, and financial reporting standards, requirements, and government supervision comparable to or as uniform as those of U.S. companies.

Changes to the European Union - The United Kingdom ("UK") left the European Union ("EU") on January 31, 2020 (commonly referred to as "Brexit"). During an 11-month transition period, the UK and the EU agreed to a Trade and Cooperation Agreement, which set out the agreement for certain parts of the future relationship between the EU and the UK from January 1, 2021. The Trade and Cooperation Agreement does not provide the UK with the same level of rights or access to all goods and services in the EU as the UK previously maintained as a member of the EU and during the transition period. In particular, the Trade and Cooperation Agreement does not include an agreement on financial services, which is yet to be agreed. Accordingly, uncertainty remains in certain areas as to the future relationship between the UK and the EU. From January 1, 2021, EU laws ceased to apply in the UK. However, many EU laws have been transposed into English law

and these transposed laws will continue to apply until such time that they are repealed, replaced or amended. Depending on the terms of any future agreement between the EU and the UK on financial services, substantial amendments to English law may occur, and it is impossible to predict the consequences on the Clients and their investments. Such changes could be materially detrimental to the Clients.

Although one cannot predict the full effect of Brexit, it could have a significant adverse impact on the UK and European and global macroeconomic conditions and could lead to prolonged political, legal, regulatory, tax and economic uncertainty. This uncertainty is likely to continue to impact the global economic climate and may impact opportunities, pricing, availability and cost of bank financing, regulation, values or exit opportunities of companies or assets based, doing business, or having service or other significant relationships in, the UK or the EU, including companies or assets held or considered for prospective investment by the Clients.

The future application of EU-based legislation to the private fund industry in the UK and the EU will ultimately depend on how the EU renegotiates the regulation of the provision of financial services within and to persons in the EU. There can be no assurance that any renegotiated terms or regulations will not have an adverse impact on the Clients, including the ability of the Clients to achieve their investment objectives. Brexit may result in significant market dislocation, heightened counterparty risk, an adverse effect on the management of market risk and, in particular, asset and liability management due in part to redenomination of financial assets and liabilities. As a result, Brexit may have an adverse effect on the ability of HGI Capital to manage the Clients, and lead to an increased legal, regulatory or compliance burden for HGI Capital and/or the Clients.

Areas where the uncertainty created by the UK's withdrawal from the EU is relevant include, but are not limited to, trade within Europe, foreign direct investment in Europe, the scope and functioning of European regulatory frameworks (including with respect to the regulation of alternative investment fund managers and the distribution and marketing of alternative investment funds), industrial policy pursued within European countries, immigration policy pursued within European Union countries, the regulation of the provision of financial services within and to persons in Europe and trade policy within European countries and internationally. The volatility and uncertainty caused by the withdrawal may adversely affect the ability of HGI Capital to achieve the investment objectives of the Clients.

Emerging Markets - Investment in emerging market securities involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favorable tax provisions, a greater likelihood of severe inflation, unstable currency, war, and expropriation of personal property. In addition, the Clients' investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities. Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market securities, little or no market may exist for the securities. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices,

and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

Counterparty Creditworthiness and Risk - The Clients will engage in transactions in securities and/or other financial instruments that involve counterparties, and no counterparty exposure limits have been imposed on these transactions. Under certain conditions, a counterparty to a transaction could default or the market for certain securities and/or other financial instruments may become illiquid. In addition, the Clients could suffer losses if there were a default or bankruptcy by third parties, including, without limitation, brokerage firms and banks with which the Clients does business, or to which securities have been entrusted for custodial purposes.

The Clients are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. The ability of the Clients to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities, and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Clients. The Clients intend to diversify and mitigate counterparty risk as appropriate.

Swap Agreements - The Clients may invest in derivative instruments with or through third parties. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Clients' exposure to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, corporate borrowing rates or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Clients are not limited to any particular form of swap agreement if consistent with the Clients' investment objective and policies. Swap agreements tend to shift the Clients' investment exposure from one type of investment to another. For example, if the Clients agree to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease the Clients' exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Clients' portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Clients. If a swap agreement calls for payments by the Clients, the Clients must be prepared to make such payments when due. This is only true in default and not part of mark-to-market. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Clients.

Other Derivative Instruments - The Clients may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Clients and legally permissible. Special risks may apply to instruments that are invested in by the Clients in the future that cannot be determined at this time or until such instruments are developed or invested in by the Clients. Certain swaps, options and other

derivative instruments may be subject to various types of risks, including, without limitation, market risk, liquidity risk, the risk of non-performance by the counterparty, including, without limitation, risks relating to the financial soundness and creditworthiness of the counterparty, legal risk, and operations risk.

Temporary Investments in Liquid Assets - The Clients may at times keep a portion of their assets in cash, cash equivalents or other liquid assets, including, without limitation, currencies, bank deposits, certificates of deposit, bankers acceptances, one or more short duration funds (including, without limitation, money market instruments or investments in shares or units of money market funds) and/or government securities (both short-term and long-term). Such investments may be financed by entering into repurchase agreements and/or reverse repurchase agreements with the Clients' brokers or by other means. Investors should be aware that such investments may produce a lower return than other investments contemplated by the Clients and, therefore, may impact the overall performance of the Clients. The fact that a portion of the Clients' assets are held in cash or cash equivalents should not be taken as an indication that the Clients have not fully invested all of its assets. Further, investors should not assume that an investment in the Clients is less risky due to the fact that the Clients may, from time to time, hold a significant portion of its assets in cash and cash equivalents.

Global Economic Trends and Regulations - The range and potential implications of possible political, regulatory, economic, pandemic and market outcomes are difficult to predict. The effect of any such political, regulatory, economic, pandemic or market outcomes on the Clients could be adverse. Evolving trade deals between the U.S. and various countries remain uncertain and the volatility of such trade deal negotiations could have an adverse effect on the U.S. economy and the global markets.

*Risks of Artificial Intelligence ("AI")*. HGI Capital's ability to use, manage and aggregate data may be limited by the effectiveness of its policies, systems and practices that govern how data is acquired, validated, used, stored, protected, processed and shared. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit HGI Capital's ability to manage current and emerging risks, as well as to manage changing business needs and to adapt to the use of new tools, including AI. While HGI Capital may restrict certain uses of third-party and open-source AI tools, such as ChatGPT, HGI Capital's employees and consultants may use these tools, which poses additional risks relating to the protection of HGI Capital's proprietary data, including the potential exposure of HGI Capital's confidential information to unauthorized recipients and the misuse of HGI Capital's or third-party intellectual property, which could adversely affect HGI Capital or a Client. Use of AI tools may result in allegations or claims against HGI Capital or a Client related to violation of third-party intellectual property rights, unauthorized access to or use of proprietary information and failure to comply with open-source software requirements. Additionally, AI tools may produce inaccurate, misleading or incomplete responses that could lead to errors in HGI Capital's and its employees' and consultants' decision-making, portfolio management or other business activities, which could have a negative impact on HGI Capital or on the performance of a Client. Such AI tools could also be used against HGI Capital or a Client in criminal or negligent ways. As the use and availability of AI tools has grown, the U.S. Congress and a number of U.S. federal and state agencies have been examining the AI tools and their use in a variety of industries, including financial services. These agencies have issued proposed or adopted a variety of rules and other guidance regarding the use of AI. AI

similarly faces an uncertain regulatory landscape in many foreign jurisdictions. Ongoing and future regulatory actions with respect to AI generally or AI's use in any industry in particular may alter, perhaps to a materially adverse extent, the ability of HGI Capital or a Client to utilize AI in the manner it has to-date and may have an adverse impact on the ability of HGI Capital or a Client to continue to operate as intended.

*Recent Regulatory Developments for Private Funds and Their Advisers.* In recent years, the SEC has proposed and adopted, and continues to adopt, various changes to the rules relating to private funds and their advisers. On August 23, 2023, the SEC adopted previously proposed new rules and amendments to existing rules (collectively, the "Private Funds Rules") under the Advisers Act specifically related to advisers of private funds.

The Private Funds Rules will impose new and substantial requirements on advisers and the funds they advise, including with respect to quarterly reporting, restricted activities, preferential treatment of investors, audit requirements, adviser-led secondaries, and annual compliance reviews. The Private Funds Rules, in addition to any other new rules adopted by the SEC, are expected to significantly impact the business of HGI Capital and its affiliates, a Client and/or its investments. As a result of the new rules, HGI Capital may be restricted or refrain from providing information regarding a Client in response to Investor requests. HGI Capital will be required to circulate to all Investors the material terms of any preferential treatment agreed in connection with investments in a Client (i.e., all side letter terms), without regard to any most favored nation provision. This may ultimately impact HGI Capital's decisions with respect to agreeing to certain preferential rights. The Private Funds Rules include certain audit requirements, which may require HGI Capital to select a different auditor or obtain an additional audit, even if HGI Capital does not believe it is in the best interest of a Client or its Investors to do so. Further, many provisions of the Private Funds Rules require HGI Capital to make a variety of subjective determinations as to whether and how such rules apply to a Client and HGI Capital's related obligations. HGI Capital will face conflicts of interest in making such determinations, including for example with respect to whether certain fees and expenses may be charged to a Client, whether certain provisions may have a material negative impact on certain Investors and whether certain allocations are fair and equitable. HGI Capital's and a Client's compliance burdens and associated costs including, without limitation, insurance expenses, are also expected to increase. HGI Capital also will be subject to increased risk of exposure to additional regulatory scrutiny, litigation, censure and penalties for noncompliance or perceived noncompliance as a result of the Private Funds Rules, and any noncompliance or perceived noncompliance with such rules may negatively impact a Client's reputation as well as its investment activities, thereby materially reducing returns to Investors.

Several trade groups representing private fund managers have filed a legal challenge to the Private Funds Rules and other legal challenges to the Private Funds Rules may be forthcoming. Regardless of the outcome of these lawsuits, the implementation of these new rules is expected to create additional burdens for advisers to private funds.

Market Dislocation and Illiquidity - Events in the sub-prime mortgage market and other areas of the fixed income markets in the United States relating to the market failure in 2008 caused significant dislocations, illiquidity, and volatility in the structured credit, leveraged loan and high-yield bond markets. These events had repercussions on the global financial markets, including, without

limitation, the markets in which the Clients trade and invest, by restricting the availability of credit generally and reducing liquidity levels across virtually all markets globally. Similar events could lead to an overall weakening of the U.S. and global economies. Any resulting economic downturn could adversely affect certain of the Clients' investments. Such marketplace events also may restrict the ability of the Clients to sell or liquidate investments (including, without limitation, equity investments) at favorable times and/or for favorable prices and/or cause the Clients to have limited access to credit. The Clients may be adversely affected by a decrease in market liquidity (e.g., by impairing the Clients' ability to adjust their positions and risk in response to trading losses or other adverse developments). The size of the Clients' positions may magnify the effect of a decrease in market liquidity for the instruments traded. Changes in the overall market leverage (e.g., deleveraging or liquidations by other market participants of the same or similar positions) also may adversely affect the Clients positions.

Currency Risk – HGI Capital generally may or may not cause the Clients to enter into arrangements in an attempt to hedge the Clients' exposure to significant currency fluctuations between the U.S. Dollar and other currencies. Therefore, the Clients may be exposed to fluctuations in currency and interest rates to the extent the movement in such rates affects the Clients' portfolio. Price movements of currencies and interest rates are difficult to predict accurately because they are influenced by, among other things, changing supply and demand relationships; governmental, trade, fiscal, monetary and exchange control programs and policies; national and international political and economic events; and changes in interest rates. Governments from time to time intervene in certain markets in order to influence prices directly. HGI Capital cannot guarantee that the Clients' portfolio will not be affected substantially by currency price and interest rate movements and the Clients may suffer significant losses as a result thereof.

Inflation Risk - Inflation risk results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if a Client purchases a 5-year bond in which it can realize a coupon rate of five percent (5%), but the rate of inflation is six percent (6%), then the purchasing power of the cash flow has declined. For all but inflation-linked bonds, adjustable bonds or floating rate bonds, the Clients, if it were to invest in bonds, would be exposed to inflation risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.

Systemic Risk - World events and/or the activities of one or more large participants in the financial markets and/or other events or activities of others could result in a temporary systemic breakdown in the normal operation of financial markets. For example, a default by one institution may cause a series of defaults by other institutions. This systemic breakdown may adversely affect financial intermediaries, such as clearing houses, banks, and securities firms with which the Clients interact, and the investment market and investor sentiment generally. Such events could result in the Clients losing substantial value caused predominantly by liquidity and counterparty issues, which could result in the Clients incurring substantial losses.

Custody and Banking Risks - The Clients will maintain funds with one or more banks or other depository institutions ("banking institutions"), which may include U.S. and non-U.S. banking institutions, and may enter into credit facilities or have other financial relationships with banking



institutions. The distress, impairment, or failure of one or more banking institutions with whom the Clients, their investments, the General Partner and/or HGI Capital transact may inhibit the ability of the Clients or their investments to access depository accounts or lines of credit at all or in a timely manner. In such cases, the Clients may be forced to delay or forgo investments, resulting in lower performance for the Clients. In the event of such a failure of a banking institution where the Client or one or more of its investments holds depository accounts, access to such accounts could be restricted and U.S. Federal Deposit Insurance Corporation (“FDIC”) protection may not be available for balances in excess of amounts insured by the FDIC (and similar considerations may apply to banking institutions in other jurisdictions not subject to FDIC protection). In such instances, the Clients and their affected investments may not recover such excess, uninsured amounts and instead, would only have an unsecured claim against the banking institution and participate pro rata with other unsecured creditors in the residual value of the banking institution’s assets. The loss of amounts maintained with a banking institution or the inability to access such amounts for a period of time, even if ultimately recovered, could be materially adverse to the Clients or their investments. In addition, HGI Capital may not be able to identify all potential solvency or stress concerns with respect to a banking institution or to transfer assets from one bank to another in a timely manner in the event a banking institution comes under stress or fails.

General Economic Conditions - The success of any investment activity is affected by general economic conditions, which include the level and volatility of interest rates, credit spreads and equity valuations and the extent and timing of investor participation in the markets for both equities and interest-sensitive instruments. Unexpected volatility or illiquidity in the markets in which the Clients hold positions could cause the Clients to incur losses.

Market Disruption, Health Crisis, Terrorism and Geopolitical Risk - The Clients are subject to the risk that war, terrorism, climate change, social unrest and related and unrelated geopolitical and other new or novel market disrupting events as well as outbreaks of infectious disease, pandemics, or any other serious public concerns (cumulatively, “Market Disruption Events”) may lead to increased short-term market volatility and have adverse long-term effects on world economies and markets generally, as well as adverse effects on the Clients’ investments. Market Disruption Events as well as other changes in world economic, social, political and health conditions are likely to adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of a Client’s investments. At such times, a Client’s exposure to several of other risks described elsewhere in this section can increase. HGI Capital’s financial condition is likely to be adversely affected by a significant general economic downturn and it may be subject to legal, regulatory, reputational, and other unforeseen risks that are likely to have a material adverse effect on HGI Capital’s business and operations, and thereby are likely to impact the Clients.

Coronavirus Outbreak Risks - The ongoing global outbreak of the 2019 novel coronavirus (“COVID-19”), together with resulting voluntary and U.S. federal and state and non-U.S. governmental actions, including, without limitation, mandatory business closures, vaccine mandates, public gathering limitations, restrictions on travel and quarantines, has meaningfully disrupted the global economy and markets. The global impact of COVID-19 has been evolving over the course of the pandemic and, at different points of time has, and may continue to have ongoing material adverse effects across many, if not all, aspects of the regional, national and global

economy. 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.

Since COVID-19, various federal, state and local laws and regulations have limited the ability of landlords to evict tenants for failure to pay rent, which in turn has adversely impacted the operating and financial results of some apartment properties. The laws and regulations may adversely impact properties in which the Clients invests and negatively affect the Clients' financial results.

Climate Change - The Clients may acquire investments that invest directly or indirectly in, or provide goods and services to, properties that are located in areas that are subject to climate change. Such investments may be affected by any future increases in sea levels or in the frequency or severity of hurricanes and tropical storms, whether such increases are caused by global climate changes or other factors. Physical impacts of climate change may include increased storm intensity and severity of weather (e.g., floods or hurricanes), sea level rise, fires, and extreme and changing temperatures. As a result of these impacts from climate-related events, certain investments may be vulnerable to risks that would adversely affect the value of the investments.

Benchmark Rate Risk. Prior to June 30, 2023, certain bonds and loans held by the Clients may have had floating interest rates based on the London Inter Bank Offered Rate ("LIBOR"). LIBOR is an estimate of the interest rates to borrow U.S. dollars, sterling, euros and certain other currencies in the London unsecured interbank market and was widely used as a reference for setting the interest rate on loans, bonds and derivatives globally. Consistent with prior announcements by the United Kingdom's Financial Conduct Authority, the representative settings for all Swiss franc, euro, British pound sterling, Japanese yen, and U.S. dollar LIBORs are no longer available as of June 30, 2023, while synthetic 3-month British pound sterling LIBOR and 1-, 3- and 6-month U.S. dollar LIBOR settings are expected to cease at the end of March 2024 and September 2024, respectively.

On March 15, 2022, the United States enacted the Adjustable Interest Rate (LIBOR) Act of 2021 ("LIBOR Act"). The federal LIBOR Act preempts similar state legislation (including that enacted in New York) and provides one national approach for replacing U.S. dollar LIBOR as a reference interest rate in certain contracts, including those with no fallback provisions or with fallback provisions that identify neither a specific replacement rate nor a "determining person" as defined in the legislation, once U.S. dollar LIBOR is no longer published or is no longer representative. The U.S. Federal Reserve has adopted the final rule that implements the LIBOR Act, which established certain Secured Overnight Financing Rate ("SOFR")-based benchmark replacements for contracts governed by U.S. law that reference overnight and one-, three-, six- and 12-month tenors of U.S. dollar LIBOR that do not have suitable fallback provisions after June 30, 2023.

As a result of the transition away from LIBOR as a benchmark reference for interest rates, certain bonds and loans held by the Clients may have floating interest rates based on SOFR or, if otherwise provided in the underlying contracts, other alternative benchmark rates.

SOFR Risk. SOFR is a relatively new index rate calculated based on short-term repurchase agreements backed by U.S. Treasury Instruments. While LIBOR is an unsecured rate, SOFR is a secured rate. SOFR, unlike LIBOR, reflects actual market transactions. Accordingly, SOFR is not the economic equivalent of LIBOR. Consequently, there can be no assurance that SOFR will

perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, monetary policy, bank credit risk, market volatility or global or regional economic, financial, political, regulatory, judicial or other events.

Additionally, because SOFR is published by the Federal Reserve Bank of New York based on data received from other sources, we have no control over its determination, calculation, or publication. There can be no assurance that SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of the Clients. If the manner in which SOFR is calculated is changed, that change may result in a reduction of the amount of interest payable on SOFR-linked floating rate instruments and the trading prices of such instruments. Additionally, daily changes in SOFR have, on occasion, been more volatile than daily changes in other benchmark or market rates. Although occasional, increased daily volatility in SOFR would not necessarily lead to more volatile interest payments, the return on and value of SOFR-linked floating rate instruments may fluctuate more than floating rate instruments that are linked to less volatile rates. All the foregoing risks may affect the performance of the applicable bonds and loans in which the Clients invest, which in turn may adversely affect the performance of the Clients.

Alternative Benchmark Rate Risk. As stated above, some of the bonds and loans held by the Clients may have floating interest rates based on alternative benchmark rates other than SOFR. Such alternative benchmark rates, like SOFR, may not have been widely used by market participants until relatively recently, and they may not perform the same as LIBOR because they are calculated and administered differently. Generally, the use of alternative benchmark rates (including SOFR) may (i) cause the value of the interest rate on such bonds and loans to be uncertain or to be lower or more volatile than it would otherwise be, (ii) result in uncertainty as to the functioning, liquidity or value of such bonds and loans, and/or (iii) involve actions of regulators or rate administrators that may adversely affect certain markets or contracts underlying such bonds and loans. All of the foregoing could adversely affect the return on and value of the related floating rate instruments in which the Clients invest.

Russian Invasion of Ukraine - On February 21, 2022, Russian President Vladimir Putin ordered the Russian military to invade two regions in eastern Ukraine (the Donetsk People's Republic and Luhansk People's Republic regions) and shortly thereafter commenced a full-scale invasion of Russia's pre-positioned forces into Ukraine. This has led various countries (including the U.S.) to issue sanctions against Russia and against certain foreign individuals and national leaders who have supported Russia's invasion of Ukraine. Further sanctions may be forthcoming. Russia's invasion of Ukraine, related cyberattacks, the displacement of persons both within Ukraine and to neighboring countries, and the increasing international sanctions could have a negative impact on various economies and business activity globally (including in the countries in which the Clients invest), and therefore could adversely affect the performance of the Clients' investments. Furthermore, given the ongoing and evolving nature of the conflict and its ongoing escalation, it is difficult to predict the conflict's ultimate impact on global economic and market conditions, and, as a result, the situation presents material uncertainty and risk with respect to the Clients and the performance of their investments or operations, and the ability of the Clients to achieve their investment objectives.

**Real Estate Related Risks**

Sector Concentration - HGI Capital generally intends to concentrate the Client investments primarily in a single industry sector: real estate. By investing primarily in the real estate sector, the Client assets are exposed to the risks of such sector without the protections against loss afforded by diversification. Concentration of investments in a single sector or industry has the effect of exposing the Clients to the same or similar risks, as well as return or other characteristics, and thereby increases investment risk as well as the portfolio volatility. Accordingly, the value of the Clients' investments may fluctuate more widely given such concentration, as compared with a broadly diversified portfolio.

Real Estate Industry Risks – The Clients will invest in companies in or related to the real estate industry which may, directly or indirectly, be subject to certain risks, including: (i) risks associated with both the domestic and international general economic climate; (ii) local real estate conditions; (iii) risks due to dependence on cash flow; (iv) risks that underlying properties of the investments may not perform in accordance with expectations, including projected occupancy and rental rates; (v) risks that entities in which the Clients invest may have overpaid for properties or real estate related investments; (vi) unforeseen environmental or other hazards resulting in unexpected costs; (vii) structural or property-level latent defects; (viii) risks and operating problems arising out of the absence of certain construction materials; (ix) changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); (x) the financial condition of tenants, buyers and sellers of properties; (xi) tenant turnover and the ability to collect rent from all tenants on a timely basis; (xii) changes in availability and cost of debt financing; (xiii) energy and supply shortages; (xiv) compliance with applicable laws, including regarding zoning and usage; (xv) changes in the tax, real estate, environmental and zoning laws and regulations; (xvi) various uninsured or uninsurable risks; (xvii) natural disasters, acts of war and terrorism, and similar events; (xviii) acts of God and other factors beyond the control of HGI Capital; (xix) political or social instability or uncertainty; (xx) increased operating costs (including real estate taxes and utilities) that may not be passed through to tenants; and (xxi) the ability of the funds or third-party borrowers to manage the real properties and/or obtain necessary occupancy or operating permits.

Certain significant expenditures associated with investments in real estate by the companies in which the Clients invest (such as mortgage payments, real estate taxes, insurance, and maintenance costs) are generally not reduced when circumstances cause a reduction in rental revenues from the property. Also, the amount of available rentable square feet of commercial property is often affected by market conditions and may, therefore, fluctuate over time. Investments in existing entities (e.g., buying out a distressed partner or acquiring an interest in an entity that owns a real property) could also create risks of successor liability.

With respect to investments in equity or debt securities that relate to real estate assets, the Clients in large part are dependent on the ability of third parties to successfully operate the underlying real estate assets, subject to the foregoing risks. In addition, the Clients may invest in mortgage loans that are structured so that all or a substantial portion of the principal is not paid until maturity, which increases the risk of default at that time. The Clients' acquisition of distressed or underperforming assets in a leveraged capital structure involves a high degree of legal and financial risk and there

can be no assurance that the Clients' rate of return objectives will be realized or that there will be any return of capital with respect to these investments.

The performance of real estate investments is influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner behavior. Since mid-2007, the financial system (including the real estate and MBS market) in the United States and Europe has experienced an unprecedented market disruption and significantly changed economic conditions that may adversely affect the performance and market value of real estate investments. Financial institutions have experienced extreme financial hardships, including bankruptcies and government takeovers. Legacy commercial and residential mortgage loans have had elevated levels of delinquencies, defaults and foreclosures and the performance of RMBS (as defined below) originated during this period have been impacted by such delinquencies, defaults, and foreclosures. As a result of the foregoing, the market for MBS may be adversely affected for a significant period of time.

There is particular uncertainty about the prospects for growth in the United States economy in general. A number of factors influence the potential uncertainty, including, but not limited to, high current unemployment, rising government debt levels, the downgrade of the sovereign credit rating of the United States, prospective Federal Reserve policy shifts, the withdrawal of or new government interventions into the financial markets, changing United States consumer spending patterns, and changing expectations for inflation and deflation. Income growth and unemployment levels affect borrowers' ability to repay mortgage loans, and there is risk that economic activity could be weaker than anticipated. Even if economic indicators begin to show that the United States economy is improving, delinquencies and defaults on mortgage loans may continue to rise, or may remain at high levels, as a result of such factors.

The global markets have seen an increase in volatility due to uncertainty surrounding the level and sustainability of sovereign debt of certain countries that are part of the European Union, including Greece, Spain, Ireland, Portugal and Italy, and the sustainability of the European Union itself, as well as other worldwide events. There can be no assurance that this uncertainty will not lead to further disruption of the credit markets and overall economic prospects, in the United States.

If the investments do not generate revenues sufficient to meet operating expenses, including debt service, tenant improvements, leasing commissions and other capital expenditures, certain companies in which the Clients invest may be required to borrow additional amounts to cover fixed costs, and the cash flow of such companies may adversely affect the Clients. Although the Clients will be investing in a range of investments, all real estate investments are speculative in nature and the possibility of partial or total loss of capital exists. Investors should not invest in the Clients unless they can readily bear the consequences of such loss.

Risk of Prolonged Economic Recession - The risks associated with a Client's performance will be more severe during a prolonged recession, especially if real estate values decline. Declining real estate values will likely reduce the level of new bond originations since borrowers often use appreciation in the value of their existing properties to support the purchase of additional properties. Borrowers may also be less able to pay principal and interest on the bonds if the value of real estate weakens. In addition, adverse changes in the real estate market increase the probability of default,

as the incentive of the borrower to retain and protect equity in the property declines. Further, declining real estate values significantly increase the likelihood that the Clients will incur losses on a bond portfolio in the event of default because the value of the collateral may be insufficient to cover the bond portfolio costs. Any sustained period of increased payment delinquencies, foreclosures, or losses could materially adversely affect both a Client's net interest income from the bond portfolio as well as the Client's ability to acquire, sell and securitize bonds, which would significantly harm its returns and the Client's ability to make distributions to the investors.

Investing in REITs and Other Real Estate Securities - The Clients invest in securities issued by entities which qualify as REITs under the Internal Revenue Code of 1986, as amended, and in securities of development and management companies. The Clients may invest in the common or preferred stock or other securities of an individual REIT and/or may also gain exposure to REITs by purchasing index funds or exchange traded funds. As a result, some of the Clients' investments are subject to the risks incident to investments in REITs and other companies engaged in real estate activities, generally, including: (i) potential environmental liabilities, the risk of uninsured losses, the perceptions of prospective tenants of the safety, convenience and attractiveness of the properties, the ability of the owner to provide adequate management, maintenance and insurance, the expenses of periodically renovating, repairing and re-letting spaces, and increasing operating costs (including mortgage payments, real estate taxes, insurance, maintenance costs and utilities) which may not be passed through to tenants; (ii) risks of owning properties through joint ventures or partnerships which may render a REIT or a company engaged in real estate activities unable to exercise sole decision making authority and subject the REIT or other company to the risk that a joint venturer or partner will act in a manner contrary to its best interests; (iii) general real estate investment considerations, such as the effect of local economic and other conditions on property cash flows and values, the need to re-let space upon the expiration of current leases, dependence on major tenants and the possibility of tenant defaults, the ability of a property to generate revenue sufficient to meet debt service payments and other operating expenses, periodic excessive real estate development, and the illiquidity of real estate investments, all of which may affect the REIT's or other company's ability to make expected distributions to its stockholders; (iv) possible increases in interest rates, which may lead prospective purchasers of real estate equity securities, as well as other classes of equities, to demand higher annual yields, and which would adversely affect the market price of such securities; (v) borrowing risks; (vi) relative illiquidity of real estate investments which will tend to limit the ability of a REIT or non-REIT issuer to vary its holdings promptly in response to changes in local economic or other conditions; and (vii) risks associated with the management by REITs of properties owned by third parties, including the risk that management contracts (which are typically cancelable without notice) will be terminated by the entity controlling the property or in connection with the sale of such property, that contracts may not be renewed upon expiration or may not be renewed on terms consistent with current terms, and that the rental revenues upon which management fees are based will decline as a result of general real estate market conditions or specific market factors. Investments in REITs are also subject to special risks, including, without limitation: (i) restrictions on ownership (which may prohibit ownership of more than 9.9% of a REIT's shares by one investor), which are designed to ensure that the REIT does not violate certain share accumulation restrictions imposed by federal tax laws on REITs and which may also deter possible acquisitions of, or changes in control of, a REIT; (ii) many REITs have small-to-medium sized market capitalizations which may be more volatile than prices of large-capitalization securities and an investment in such securities may be less liquid; and (iii) tax risks,

including risk of changes in the tax laws that may cause a REIT to fail to qualify as a REIT or cause REITs, generally, to be subject to corporate taxation.

Commercial MBS - The Clients may invest in commercial mortgage-backed securities (“CMBS”) and other mortgage-backed securities, including subordinated tranches of such securities. The value of CMBS will be influenced by factors affecting the value of the underlying real estate portfolio, and by the terms and payment histories of such CMBS. Some or all of the CMBS contemplated to be acquired by the Clients may not be rated or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated CMBS, or B-pieces, in which the Clients may invest have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Existing credit support and the owner’s equity in the property may be insufficient to protect the Clients from loss. To the extent invested in the most subordinated CMBS class or tranche in particular, the Clients will be first in line among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral. In general, subordinated tranches of CMBS are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and also have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to greater risk of non-payment than senior tranches of CMBS or CMBS backed by third-party credit enhancement. In addition, an active secondary market for such subordinated tranches is not as well developed as the market for certain other tranches. Accordingly, such subordinated CMBS may have limited marketability and there can be no assurance that a more efficient secondary market will develop. The value of CMBS and other mortgage-backed securities in which the Clients may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities will decline.

The most subordinated class in a securitization structure is the first in that transaction to bear the loss upon a default on, restructuring or liquidation of the underlying collateral and is typically the last to receive payment of interest and principal. Such class is subject to special risks, including a substantially greater risk of loss of principal and non-payment of interest than a more senior, rated class. In the event of default and the exhaustion of any cash reserves or letter of credit, such support from equity holders, mezzanine loan holders and holders of any classes of equity securities or debt junior to those in which the Clients invests, the Clients may not be able to recover all of its investment in such security, which the Clients typically purchase at a discount. In addition, if losses are incurred or if the values subsequently decline and, as a result, lower valued collateral is available to satisfy interest and principal payments due on the related CMBS, the securities in which the Clients invests may effectively become the most subordinated position, which may result in losses to the Clients to the extent that such loss is greater than the discount at which the Clients acquires such assets.

Risks Relating to CMBS Collateral - The collateral underlying CMBS generally consists of mortgage loans secured by income producing property, such as regional malls, other retail space, office buildings, apartment buildings, industrial or warehouse properties, hotels, nursing homes, senior living centers and self-storage properties. Performance of a commercial mortgage loan

depends primarily on the net income generated by the underlying mortgaged property. The market value of a commercial property similarly depends on its income-generating ability. As a result, income generation will affect both the likelihood of default and the severity of losses with respect to a commercial mortgage loan. Any decrease in income or value of the commercial real estate underlying an issue of CMBS could result in cash flow delays and losses on the related issue of CMBS.

Successful management and operation of the related business (including property management decisions such as pricing, maintenance and capital improvements) will have a significant impact on the performance of commercial mortgage loans. Issues such as tenant mix, success of tenant business, property location and condition, competition, increases in interest rates, real estate taxes and other operational expenses, general or local economic conditions and/or specific industry segments, declines in real estate values, declines in rental or occupancy rates and civil disturbances, changes in governmental rules, regulations and fiscal policies, acts of God, terrorism, social unrest and insurance coverage are among the factors that may impact both performance and market value. The value of commercial real estate is also subject to a number of laws, and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Property-specific issues with respect to the underlying mortgaged property, such as significant government regulation of a particular industry, reliance on franchise, management or operating agreements, transferability on purchase or foreclosure of related valuable assets such as liquor and other licenses and ease of conversion of a commercial property to an alternative use will impact both risk of loss and loss severity with respect to the underlying mortgage loan pool and the CMBS.

Certain commercial mortgage loans underlying the collateral debt securities may bear interest at adjustable rates based on benchmark interest rates such as SOFR or other established interest indices. Accordingly, debt service for any such commercial mortgage loan will increase as interest rates rise. In contrast, rental and other income on the related mortgaged properties is not expected to rise significantly as interest rates rise. Accordingly, debt service coverage ratios of the underlying floating rate commercial mortgage loans generally will be adversely affected by rising interest rates, and a borrower's ability to make all payments due on such floating rate commercial mortgage loans may be adversely affected.

Mortgage loans underlying a CMBS issue may provide for no amortization of principal or may provide for amortization based on a schedule substantially longer than the maturity of the mortgage loan, resulting in a balloon payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default. As a result, the related issue of CMBS could experience delays in cash flow and losses.

Geographic or Tenant Concentration in Commercial Mortgage Loans - Certain pools of mortgaged properties securing the commercial mortgage loans underlying the CMBS in which the Clients may invest may have a higher degree of geographic concentration in a few states or regions or may be leased by the same tenant, affiliated tenants or tenants with related principals or tenants in the same industry.



Any deterioration in the real estate market or economy or events in such states or regions where there is a high degree of geographic concentration, including earthquakes, hurricanes and other natural disasters, may increase the rate of delinquency experience (and as a consequence, losses) with mortgage loans related to properties in such state or region. As a result, realized losses may occur on the mortgage loans in such pools.

In addition, the bankruptcy or insolvency of, or other financial problems with respect to, any tenant that is, directly or through affiliation, associated with a large pool of mortgaged properties securing the commercial mortgage loans could have an adverse effect on all of those properties where there is a high degree of tenant or industry concentration and on the ability of those properties to produce sufficient cash flow to make the required payments on the related commercial mortgage loan.

Character and Use of the Commercial Property Underlying CMBS - Additional risks may be presented by the character and use of a particular commercial property. For example, hotel and motel properties are often operated pursuant to franchise management or operating agreements that may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of title, whether through purchase or foreclosure, is subject to stringent local law requirements. Also, nursing homes may present special risks due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Furthermore, a particular commercial property (e.g., a hotel or nursing home) may not be converted to an alternative use without significant time and expense. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if a borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses.

Residential MBS - The Clients may invest in residential mortgage-backed securities ("RMBS") directly and through externally managed pools. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. RMBS investments may include, without limitation, RMBS Agency Securities, RMBS Residential A Mortgage Securities, RMBS Residential B/C Mortgage Securities and RMBS Home Equity Loan Securities. Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. Typically, residential mortgage loans that underlie RMBS may be prepaid at any time, are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited. At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of

mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called “jumbo” mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than fully-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

One or many of the factors described above, or others, may result in a borrower under a mortgage loan seeking to modify such loan to lower payments, reduce unpaid principal, extend its term or otherwise alter the original terms of the loan. The servicer of the loans that underlie RMBS may not have the same incentive to pursue such modification as would the holders of RMBS of which the loan is a part. Accordingly, the failure of a loan servicer to modify a loan may make it more likely to become a non-performing loan, and thereby reduce the value of RMBS to which it is related. Furthermore, even where a modification is pursued, there is no assurance that the modified terms will be honored by the loan obligor, or that such terms will result in a greater payment amount than if such loan were allowed to default and be foreclosed on.

Terrorist Activity - Many of the properties underlying the Clients’ investments are and may be located in or near major metropolitan areas. Such properties, or any other properties, or the areas in which they are located could be subject to future acts of terrorism. In addition to the potential direct impact of any such future act, future terrorist attacks and the anticipation of any such attacks could have an adverse impact on the U.S. financial and insurance markets and economy, thus harming leasing demand for and the value of the properties. It is not possible to predict the severity of the effect that such future events would have on the U.S. financial and insurance markets and economy or the properties. These events may have a negative effect on the business and performance results of one or more of acquired or subsequently acquired properties, including by raising insurance premiums and deductibles, and limiting available insurance coverage for the properties.

### **Risks Associated with HGI Capital’s Investment Program**

Investment Strategy Risk - HGI Capital has broad and flexible authority to invest the assets of the Clients in securities and other financial instruments of any type. Accordingly, the Clients may be subject to a variety of risks that cannot be determined at this time and which are not enumerated herein, and may not be able to be determined prior to HGI Capital making a particular investment for a Client.

Frequency of Trading - Some of the strategies and techniques employed by HGI Capital require frequent trades to take place and, as a consequence, portfolio turnover and brokerage commissions may be greater than for other investment entities of similar size.

Reserve for Contingent Liabilities. Under certain circumstances, HGI Capital may find it necessary to establish a reserve for contingent liabilities.

Use of Estimates. Clients' investments may not be listed on established exchanges, which may make a determination of the fair value of such investments difficult to accurately determine. Third party pricing information may not be available regarding some of the Clients' investments. Valuations of the Clients' investments may involve uncertainties and judgmental determinations, and if such valuations should prove to be incorrect, the net asset value of the Clients could be adversely affected. HGI Capital may have no ability to assess the accuracy of the valuations. Therefore, the estimated net asset value of the Clients may be significantly higher or lower than the actual net asset value of the Clients as determined based upon audited financial data.

Change in Investment Strategies. The investment strategies, approaches and techniques discussed herein may evolve over time due to, among other things, market developments and trends, the emergence of new or enhanced investment products, changing industry practice and/or technological innovation. As a result, these investment strategies, approaches and techniques may not reflect the investment strategies, approaches and techniques actually employed by HGI Capital. Nevertheless, the investments made on behalf of the Clients will be consistent with the Clients' investment objective.

### **Regulatory Risks**

Strategy Restriction - Certain prospective investors may be restricted from directly utilizing investment strategies of the type the Clients currently engage in and may engage in. Such prospective investors should consult their own advisors, counsel, and accountants.

Trading Limitations - For all securities, including, without limitation, options and regulated futures contracts listed on a public exchange, the exchange generally has the right to suspend or limit trading under certain circumstances, including, without limitation, the right to impose position limits and price limits on persons or groups of persons. Such suspensions or limits could render certain strategies difficult to complete or continue and subject the Clients to loss.

No Registration - The Clients are not registered under the 1940 Act. Consequently, the Clients will not benefit from certain of the protections afforded by statutes or registrations that apply to registered investment companies.

General Business and Regulatory Risks of Hedge Funds - Legal, tax and regulatory changes could occur during the term of the Clients that may adversely affect the Clients. The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by the Clients and the ability of the Clients to pursue its investment strategies. In addition, the securities and futures markets are subject to comprehensive statutes, regulations, and margin requirements. The SEC, other regulators, self-regulatory organizations, and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. The effect of any future regulatory change on the Clients could be substantial and adverse.

Changes in Applicable Law - HGI Capital and the Clients must comply with various legal requirements, including, without limitation, requirements imposed by the securities, tax, pension, and other applicable laws in various jurisdictions. Should any of those laws change, the legal requirements to which HGI Capital and the Clients may be subject could differ materially from current requirements.

Risk of Litigation - From time to time, the Clients may be named as a defendant in a lawsuit or regulatory action. As a result of such action, the assets of the Clients may be frozen, and the Clients may not be able to liquidate its investments. In certain cases, the Clients may be called on to testify and/or provide information (including, without limitation, a list of investors) in connection with such lawsuit or regulatory action. Litigation and regulatory actions can be time-consuming and expensive and can frequently lead to unpredicted delays or losses. The outcome of such proceedings may materially adversely affect the value of a Client and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

Possibility of Fraud and Other Misconduct of Employees and Service Providers - Misconduct by employees of HGI Capital, service providers to HGI Capital or the Clients and/or their respective affiliates could cause significant losses to such Clients. Misconduct may include entering into transactions without authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by such Clients, the improper use or disclosure of confidential or material non-public information, which could result in litigation, regulatory enforcement or serious financial harm, including limiting the business prospects or future marketing activities of such Clients and noncompliance with applicable laws or regulations and the concealing of any of the foregoing. Such activities may result in reputational damage, litigation, business disruption and/or financial losses to such Clients. HGI Capital has controls and procedures through which it seeks to minimize the risk of such misconduct occurring. However, no assurances can be given that HGI Capital will be able to identify or prevent such misconduct.

The descriptions of risk factors contained above are a brief overview of the different risks related to HGI Capital's investment strategy; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operations of the Clients.

## **Item 9: Disciplinary Information**

Neither HGI Capital nor any of its officers, directors, or employees or other management persons, has been involved in any legal or disciplinary events that would require disclosure in response to this Item.

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

HGI Capital provides investment advisory services to Clients, as more fully discussed in Item 4 (Advisory Business). HGI Asset Management, LLC is the General Partner of the Onshore Fund and the Master Fund.

The General Partner has appointed the Investment Committee which is responsible, among other things, for overseeing HGI Capital and satisfying itself as to the ongoing suitability of HGI Capital to provide investment management services to the Funds. In addition, the board of directors oversees the overall management and policies of the Offshore Fund.

HGI Capital is an affiliate of Harbor Group International, LLC, a large global organization that is also registered with the SEC as an investment adviser and that sponsors real estate and real estate related investment opportunities, and as such has numerous related persons that serve as a sponsor, general partner, managing member (or equivalent) to related pooled investment vehicles. HGI Capital has chosen not to list each related person here purely because of their number. HGI Capital will provide a list of the related persons to investors and prospective investors upon request. For a description of material conflicts created by the relationship among HGI Capital and its affiliates, as well as a description of how certain such conflicts are addressed, please see *Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading)*.

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

### Code of Ethics

Pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), HGI Capital has adopted a written Code of Ethics (the “Code”). The Code is designed to address and, to the extent possible, avoid potential conflicts of interest, except as otherwise disclosed. The Code is applicable to all officers, directors, members, partners or employees of HGI Capital (the “Access Persons”). Among other things, the Code establishes guidelines for professional conduct and personal trading procedures, including certain pre-clearance and reporting obligations. Access Persons are required to promptly report any violation of the Code of which they become aware and are required to annually certify compliance with the Code.

A summary of certain key provisions of the Code is provided below. However, a full copy of the Code will be made available to investors or prospective investors in the Clients upon request to: Christopher R. Gruszczynski, Chief Compliance Officer at [CCO@harborg.com](mailto:CCO@harborg.com).

### Participation or Interest in Client Transactions

HGI Capital, its Access Persons, or affiliated entities of HGI Capital (collectively “Related Persons”), will generally have an investment in the Clients managed by HGI Capital. As a result, Related Persons have an interest in an investment that may also be recommended to the Clients. Infrequently, certain principals who are Related Persons of HGI Capital may redeem an investor’s interest in a Client by personally assuming the investor’s beneficial ownership interest. Such principal transactions are made at the request, and with the approval, of the investor. From time to

time, certain principals who are Related Persons of HGI Capital may sometimes also invest alongside one or more of the Clients privately, outside of a Client.

### Personal Trading

Access Person and their family members and others who reside in their households may purchase investments for their own accounts and accounts in which they have a beneficial interest or over which they have investment discretion or influence, subject to the terms of the Code. Under the Code, Access Persons are required to file certain periodic reports with HGI Capital as required by Rule 204A-1 under the Advisers Act. The Code is designed to prevent and detect potential conflicts of interest.

Access Persons who violate the Code may be subject to remedial actions, including, but not limited to, suspension of personal trading privileges, profit disgorgement, fines, censure, demotion, suspension, or dismissal.

### Conflicts of Interest

HGI Capital and/or its Related Persons engage in a broad range of activities, including investment activities for their own account and for the account of other Clients. In the ordinary course of conducting its activities, the interests of a Client will, from time to time, conflict with the interests of HGI Capital, other Clients, or their respective affiliates.

The material conflicts of interest encountered by a Client include those discussed below, although the discussion below does not necessarily describe all of the conflicts that may be faced by a Client. Other conflicts may be disclosed throughout this brochure, which should be read in its entirety for other conflicts.

### *Resolution of Conflicts*

In the case of all conflicts of interest, HGI Capital's determination as to which factors are relevant, and the resolution of such conflicts, will be made using HGI Capital's best judgment, but in its sole discretion. In resolving conflicts, HGI Capital will consider various factors, including the interests of the applicable Clients with respect to the immediate issue and/or with respect to their longer-term courses of dealing. Prior to making an investment in a Fund or an Account, each investor receives information relating to significant potential and perceived conflicts of interest arising from the proposed activities of such Fund. HGI Capital has adopted and implemented certain policies and procedures designed to reduce or manage certain conflicts of interest. Many important conflicts of interest will generally be resolved by set procedures, restrictions, or other provisions contained in the applicable Governing Fund Documents and Investment Management Agreements.

In certain instances, some of such conflicts of interest may be resolved in a manner adverse to a Client and its ability to achieve its investment objectives. While HGI Capital endeavors to resolve all conflicts in a fair and impartial manner, there can be no assurance that its own interests will not influence its conduct and decisions. There can be no assurance that HGI Capital will identify or resolve all conflicts in a manner that is favorable to the Clients or investors. Investors may not be

entitled to receive notice or disclosure of the actual occurrence of conflicts or have any right to consent to them as they arise.

### *Other Potential Conflicts*

HGI Capital and its affiliates currently manage and expect in the future to raise additional clients or investment entities, including but not limited to those described above, with the same or substantially similar investment objectives as the Clients. Any such additional entities would compete with certain Clients for the time and expertise, services, or functions of HGI Capital for suitable investments.

In addition, HGI Capital and its affiliates receive and generate various kinds of investment data and other information, including related to or created in connection with financial, industry, market, business operations, trends, budgets, customers, suppliers, competitors, environmental, social and governance and other metrics, financial information, commercial and transactional information, user data, cost data and related data or information. This information may, in certain instances, include confidential and/or sensitive information received or generated in connection with efforts on behalf of one Client's investment (or prospective investment) or on behalf of an affiliate's client's investment (or prospective investment). As a result, HGI Capital believes it is better able to anticipate macroeconomic and other trends and financial opportunities, enhance and improve operations of investments and otherwise develop investment strategies or identify specific investment or business opportunities. HGI Capital also intends to utilize such data for purposes of identifying new investments opportunities for the Clients. Information from an investment owned by a Client may enable HGI Capital to better understand a particular industry and develop and execute investment strategies in reliance on that understanding for HGI Capital and other Clients that do not own an interest in such investment, without compensation or benefit to such Client or its investments. Further, data is aggregated across the Clients and their respective investments and, in connection therewith, HGI Capital is expected to serve as the repository for such data, including with ownership, use and distribution rights therein. HGI Capital may also share data from an investment of one Client with an investment of another Client, which may increase a competitive disadvantage for, and indirectly harm, such investment. Investments may incur incremental expenses in collecting and organizing information requested or required to be furnished to HGI Capital (which expenses are indirectly borne by the Clients). HGI Capital and its affiliates have in the past entered into and are likely in the future to enter into information sharing and confidentiality arrangements with investments and other sources of information that may limit the internal distribution and use of such data. HGI Capital and its affiliates have used and are likely to continue to use in certain instances this information in a manner that may provide a material benefit to HGI Capital, its affiliates, or to certain other Clients or affiliate's clients without compensating or otherwise benefitting a Client or Clients (or an affiliate's client or clients) from which such information was obtained. In addition, HGI Capital may have an incentive to pursue investments based on the data and information expected to be received or generated. Furthermore, except for (a) contractual obligations to third parties to maintain confidentiality of certain information or otherwise limit the scope and purpose of its use or distribution, (b) policies, practices and procedures designed to ensure confidentiality of trade secrets and (c) compliance with applicable data privacy laws, laws prohibiting insider trading, anti-competition laws, and laws protecting national security interests, HGI Capital is generally free to use data and information from a Client's activities in its sole discretion for the benefit of HGI Capital and other Clients. The sharing and use of such data

and information present potential conflicts of interest, and any benefits received by HGI Capital or its personnel may not be otherwise shared with a Client or its investors. HGI Capital and its affiliates have in the past utilized, and are likely in the future to utilize, such information to benefit HGI Capital, its affiliates, and certain Clients and/or affiliate's clients.

HGI Capital and its affiliates may also enter into formal or informal arrangements with investments to facilitate the sharing of data and/or data analytics. Subject to applicable legal, regulatory, and contractual requirements, these information sharing arrangements are designed to allow HGI Capital, the Clients and the personnel of the Clients' investments to better discern economic or other trends and developments. HGI Capital believes that all Clients benefit from these arrangements in ways that would be impossible without the ability to aggregate data from across the businesses of HGI Capital and its affiliates, and the Clients' investments. However, information sharing may involve conflicts of interest between the Clients and/or between the Clients and HGI Capital and/or its affiliates. For example, data analytics based on inputs from one investment may inform business decisions by the personnel of other investments, or investment decisions by HGI Capital and its affiliates, without the source of the data being directly compensated for the use of such data. HGI Capital and its affiliates may utilize such data outside of Client activities in a manner that may provide a material benefit to HGI Capital or its affiliates, without directly compensating or otherwise benefiting the Clients. As a result, HGI Capital and its affiliates may have an incentive to pursue investments (on their own behalf or on behalf of the Clients or clients of the affiliates) based on the data that may be accessible as a result of owning such investments, and/or to utilize such data in a manner that benefits HGI Capital, its affiliates, and/or investments held by other Clients or clients of the affiliates.

HGI Capital, its Access Persons (subject to the Code), and Related Persons may buy or sell securities or other instruments that HGI Capital has recommended to Clients. Subject to the Code, Access Persons of HGI Capital may also buy securities in transactions offered to but rejected by Clients. Clients will not benefit from these investments. A conflict of interest may arise because such Access Persons, for some investments, will benefit from the evaluation, investigation, and due diligence undertaken by HGI Capital on behalf of one or more Client. The transactions described above are subject to the policies and procedures set forth in HGI Capital's policies and procedures, and investors in a Fund and Separate Account Clients will not benefit from any such investments.

Investors may have conflicting investment, tax, and other interests with respect to their investments in a Client. Consequently, conflicts of interest arise in connection with decisions made by HGI Capital or its affiliates, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for a Client, HGI Capital and its affiliates will consider the investment and tax objectives of the applicable Client, not the investment, tax, or other objectives of any investor individually.

HGI Capital and/or its affiliates may engage certain service providers to provide services to HGI Capital, the Clients and/or investments, including services during the due diligence and acquisition process and personnel of such service provider have in the past and may in the future be seconded to HGI Capital or its affiliates on a temporary basis. HGI Capital is, from time to time, a beneficiary of these arrangements as well. In such circumstances, a conflict of interest exists because HGI Capital or its affiliates have an incentive to select one service provider over another on the basis



that HGI Capital or its affiliates may receive the benefit of seconded employees from such service provider, particularly where the compensation and expenses for such personnel during the secondment is borne by the service provider and not HGI Capital or its affiliates. Such service providers are, in certain circumstances, investors in a Client and may include, for example, investment or commercial bankers, outside legal counsel, pension consultants and/or other investors or their affiliates who provide services (including lending arrangements). The engagement of any such service provider may be concurrent with an investor's admission to a Client, or during the term of such investor's investment in the Client. This creates a conflict of interest as HGI Capital and/or its affiliates may give such investor preferred economic or other terms with respect to its investment in a Client or an investment in a client of an affiliate, or may have an incentive to offer such investor co-investment opportunities that it would not otherwise offer to such investor or other investors.

Additionally, employees of HGI Capital or its affiliates, and/or their family members or relatives may have ownership, employment, or other economic or other interests in certain service providers. These relationships that HGI Capital may have with a service provider can influence HGI Capital in determining whether to select or recommend such service provider to perform services for a Client or an investment. HGI Capital will have a conflict of interest with the Clients in recommending the retention or continuation of a service provider to the Clients or an investment if such recommendation, for example, is motivated by a belief that the service provider will continue to invest in one or more Clients, or will provide HGI Capital or its affiliates information about markets and industries in which HGI Capital or its affiliates operates or is interested, or will provide other services that are beneficial to HGI Capital or its affiliates. Although HGI Capital selects service providers that it believes will enhance investment performance (and, in turn, the performance of the relevant Client(s)), there is a possibility that HGI Capital, because of financial, business interest, or other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. The fees for services provided by such service providers may or may not be at the same rate charged by other third-party service providers, and HGI Capital is not required to select service providers who may have lower rates (or to engage in any benchmarking of such fees).

Certain other service providers to HGI Capital, the Clients, and/or Client investments, or affiliates of such service providers, also provide goods or services to, or have business, personal, financial or other relationship with, HGI Capital, its affiliates, or their respective investments. Such service providers (or their employees) may also source investment opportunities, be co-investors or commercial counterparties or entities in which HGI Capital and/or the Clients have an investment, and payments by a Client and/or such investments with respect to such services may indirectly benefit HGI Capital and/or such Client.

HGI Capital, its affiliates, or their personnel and service providers often charge varying amounts or may have different fee arrangements for different types of services provided. For instance, fees for various types of work often depend on the complexity of the matter, the required expertise and the time demands on the service provider. As a result, to the extent the services required by HGI Capital, its affiliates, or their personnel differ from those required by the Clients and/or their investments, HGI Capital, its affiliates, or their personnel will pay different rates and fees than those paid by the Clients and/or their investments.

Services required by a Client (including some services historically provided by HGI Capital or its affiliates to the Client) may, for certain reasons, including efficiency and economic considerations, be outsourced in whole or in part to third parties or licensed software, in each case in the discretion of HGI Capital or its affiliates. HGI Capital and its affiliates have an incentive to outsource such services at the expense of the Clients to, among other things, leverage the use of HGI Capital personnel. Such services may include, without limitation, investment sourcing, asset management, information technology, licensed software, depository, data processing, client relations, administration, custodial, marketing and marketing-reviews, accounting, valuation, legal, human resources, client services, compliance, corporate secretarial and tax support, director services and other similar services. Outsourcing may not occur universally for all Clients and accordingly, certain costs may be incurred by a Client for a third-party service provider that is not incurred for comparable services by other Clients. The decision by HGI Capital to initially perform a service for a Client in-house does not preclude a later decision to outsource such services (or any additional services) in whole or in part to a third-party service provider in the future and HGI Capital has no obligation to inform such Clients or investors of such a change. Such services may also supplement or be performed alongside services performed by HGI Capital. In addition, certain internal service providers (such as internal accountants) may “shadow” or otherwise review the reports of other service providers provided by such third parties. The costs and expenses of any such third-party service providers will be borne by the relevant Clients.

Additionally, former HGI Capital employees may also become employees, officers or directors of, or otherwise be engaged by, third-party service providers that provide services to HGI Capital, the Clients and/or investments. While employed by HGI Capital, the cost of the compensation, benefits and attributable overhead provided to these individuals are paid by HGI Capital unless the applicable Fund’s Governing Fund Documents, Client Sub-Advisory Agreement, or Account’s Investment Management Agreement permit certain allocations of internal expenses to the Client. If a former HGI Capital employee becomes an employee or consultant of a third party that also provides services to a Client, such former employee may be assigned by such third party to provide services to that account. In such instance, the cost of the third-party service provider attributable to the former HGI Capital employee working on the Client will be borne entirely by the Client and no such amounts will reduce any fees described herein on the basis that such person used to be a former HGI Capital employee.

HGI Capital and its affiliates have in the past and may, from time to time, hire part-time or full-time employees (including interns) who are relatives of, or are otherwise associated with an investor, or an investment or service provider. Although HGI Capital uses reasonable care to mitigate potential conflicts of interest with respect to each particular situation, there is no guarantee HGI Capital can control all such conflicts of interest and there may be a continuing appearance of a conflict of interest.

HGI Capital and its personnel have in the past and may, from time to time in the future, receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of a Client or HGI Capital. For example, airline travel or hotel stays which may be incurred as Client expenses may result in “miles” or “points” or credit in loyalty/status programs to HGI Capital and/or its personnel, and such rewards and/or amounts will exclusively benefit HGI Capital and/or such personnel.

Current and former officers and executives of investments may also invest in a Client. While HGI Capital believes this aligns investment management teams with the best interests of the Client, HGI Capital may, in certain circumstances, be incentivized to take (or refrain from taking) certain actions with respect to an investment in order to maintain the goodwill with such investment management team investor.

HGI Capital may, from time to time, require, cause, or invite the Clients and/or a Client investment to make contributions to charitable initiatives, or other non-profit organizations that HGI Capital believes could, directly or indirectly, enhance the value of the Clients' investments, assist in completing an acquisition of an investment or other transaction (whether or not documented at the time of such acquisition or transaction), or otherwise serve a business purpose for, or be beneficial to, the Clients or their investments. Such contributions could be designed to benefit employees of an investment, the community in which an investment operates or a charitable cause essential to, or consistent with, the business purpose of an investment. In certain instances, such charitable initiatives could be sponsored by, affiliated with, or related to, current or former employees of HGI Capital, investment management teams, advisors, service providers, vendors, joint venture partners, and/or other persons or organizations associated with HGI Capital, the Clients, or their investments. These relationships could influence HGI Capital's decision whether to require, cause, or invite the Clients or their investments to make charitable contributions. Further, from time to time, such charitable contributions by the Clients or the investments could supplement or replace charitable contributions that HGI Capital would have otherwise made. Also, in certain instances, HGI Capital may, from time to time, select a service provider or other counterparty to the Clients or their investments based, in part, on the charitable initiatives of such person where HGI Capital believes such charitable initiatives could, directly or indirectly, enhance the value of the Clients' investments or otherwise be beneficial to the investments.

To the extent an investor is invested in another Client, this will give rise to various conflicts of interest. For instance, HGI Capital may be less incentivized to take actions adverse to such investors (e.g., pursuing default remedies) when doing so would be beneficial to a Client, in order to maintain such investors' broader relationship with HGI Capital. Similarly, if an investor in another Client has a relationship to an actual or proposed investment (other than through its investment in the Client), HGI Capital may be incentivized to cause a Client to make such investment, and may be influenced by such investor's broader relationship with HGI Capital in negotiating terms or taking or refraining from taking actions with respect to such investment.

## **Item 12: Brokerage Practices**

### Selection of Brokers and Dealers

HGI Capital has complete discretion in deciding which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid.

In selecting brokers to effect portfolio transactions for the Clients, HGI Capital considers such factors as the ability to effect prompt and reliable executions at favorable prices (including the

applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of related services considered to be of value; access to company management; and the competitiveness of commission rates in comparison with other brokers satisfying our selection criteria. Accordingly, if HGI Capital determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and products or services provided by such broker, the Clients may pay commissions to such broker in an amount greater than the amount another broker might charge for effecting the same transaction.

### Soft Dollar Benefits

HGI Capital may be deemed to be paying for research and other services with "soft" or commission dollars. Although HGI Capital believes the Clients will benefit from many of the services obtained with soft dollars generated by the Clients' trades, Clients will not benefit exclusively. HGI Capital and/or its affiliates may also derive direct or indirect benefits from some or all of these services, particularly to the extent that HGI Capital uses "soft" or commission dollars to pay for expenses it would otherwise be required to pay itself.

Section 28(e) of the Exchange Act provides a safe harbor that allows an investment adviser to pay more than the lowest available commission in order to obtain brokerage and research services (commonly referred to as a "soft dollar" arrangement). That practice involves a conflict of interest, but Section 28(e) of the Securities Exchange Act of 1934 provides that HGI Capital's fiduciary duty to the Clients would not be breached if the services and products consist of "research" and "brokerage" services and products, and certain other conditions and requirements are met. Notwithstanding the authority granted in the Investment Management Agreement for each Client, HGI Capital does not currently intend to use soft dollars (i.e., to consider criteria other than execution quality and expenses) to any material extent.

### Cross Transactions

The Governing Fund Documents or Investment Management Agreement for each Client authorizes HGI Capital and/or any of its affiliates to enter into agency cross transactions on behalf of the Client with other accounts and/or other private pooled investment vehicles that are managed by HGI Capital and/or any of its affiliates; provided, however, that the Client receives full written disclosure with respect to any such agency cross transaction in accordance with the Advisers Act and the rules promulgated by the SEC thereunder. Such agency cross transactions may include, without limitation, transactions undertaken to rebalance the portfolios of the Clients and/or such other accounts. In certain circumstances, HGI Capital and/or any of its affiliates may receive commissions from and have a potentially conflicting division of loyalties and responsibilities regarding, both parties to such agency cross transactions.

Depending on the transaction structure, these transactions may disproportionately benefit the purchasing, selling, or merging Client (and HGI Capital as a result of its interests in a particular Client), and one Client may incur expenses or forego gains that would have been obtained had it

not entered into such transaction. For example, HGI Capital may be incentivized to support a less successful investment of an older Client by causing a newer Client with a longer remaining term and investment period to purchase a part or all of such investment in order to provide HGI Capital additional time to potentially manage it to a successful exit and increase the likelihood of HGI Capital or an affiliate receiving Performance Allocations. Conversely, HGI Capital may be incentivized to sell an attractive investment in an older Client to a newer Client to increase the amount of fees received by HGI Capital or an affiliate with respect to such an investment. Determining the valuation or other terms of such transactions may also create a conflict of interest due to HGI Capital's consideration of the particular terms (including the fee terms) of the Clients and HGI Capital's interest in such Clients. Such acquisition or merger may result in the acquiring entity purchasing a Client's investment at a valuation that is: (a) not the highest price than could have been obtained in the market had there been a robust sales process with multiple third party bidders or (b) higher than the value of the company resulting in an overvaluation.

#### Order Aggregation and Allocation

When HGI Capital determines, in its sole discretion, that it would be in the best interest for the Clients and one or more other investment accounts to participate in an investment opportunity, HGI Capital will seek to execute orders for all of the participating Clients on an equitable basis. If HGI Capital has determined to invest at the same time for more than one of the Clients, HGI Capital will generally place combined orders for all such accounts simultaneously, and if all such orders are not filled at the same price, it will generally average the prices paid. Similarly, if an order on behalf of more than Client cannot be fully executed under prevailing market conditions, HGI Capital will allocate the trade among the different Clients on a basis that it considers equitable in its discretion. Situations may occur where the Clients could be disadvantaged because of the investment activities conducted by HGI Capital for other investment accounts.

#### Directed Brokerage Arrangements

A Separate Account Client may direct HGI Capital to effect transactions in its Account through a specific broker-dealer. Under such a directed brokerage arrangement, the Separate Account Client is responsible for negotiating terms for its Account directly with the broker-dealer. HGI Capital will only direct brokerage pursuant to specific instructions that have been signed and dated by the Separate Account Client.

For Accounts subject to directed brokerage arrangements, HGI Capital will not aggregate trades or seek better execution services or prices from other broker-dealers. HGI Capital will place trades on behalf of Accounts subject to directed brokerage arrangements after trading on behalf of other Clients. Consequently, HGI Capital may not obtain best execution on behalf of Separate Account Clients that direct brokerage; such Separate Account Clients may pay materially disparate commissions, greater spreads, or other transaction costs, or receive less favorable net prices on transactions than would otherwise be the case.

#### Client or Investor Introductions

HGI Capital may receive introductions to prospective Separate Account Clients and Fund investors through broker-dealers that execute trades on behalf of HGI Capital. HGI Capital does not believe that it pays additional fees or higher commissions as a result of these introductions. HGI Capital seeks best execution on all transactions. However, HGI Capital may have an incentive to select or use a broker-dealer based on receiving investor referrals from that counterparty.

### Trade Errors

HGI Capital has adopted a policy for the purpose of addressing trade errors that may arise, from time to time, with respect to the securities transactions of the Clients. HGI Capital will seek to identify and correct any trade errors in an expeditious manner, including by cancelling, breaking, or reallocating the trade. HGI Capital will only remain liable for trade errors that are the result of HGI Capital's fraud, gross negligence or willful misconduct. The determination of whether a trade error has occurred will be made in the sole and absolute discretion of HGI Capital. HGI Capital may not be able to prevent a trade error from occurring with respect to securities transactions of Clients.

## **Item 13: Review of Accounts**

The Clients' portfolios are reviewed on a continuous basis. HGI Capital's investment personnel hold investment meetings, as necessary, to discuss investment ideas, investment strategies, economic developments, current events, and other issues related to current portfolio holdings and potential investment opportunities. The Funds are subject to the oversight of the Investment Committee and, with respect to the Offshore Feeder Fund, the overall management and policies of the board of directors.

HGI Capital provides each Investor in the Funds with monthly performance updates, quarterly performance updates and market commentary, annual audited financial reports, and annual tax information necessary to complete any applicable tax returns.

Separate Account Clients will typically negotiate reporting requirements specific to their account. In the event of individually negotiated terms for Separate Account Clients, HGI Capital will provide the reporting mutually agreed to by the parties as described in the Investment Management Agreements of such Separate Account Client.

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

HGI Capital does not receive any economic benefits from non-Clients in connection with the provision of investment advice to the Clients.

HGI Capital may periodically enter into client solicitation arrangements and engage third-party placement agents or finders to introduce prospective investors to its Clients. The fees and expenses of any solicitors, third-party placement agents, or finders will be paid by HGI Capital.

## **Item 15: Custody**

HGI Capital is deemed to have custody of the Funds' assets because of the authority that HGI Capital and/or its affiliated entities have over those assets to deduct its advisory and performance fees directly from the Funds' accounts. The Funds' financial statements are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements are distributed to each Investor in the Funds. The audited financial statements are prepared in accordance with generally accepted accounting principles and distributed within 120 days of the Funds' fiscal year end.

## **Item 16: Investment Discretion**

HGI Capital generally has discretionary authority to determine, without obtaining specific consent from the Funds or its Investors, the securities, and the amounts, to be bought or sold on behalf of the Funds.

## **Item 17: Voting Client Securities**

HGI Capital will generally be responsible for voting client proxies. HGI Capital has developed a written policy and procedures governing its activities in this area. In general, the policy requires HGI Capital to vote proxies in the interest of maximizing shareholder value. In addition, HGI Capital maintains a record of all proxy votes cast on behalf of the Funds. A copy of HGI Capital's proxy voting policies and procedures is available upon written request.

## **Item 18: Financial Information**

HGI Capital has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage Client accounts.