

FORM ADV BROCHURE

UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Part 2A

TerraCap Management, LLC

Form ADV Part 2A



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This brochure provides information about the qualifications and business practices of TerraCap Management, LLC. If you have any questions about the contents of this brochure, please contact João Chagas, Chief Compliance Officer at ComplianceHR@terracapmgmt.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about TerraCap Management, LLC, is available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. The CRD number for TerraCap Management, LLC is 169695.

Registration with the SEC and other state securities authorities as a registered investment adviser does not imply a certain level of skill or training.



Item 2: Summary of Material Changes

As of the Firm's last annual amendment on March 31, 2023, João Chagas has been named Chief Compliance Officer.



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Item 4: Advisory Business

Who We Are

TerraCap Management, LLC (referred to herein as “We,” “Our,” “Us,” the “Firm,” “TerraCap,” or “TerraCap Management”) is an investment adviser in the State of Florida. We are governed by our owners and principals, Walter S. Hagenbuckle and Robert M. Gray. The only owners of TerraCap Management holding more than 25% are Mr. Hagenbuckle and Mr. Gray.

Services We Offer

We serve as the manager and investment adviser to four pooled investment vehicles, three of which consist of two co-mingled funds and one of those commingled funds serves as the master fund in a master-feeder arrangement; TerraCap Partners LP, TerraCap Partners II (Institutional) LP, TerraCap Partners II (HNW) LP, TerraCap Partners III (Institutional) LP, TerraCap Partners III (HNW) LP, TerraCap Partners IV (Institutional) LP and TerraCap Partners IV (HNW) LP, TerraCap Partners V (Institutional) LP, TerraCap Partners V (HNW) LP, TerraCap Partners VI (Institutional) LP, TerraCap Partners VI (HNW) LP (each a “Fund” or collectively the “Funds”). TerraCap Partners IV (Institutional) LP is the master fund in a master-feeder arrangement. TerraCap Partners IV (ERISA) LP is the feeder fund in the aforementioned arrangement. TerraCap Partners V (Institutional) LP is the master fund in a master-feeder arrangement. TerraCap Partners V (ERISA) LP is the feeder fund in the aforementioned arrangement. TerraCap Partners VI (Institutional) LP is the master fund in a master-feeder arrangement. TerraCap Partners VI (ERISA) LP is the feeder fund in the aforementioned arrangement. We may serve as manager and investment adviser to additional pooled investment vehicles in the future. Our investment decisions are made in compliance with the investment guidelines disclosed in the offering materials for the Funds. Each potential investor in the Funds receives a complete set of offering materials prior to investing in the Funds. We do not tailor our advisory services to the individual needs of the investor.

We presently seek investment opportunities in the form of equity and debt investments in real estate properties, primarily consisting of commercial real estate in the southern United States. Investment decisions are based on our assessment of the risks associated with each investment, the amount of capital committed, the potential for income and profits from such investments, and the likelihood of a successful exit from the investment.

We will manage the business, investment and financial affairs of the Funds, including the exercise of appropriate care and control of all business decisions during the term of the Funds. In performing our investment services, our primary function will be to identify, analyze, and select potential investments for the Funds. We will also monitor the financing, development, operations, and ultimate sale and/or liquidation of investments in the Funds.

We establish such bank and securities accounts, borrowing arrangements and other accounts or facilities as we determine necessary or desirable in effecting investment transactions on behalf of the Funds and maintain the Funds' records and files relating to their investments. We also prepare, or cause to be prepared, periodic reports detailing the Funds' holdings and such other relevant financial information as we determine necessary.

Similar Investments and Other Disclosures

Unless prior written consent is received from holders of a majority of the Fund then, until the time at which at least 75 percent of a Fund's capital contributions have been invested in or otherwise committed ("Restriction Period"), neither the Manager, the General Partner or their affiliates will close on any other investment fund that has as its primary objective the identification, qualification, acquisition, entitlement, management, marketing and sale of real estate assets located primarily in the southern United States. If a competing fund is organized after the Restriction Period, then, until the time at which at least 90 percent of the Partnerships' capital contributions have been invested ("Full Investment"), a competing fund may not close on any Investment.

The Funds will not invest in, acquire Investments from, nor sell Investments to, any entity in which the Manager, the General Partner or any of their affiliates has either (a) 2.5 percent or more of the outstanding equity interests or (b) a pre-existing economic interest of more than \$50,000.

The Funds may co-invest with third parties through partnerships, joint ventures or other entities, thereby acquiring non-controlling or partially-controlling interests in certain investments. Although the Funds may not have control over these investments and therefore, have a limited ability to protect its position therein, TerraCap expects that appropriate rights will be negotiated to protect the Funds' interests.

Nevertheless, such investments involve risks not present in investments where a third party is not involved, including the possibility that a third party partner or co-venture will have financial difficulties resulting in a negative impact on such investment, will have economic or business interests or goals which are inconsistent with those of the Funds, or be in a position to take action contrary to the Funds' investment objectives.

In certain other investments, the Funds exercise control. The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristics of business ownership may be ignored. If these liabilities were to arise, the Funds might suffer a significant loss.

More detailed information on similar investments, competing funds, co-investments, and potential conflicts is available in the offering documents of each current Fund.

It is our intention and goal to always put the interest of the client and underlying investors above the



interest of the Firm, or any of its related persons.

The Firm's principals and Funds' General Partners (individually and collectively, the "GP") have primary responsibility for resolving conflicts of interest involving the Funds. All principal and GP decisions are documented, including the reasoning, factors considered, and supplemental data collected.

While conflicts could materially and adversely affect the Funds, the principals and GPs, in their sole judgment and discretion, will attempt to mitigate such potential adversity by the exercise of business judgment in an attempt to fulfill its fiduciary obligations. TerraCap Management cannot be assured that such an attempt will prevent adverse consequences resulting from the numerous potential conflicts of interest.

Assets Under Management

We have approximately \$2,322,877,683 in discretionary regulatory assets under management as of the filing of our Form ADV. We do not manage any assets on a non-discretionary basis. Back- up calculations are available upon request.

Item 5: Fees and Compensation

We receive both a management (or advisory) fee, based on the capital commitments or capital under management, whichever is greater, in each respective Fund, and an incentive allocation for managing each Fund. For TerraCap Partners, LP and TerraCap Partners II, LP the management fee is 2.00% per year calculated against the Fund's aggregate capital under management during the Fund's investment period; after approval of the limited partners, the management fee was reduced from 1.75% to 1.5% per year calculated against the Fund's aggregate capital under management during the Fund's investment period of TerraCap Partners III Funds as of November 29, 2014. TerraCap Partners IV will also collect a management fee of 1.5% per year calculated against the Fund's aggregate invested capital under management during the Fund's investment period. TerraCap Partners V and TerraCap Partners VI collect a management fee of 1.5% per year calculated against the Fund's aggregate committed capital under management during the investment period and 1.5% per year on invested capital thereafter. In all cases, the management fee is payable quarterly based on the capital commitments or invested capital under management as of first day of the calendar quarter. All performance and management fees may vary depending upon investor, strategy and fund structure. Investment management and performance fees may be negotiable depending on product types.

As the manager of pooled investment vehicles, each investor irrevocably appoints us as an attorney-in-fact with authority to establish, manage and maintain all bank, mutual fund and securities brokerage accounts as needed for the purposes of the Funds' investments. In this capacity, we have the authority to withdraw the management fees, carried interest, expenses and capital from each Fund's bank account.

For qualifying investors, each respective General Partnership of a fund receives a carried interest in the Fund generally equal to 20% of the profits generated by the Fund after the investors have received aggregate distributions from the Fund equal to their total capital contributions. Certain agreements are entered into with initial investors that decrease the Fund's carried interest rate with respect to that investor (see **Side Letters**).

If, following the dissolution, winding up and termination of the current Funds and the distribution of all or substantially all of the Funds' assets, distributions of Carried Interest to the General Partner have been made with respect to any Limited Partner and either (i) the excess of (A) the cumulative distributions to such Limited Partner of Investment Proceeds, over (B) the aggregate amount of Capital Contributions made by such Limited Partner (the amount of such excess being the "Cumulative Net Distributions" with respect to such Limited Partner) do not represent at least the Preferred Return, or (ii) the aggregate distributions of Carried Interest to the General Partner with respect to such Limited Partner exceeds 20% of the sum of (A) the Cumulative Net Distributions with respect to such Limited Partner, and (E) the aggregate distributions of Carried Interest to the General Partner with respect to such Limited Partner (such excess, the "Excess 20% Amount"), in each case determined after giving effect to all transactions through the Clawback Determination Date, then the

General Partner shall be obligated to return or cause to be paid promptly to the Fund, an amount equal to the lesser of (I) the Final Clawback Amount (as defined below) with respect to such Limited Partner and (II) the After-Tax Amount of the aggregate distributions of Carried Interest to the General Partner with respect to such Limited Partner. This clawback provision is presented in more detail in each current Fund's PPM.

These fees will be reduced or adjusted by agreement in limited circumstances.

Other Costs Involved

In addition to our management fees explained above, each Fund pays certain expenses associated with its investments. These fees include day-to-day administrative and operating expenses of the Fund, including due diligence expenses associated with potential investments, fees and expenses of real estate sponsors, and fees and expenses of developers and property managers. Additional details related to these costs are provided in the Funds' Private Placement Memoranda.

The Fund will pay, or reimburse the General Partner and the Investment Manager (and their respective affiliates) for, all Operating Expenses incurred by any of them on behalf of the Fund. The General Partner generally expects to allocate Operating Expenses among Investors in proportion to their Capital Commitments. Notwithstanding the foregoing, if the General Partner determines that it is equitable to specially allocate any Operating Expenses to an Investor or group of Investors, the General Partner will have the authority to make that allocation. Operating Expenses include, among other items, the following fees and expenses relating to the business and investment activities of the Fund: (a) administrative expenses related to the operation of the Fund, including the fees and expenses of accountants, lawyers, third-party administrators and other professionals and service providers incurred in connection with the Fund's annual audit, data processing, investment-level management and servicing, Funding Notices, Investor recordkeeping, legal, compliance, financial reporting, legal opinions, tax planning, tax projections, tax strategy and tax return preparation, as well as the expenses associated with the preparation and distribution of reports; (b) fees, costs and expenses, if any, incurred in evaluating, negotiating, structuring, underwriting, acquiring, appraising, financing, refinancing or otherwise dealing with investments pursued for the Fund (whether or not the Fund actually acquires such investments), including travel costs (such as airfare, meals, lodging, parking and rentals), legal, due diligence, real estate related costs, reporting, projections, valuation, tax and accounting expenses, printing expenses, subscriptions to potential investor services, placement fees and other fees and out-of-pocket costs related thereto; (c) fees, costs and expenses, if any, with respect to rendering financial assistance to or arranging for financing for the Fund, any subsidiary thereof or the Fund's investments; (d) fees, costs and expenses, if any, incurred in relation to the acquisition, holding, developing, monitoring, operating, management, appraising, financing, refinancing, disposing of or otherwise dealing with investments, including any travel (such as airfare, meals, lodging, parking and rentals), legal, audit, financing, appraisal, insurance consulting, custodial, brokerage, inspection, indemnification and accounting expenses, taxes, licenses, administrative

expenses, advertising costs and expenses, property operating expenses (including office supplies, leases, equipment and appliances, printing, postage, telecommunications and technology equipment and services (including computer equipment, data and data management services, data storage systems and data center space, cloud-based systems, software, terminals, peripherals, servers and other hardware), insurance, janitorial expenses, capital expenditures and improvements on properties, security services, maintenance and repair expenses and utilities), fees and expenses of third party professionals and service providers with respect to the investments, compensation of employees employed by the investments (including as applicable base salaries, periodic, discretionary bonuses and occupational benefits and perquisites (including health insurance plans and premiums and retirement plans)), taxes and licenses, dues and subscriptions, and other fees and out-of-pocket expenses related thereto; (e) interest expenses, making temporary investments, real estate commissions and other investment costs incurred by or on behalf of the Fund; (f) fees, costs and expenses incurred in organizing, forming and maintaining any alternative investment vehicles or subsidiaries or any other entity formed to facilitate the Fund's investment objective and all fees, costs and expenses incurred in connection with the offering of Interests following the Initial Closing Date; (g) taxes, fees and other equivalent government charges levied against the Fund, any investment or the income thereof, fees of auditors, counsel and other advisers of the Fund, premiums for insurance protecting the Fund, the General Partner, the Investment Manager and other Indemnified Parties and any litigation costs of the Fund; (h) Indemnification Expenses incurred pursuant to the Partnership Agreement or related to any investment of the Fund and any other extraordinary administrative or operating fees or expenses; (i) the costs of compliance with applicable laws and regulations of governmental and self-regulatory bodies; (j) costs and expenses of forming any special purpose entity or subsidiary in connection with an investment and the costs of maintaining each entity of the Fund; (k) travel, travel-related (including airfare, meals, lodging, parking and rentals) and entertainment expenses; (l) industry-related fees such as conference, seminar, training, speaker, industry association and similar expenses and fees; (m) fees and expenses payable to members of the Advisory Committee in exchange for their services; (n) expenses associated with annual investor meetings; and (o) other customary expenses. The foregoing list is not necessarily exhaustive and is intended to be illustrative of various overhead, operating and administrative expenses.



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

As discussed in Item 5, each General Partnership generates performance fees in the form of a carried interest of Fund earnings which is a right to a portion of the Fund's profits and gains over the Fund investors' Return of Capital.

Prior to entering into an advisory contract with any client, TerraCap Management provides detailed disclosures relating to the risks associated with performance-based fees.



Item 7: Types of Clients

We provide investment advice solely to the Funds, which are pooled investment vehicles. Investors are required to commit to invest a minimum of \$50,000 in TerraCap Partners LP, \$1,000,000 in TerraCap Partners II (Institutional) LP/TerraCap Partners III (Institutional) LP/TerraCap Partners IV (Institutional) LP/TerraCap Partners V (Institutional) LP/TerraCap Partners VI (Institutional) LP, and \$250,000 in TerraCap Partners II (HNW) LP/TerraCap Partners III (HNW) LP/TerraCap Partners IV (HNW) LP/TerraCap Partners V (HNW) LP/TerraCap Partners VI (HNW) LP; however, we can waive this minimum in our sole discretion. The Funds accept only accredited investors and qualified clients.

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

Methods of Analysis and Investment Strategy

We seek investment opportunities in the form of equity and debt investments in real estate projects, primarily located in the South Atlantic, West Central South, and West Mountain regions of the United States. All appropriate investment opportunities are presented to the Investment Committee. That Committee will provide to TerraCap Management managers a recommended course of action regarding the investment opportunity. TerraCap Management managers have the final decision on whether or how to act on the recommendation of the Committee. Investment decisions by both the Investment Committee and TerraCap Management managers are based on their assessment of the risks associated with each investment, in light of the amount of capital committed, the potential for income and profits from such investments and the likelihood of a successful exit from the investment.

TerraCap Management's policy is to allocate available investments first to client Funds, if the investments are within the investment parameters of such Funds. If an investment is within the investment parameters of more than one Fund, the Managers will allocate the investment among the client Funds in its good faith judgment as to the best interests of the client Funds, with consideration to factors including the relative size of the investment and the available capital of the client Funds, the client Funds' current investment portfolios, and the age and life-cycle status of each Fund as compared to the anticipated holding period of the investment. The Managers may consider all other factors it deems relevant to such a determination. If an available investment is not within any client Fund's investment parameters or is otherwise not suitable for a client Fund, such investment may be offered to affiliates of the Firm.

Each Fund's offering documents provide the General Partner, some discretion to expand, revise or contract the Fund's business without the consent of the other investors. Thus, in some cases, the Funds' investment strategies may be altered without prior approval by, or notice to, the investors of the Funds.

Risk Factors

An investment in TerraCap's Funds involves a substantial degree of risk and is intended and appropriate only for investors whose sophistication and financial resources are sufficient to enable them to evaluate such an investment and to assume such risks, including the risk of complete loss of their investment. In evaluating whether to subscribe to a TerraCap Fund, prospective investors should carefully consider the following risk factors, among others. Investors are urged to consult with their own financial, legal, and tax advisers before making any decision regarding an investment in TerraCap Funds. The various risks discussed below are not the only risks associated with an investment in TerraCap Funds.

General Economic and Market Risks

General Economic and Market Conditions. TerraCap's activities may be affected by general economic and market conditions, such as changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Fund investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect real estate values and rates of delinquency, default and foreclosure and thus the profitability of the Fund investments. Volatility in the real estate markets or the economy in general could impair the Fund's profitability or result in losses. The Fund could incur material losses even if TerraCap reacts quickly to difficult market conditions, and there can be no assurance that the Fund will not suffer material losses and other adverse effects from broad and rapid changes in market or economic conditions in the future. Even a well-analyzed approach may not protect the Fund from significant losses under certain market and economic conditions.

Disruption in Capital Markets and Volatility. The U.S. capital markets have experienced disruption including losses in the value of investments, the failure of certain major financial institutions and general volatility in the financial markets. During periods of disruption, general economic conditions may deteriorate, with material and adverse consequences for the broader financial and credit markets. These conditions may continue for a prolonged period of time, or materially worsen in the future. A severe disruption in the global financial markets, deterioration in credit and financing conditions or uncertainty regarding U.S. Government spending and deficit levels, European sovereign debt, Chinese economic slowdown or other global economic conditions could have a material adverse effect on the profitability of the Fund's investments. The Funds' ability to generate attractive investment returns may be adversely affected to the extent the Funds is unable to obtain favorable financing terms for its investments. These conditions may also have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Deteriorating economic conditions could adversely affect the financial resources of the Funds and its ability to make principal and interest payments on, or refinance, outstanding debt when due. Similarly, economic conditions could also adversely affect the financial resources of tenants of the Funds' investments and their ability to make rent payments. In the event of such defaults, the Funds could lose both invested capital in and anticipated profits from affected investments.

Terrorist Attacks and War. Terrorist activities, anti-terrorist efforts and other armed conflicts involving the United States or its interests abroad may adversely affect the United States, its financial and real estate markets and global economies and could prevent the Fund from meeting its investment objectives and other obligations. The potential for future terrorist attacks, the national and international response to terrorist attacks, and other acts of war or hostility have created many

economic and political uncertainties, which may adversely affect the United States and the Fund for the short or long term in ways that cannot presently be predicted.

Investment Risks

General Investment Risks. All investments risk the loss of capital. No guarantee or representation is made that the Fund's investment program will be successful or profitable. Real estate investments are subject to various specific risks, many of which are beyond the control of the Fund, the General Partner and TerraCap, such as adverse changes in international, national or local economic and demographic conditions; local conditions (such as an oversupply of space or a reduction in demand for space); the quality and philosophy of management; competition based on rental rates; adverse changes in financial conditions of tenants, buyers and sellers of properties; quality of maintenance, insurance and management services; reduction or change in sources of debt or equity financing, including changes in interest rates; increases in real estate taxes and operating expenses, including energy prices; changes in law, regulations and governmental policies, including environmental laws, health and safety laws, zoning laws and governmental fiscal policies; potential liability under changing environmental and other laws; changes in the relative marketability of properties; cyclical overbuilding in property sectors; risks due to dependence on cash flow; risks and operating problems arising out of the presence of certain construction materials; structural or property latent defects; natural and unnatural disasters; acts of terrorism and vandalism; uninsurable losses; condemnations and others. As a result, the Fund may be subject to claims and expenses in respect of an asset in excess of the Fund's investment in such asset that could significantly impact the costs of operations, cash flow and results of operations, thereby leading to losses. There can be no assurance that the Fund will be able to achieve its investment objectives.

Many of the foregoing factors could cause fluctuations in occupancy rates, rent schedules or operating expenses, causing a negative effect on the value of properties and returns derived from real estate investments. Valuation of properties generally is a matter of an independent appraiser's opinion, and may fluctuate up or down over time. Accordingly, the capital value of a real estate investment may be significantly diminished in the event of a sudden downward turn in the market value of properties owned by the Fund or the occurrence of any of the factors set forth above.

Lack of Investment Opportunities. There can be no assurance that TerraCap will be able to identify suitable investment opportunities for the Fund or that it will be able to fully invest all Capital Commitments. If TerraCap fails to identify investment opportunities or otherwise fails to fully invest Capital Commitments, the potential return to Investors could be materially adversely affected.

Competition. The business of identifying real estate investments is extremely competitive. There can

be no assurance that the Fund will be able to identify or successfully pursue attractive investments in the current economic and regulatory environment. The Fund, the General Partner and TerraCap compete with many firms that have substantially greater financial resources, more favorable financing arrangements and larger research staffs than are available to the Fund, the General Partner and TerraCap.

The Fund also faces competition in the operation of office, flex, hospitality, multi-family, and other property types. The principal means of competition are rental rates, amenities offered, level of services, location and the nature and condition of the property. One or more investments made by the Fund may receive direct competition from existing or proposed properties within their respective markets, as well as from all owners and developers in the area in which such properties are located. The opening of other competitive properties near a property owned by the Fund may have an adverse effect on, among other things, effective rental rates, occupancy and operation of such property, as well as on its market value.

Difficulty in Selling Properties. Real estate assets are generally illiquid in nature. There is a risk that the Fund will be unable to realize its investment objectives through the sale or disposition of one or more of its investments at an attractive price or within any given period of time or that the Fund will otherwise be unable to complete any planned exit strategy. In particular, these risks could arise from the absence of an established market for a property, changes in the financial condition or prospects of purchasers, changes in national or international economic conditions, and changes in laws, regulations or fiscal policies of jurisdictions in which the relevant investment is located. Furthermore, in some cases, the Fund may have certain contractual obligations to tenants or joint venture partners in connection with a sale or disposition that may limit or prohibit the Fund's ability to complete an exit strategy in a timely fashion. Any of the foregoing factors could limit the ability of the Fund to vary its investments rapidly in response to changes in economic and other conditions. Any difficulty in selling or otherwise disposing of investments could have a material adverse effect on the Fund and the Investors.

Illiquidity of Investments. Most of the investments made by the Fund are and will be highly illiquid. The Fund's ability to dispose of any one or more investments may be constrained by a number of factors including, but not limited to, a general shortage of local capital and the absence of developed property markets and merger and acquisition markets for privately held companies. Accordingly, the Fund's ability to exit from a particular investment depends to a large extent upon the terms of agreements entered by or on behalf of the Fund and its own efforts. There can be no assurance that the Fund will be able to dispose of investments at the price and at the time it wishes to do so. In addition, it is uncertain when profits, if any, will be realized by the Fund. While the Fund invests a substantial portion of its capital in assets believed by TerraCap to be value-add real estate properties, there can be no assurance that TerraCap will correctly categorize such properties or that any

investments made by the Fund will continue to be value-add real estate investment properties.

Failure to Complete Projects. There is a risk that the Fund may contract to acquire properties from sellers that fail to complete construction of such properties or that do not satisfactorily lease-up newly constructed properties prior to closing with the Fund. In such situations, closing on a property may be delayed until the requisite conditions have been satisfied or the Fund may choose not to proceed with closing on a property. There can be no assurance that steps taken by TerraCap to minimize risks of contracting with a non-performing seller will be successful or protect the Fund against financial or other losses. Moreover, to the extent the Fund is not able to purchase properties because of a seller's failure to cause completion thereof or comply with certain other closing conditions, the Fund may lose the opportunity to make alternative investments in other properties, and there may be a corresponding delay in deploying the Fund's capital.

Environmental Risks. Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances or petroleum products on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of, or the failure to properly remediate, such substances may adversely affect an owner's ability to borrow using such real property as collateral or to sell such property. In connection with the ownership (direct or indirect), management and development of real estate investments, the Fund or one of the entities that hold title to Fund assets could be considered an owner or operator of the property and may be liable for significant removal or remediation costs, as well as certain other potential costs relating to such hazardous or toxic substances or petroleum products.

Although each real estate investment generally is subject to environmental assessments before acquisition, no assurances can be given that the environmental assessments reveal all environmental liabilities, or that the Fund has established adequate reserves for such liabilities, or that no prior owners created any environmental condition not disclosed in the environmental assessment for such investment. Any environmental liabilities incurred with respect to the Fund's investments could materially adversely affect the Fund and the Investors.

Interest Rate Risks. The Fund has exposure to interest rate risks, meaning that changes in prevailing interest rates could negatively affect the value of assets held by the Fund. Changes in the general level of interest rates can affect the Fund's income by affecting the spread between the income on its assets and the expense of its interest-bearing liabilities, as well as, among other things, the value of its interest-earning assets, the capitalization rate at which its assets are valued in the market and its ability to realize gains from the sale of investments. Increases in interest rates will raise the Fund's

interest costs, which will in turn reduce cash flow and the Fund's ability to make distributions to Investors. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of TerraCap.

Inflation Risks. The Fund has exposure to inflation risks, meaning that the value of the Fund's investments or income from the Fund's investments will be worth less in the future as inflation decreases the value of money over time. As inflation increases, the real value of the Interests and distributions related thereto may decline.

Uninsured Losses. The Fund generally expects to maintain insurance coverage with respect to its investments on a per-occurrence and annual aggregate basis to the extent such coverage is available at commercially reasonable rates, as determined by TerraCap. TerraCap also generally attempts to maintain insurance coverage against liability to third parties for injury and property damage in such amounts determined by TerraCap to be commercially reasonable. However, the insurance industry is extremely unpredictable, and, as a result, the actual premiums and deductibles payable by the Fund may be substantially different than TerraCap's projections of such premiums and deductibles. Insurance against certain risks, such as earthquakes, floods, windstorms, biological agents (e.g., mold) or damage by terrorism, may be commercially unavailable, available in amounts that are less than the full market value or replacement cost of an investment, subject to large deductibles or not economically insurable. In addition, there can be no assurance that the particular risks that are currently insurable will continue to be insurable on a commercially reasonable basis. There is no guarantee that an insurer will pay the full amount of any claim, that an insurer will not dispute or refuse to pay with respect to any claim of loss or that the insurer will be solvent or financially able to pay any claim, especially in the case of a catastrophic loss in one geographical area. Additionally, properties owned by the Fund or entities formed to hold such properties may be at risk in the event of an uninsured liability to third parties. Should an uninsured loss or a loss in excess of insured limits occur, the Fund could lose all or a portion of its capital invested in such investment, as well as the anticipated future revenue from that investment. In that event, the Fund may nevertheless remain obligated for any notes payable or other financial obligations related to the applicable investment, in addition to obligations to the Fund's ground lessors, franchisors and managers. Inflation, changes in building codes and ordinances, environmental considerations, provisions in loan documents encumbering the portfolio properties pledged as collateral for such loans, and other factors may also keep the Fund from using insurance proceeds to replace or renovate an investment after it has been damaged or destroyed. Under such circumstances, the insurance proceeds received by the Fund may be inadequate to restore the Fund's economic position on any damaged or destroyed investment.

Regulatory Risks Related to Real Estate. The Fund's investments may be subject to various laws and regulations, including building codes, laws and regulations pertaining to fire safety and handicapped areas, and other laws and regulations that may from time to time be enacted by federal, state and local governments. The regulations applicable to the Fund's investments vary from location to location and from time to time. There is a risk that the Fund could be required to incur significant costs and expenses that may be necessary or appropriate to comply with any changes in any applicable laws or regulations. Non-compliance with existing or future laws or regulations applicable to an investment could result in substantial capital expenditures to bring the relevant investment into compliance, as well as the imposition of fines or an award of damages to private litigants, which generally are required to be borne by the Fund (and may materially adversely affect the Fund and the Investors).

Risks Related to Debt Investments. The Fund may invest capital in debt investments, including construction, participating and other real estate-related loans (collectively, "Debt Investments"). The value of the Debt Investments held by such subsidiaries and the ability to realize full repayment on any Debt Investment may be adversely affected by all of the factors that affect an investment. In particular, certain important risks associated with Debt Investments include, among others: (a) dependency for repayment on successful operation of the underlying property and tenant businesses operating thereon; (b) the non-recourse nature of such loans with respect to the borrower; and (c) amortization schedules that are often longer than the stated maturity and provide for balloon payments at stated maturity rather than periodic principal payments.

Debt Investments are also subject to risks of borrower defaults, bankruptcies, fraud and special hazard losses that are not generally covered by standard hazard insurance. In the event of any default under mortgage loans held, directly or indirectly, by the Fund or any entity in which the Fund has an interest, the Fund will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal amount of the mortgage loan and may not receive interest payments on such mortgage loan. Foreclosures of mortgage loan, bankruptcies affecting mortgage loan borrowers and other collateral realization processes will be expensive and lengthy processes that could have a substantial negative effect on the Fund's anticipated return on investment.

Litigation. The Fund's investment activities may subject it to the risks of becoming involved in litigation with third parties. The expense of defending against claims against the Fund by third parties and the payment of any amounts pursuant to settlements or judgments would generally be borne by the Fund, reduce net assets and could require Investors to return distributed capital to the Fund. TerraCap, the General Partner and their respective affiliates generally are indemnified by the Fund in connection with any such litigation, subject to certain conditions. Financial Conditions of Tenants. Adverse changes in the operation of any property owned directly or indirectly by the Fund, or the financial condition of any tenant located on any such property, could have an adverse effect on the Fund's ability to collect rent payments and, accordingly, on its ability to make distributions to

Investors. A tenant may experience, from time to time, a downturn in its business which may weaken its financial condition and result in its failure to make rental payments when due. At any time, a tenant may seek the protection of applicable bankruptcy or insolvency laws, which could result in the rejection and termination of such tenant's lease or other adverse consequences and thereby cause a reduction in distributions to the Investors. No assurance can be given that tenants will not file for bankruptcy protection in the future or, if they do, that their leases will continue in effect. Risk of Investments in Entities. The Fund may invest indirectly through subsidiaries including, partnerships, special purpose vehicles, co-investment arrangements or other structures. The Fund may participate in joint ventures (subject to the terms and limitations set forth in the Partnership Agreement). Such investments may involve particular risks, for example, the possibility that such entities might become bankrupt, or may at any time have economic or business interests or goals which are inconsistent with those of the Fund, or that such entities or joint venture partners may be in a position to take action contrary to the Fund's objectives. In addition, in certain situations the Fund may be liable for the actions of any of its joint venture partners. While TerraCap seeks to limit the Fund's exposure to such risks, there can be no assurance that it will be successful, in whole or in part.

Leverage Risks. The Fund is permitted to incur indebtedness in connection with its investment activities, subject to the limitations in the Partnership Agreement. The use of borrowing and leverage can, in certain circumstances, maximize the losses to which investments held by the Fund may be subject and will involve a high degree of risk. Because the use of leverage and borrowing will allow the Fund to control assets worth more than its investment in such assets, the amount that the Fund may lose in the event of adverse valuation changes will be high in relation to the amount invested in such assets, which may adversely affect the Fund. The Fund's, TerraCap's or their affiliates' access to capital could be impaired by many factors, including market forces, economic conditions or regulatory changes.

Dependence on Third Party Managers. The Fund may hold title to its real estate assets indirectly through one or more subsidiaries (including special purpose vehicles). In addition, the Fund may participate in joint ventures. The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, the Fund may suffer significant losses.

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

In addition, the Fund may have an interest in a joint venture where the joint venture partner provides certain management, leasing or other services to the joint venture and who may have the right to participate in the cash flows of a property above certain threshold returns to the Fund, and who may also participate in the distribution of sales proceeds of a property above certain threshold returns to the Fund. Such fee arrangements with a partner may create an incentive for the property of the relevant joint venture to be managed in a manner that is not consistent with the Fund's objectives.

Actions by (or litigation involving) a joint venture partner might have the result of subjecting the property owned by the joint venture to liabilities in excess of those contemplated by the joint venture agreement. In addition, there is a risk of impasse between the parties because either party may disagree with a proposed transaction involving the property and impede any proposed action.

Real Estate Investment Trusts. The Fund may invest in real estate investment trusts ("REITs") or other real estate securities. The risks of REITs include the risk that the value of a security will fluctuate because of changes in property values, vacancies of rental properties, overbuilding, changes in local laws, increased property taxes and operating expenses and other risks associated with real estate. Equity REITs may be affected by changes in property value, while mortgage REITs may be affected by credit quality and the interest rate environment. In addition, there is the risk that certain REITs may (i) fail to qualify for pass-through of income under U.S. federal income tax law and thereby become subject to entity-level income tax or (ii) to maintain their exemption from the registration requirements under U.S. federal securities laws.

Operational and Regulatory Risks

General Operational Risks. The Fund's transactions and investments may place substantial burdens on TerraCap's operational systems and resources. Human error, system failure or other problems with any of these processes could result in material losses or costs, which generally are borne by the Fund subject to limitations in each Funds' Limited Partnership Agreement.

Risks associated with security breaches through cyber-attacks, cyber intrusions or otherwise, as well as other significant disruptions of our IT networks and related systems. The number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. We face risks associated with security breaches through cyber-attacks, malware, computer viruses and malicious codes, ransomware, unauthorized access attempts, denial of service attacks, phishing, social engineering, bad actors with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. Our IT networks and related systems, as well as the IT networks and related systems used by our Fund Administrator, are essential to the operation of our business, the availability and integrity of our data and our ability to perform day-to-day

operations. Security breaches or system interruptions could result in misstated financial reports, violations of loan covenants, missed reporting deadlines, our inability to monitor our compliance with the rules and regulations regarding our qualification as a REIT (if applicable), unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, the diversion of management attention and resources to remedy any resulting damages, liability for claims for breach of contract, damages, credits, penalties or termination of leases or other agreements, or damage to our reputation among our customers, lenders, vendors and investors generally.

We rely on information systems across our operations and corporate functions, in particular our finance and accounting departments, and depend on such systems to ensure payment of obligations, collection of cash, data warehousing to support analytics, and other various processes and procedures, and there can be no assurance that our security efforts will be effective in deterring security breaches or disruptions. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques, tools and tactics used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed to not be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers, disaster recovery or other preventative or corrective measures, and thus it is impossible for us to entirely counteract this risk or fully mitigate the harms after such an attack. And as we periodically upgrade our IT systems, we face the risk that these systems may not function properly and expose us to increased cybersecurity breaches and failures, which would expose us to reputational, competitive, operational, financial and business harm, as well as potential litigation and regulatory action.

Valuation Risks. As set forth in each Funds' Limited Partnership Agreement, the General Partner will periodically value each property purchased by the Fund. Any such valuation, however, is a subjective analysis of the fair value of an asset and requires the use of techniques that are costly and time consuming and ultimately provide no more than a rough estimate of value. Similarly, certain of the Fund's liabilities may be valued on the basis of estimates. Accordingly, there can be no assurance that the value of the Fund's assets will be accurate on and as of any given date, nor can there be any assurance that the sale of any investment would be at a price equivalent to the last estimated value of such investment.

Internal Controls and Employee Misconduct. TerraCap has adopted supervisory guidelines and other controls with the intention of detecting and preventing the misappropriation of the Fund's property and other misconduct and violations of law by employees of TerraCap and other agents of the Fund. There can be no assurance, however, that such procedures and controls will be effective. Any violation of such procedures and controls, including acts of fraud and dishonesty by employees or agents of TerraCap, or even unsubstantiated allegations of such misconduct, could result in material

losses or costs, which will generally be borne by the Fund.

Regulatory and Legal Matters. In the course of its investment activities on behalf of the Fund, TerraCap may employ unusual or novel investment strategies, financing structures, contractual arrangements and other techniques. The use of these techniques, as well as more ordinary techniques employed on behalf of the Fund, frequently may give rise to circumstances in which it is difficult or impossible to identify and apply governing laws and regulations (including those relating to real estate investments, trading and tax issues, among others) to the Fund's specific activities with any certainty. Although TerraCap strives to comply with all applicable laws and regulations, there can be no certainty that this objective will be achieved. Even an inadvertent violation or an alleged violation of applicable laws or regulations could impose significant costs on the Fund, including disgorgement of profits, penalties, settlement payments, loss of necessary licenses, restrictions on future activities, adverse publicity and otherwise. Such costs are generally borne by the Fund, even if they result from the negligence of TerraCap (but not if resulting from the bad faith, willful misconduct, fraud or gross negligence of TerraCap).

Absence of Regulatory Oversight. While the Fund may be considered similar to an investment company, the Fund is not and will not be registered as such under the Company Act, and, accordingly, the provisions of the Company Act (which, among other matters, require investment companies to have a majority of disinterested directors and regulate the relationship between the adviser and the investment company) generally are not applicable to the Fund. See "Certain Regulatory Matters."

Risks Relating to Fund Terms and Structure.

Limited Performance and Operating History. The past performance of other funds advised by TerraCap is not indicative of the future performance or profitability of the Fund. The Fund's investment program should be evaluated on the basis that there can be no assurance that TerraCap's assessment of the short-term or long-term prospects of investments will prove accurate or that the Fund will achieve its investment objectives. An investment in an Interest involves significant risks, including the risk of complete loss of an Investor's entire investment.

Changes in the Environment. The term of each Fund is intended to extend for a long period of time from the Final Closing Date during which time the business, economic, political, regulatory and technology environment within which the Fund operates may undergo substantial changes, some of which may be averse to the Funds. TerraCap will have the exclusive right and authority (within limitations set forth in the Partnership Agreement) to determine the manner in which the

Funds responds to such changes, and Investors generally will have no right to withdraw from the Funds or to demand specific modifications to the Funds' operations as a consequence thereof.

Incomplete Information. In general, the General Partner of each Fund may not provide current or detailed information about the Fund's investments or potential investments or any advance notice to Investors of anticipated changes in the composition of the Fund's portfolio. However, in response to questions and requests and in connection with due diligence meetings and other communications, the Funds, the General Partner or TerraCap may provide additional information to certain Investors that is not distributed to other Investors. Each Investor is responsible for asking such questions as it believes are necessary in order to make its own investment decisions, including whether to invest in the Funds, and each Investor must decide for itself whether the limited information provided by the General Partner, TerraCap and the Funds is sufficient for its needs.

Limited Liquidity. Investors generally will not be permitted to voluntarily withdraw from the Funds. In addition, Investors generally may not transfer their Interests, in whole or in part, without, among other things, the prior written consent of the General Partner, which may be granted or withheld in its discretion. There currently exists no public market for Interests, and none is expected to develop. Accordingly, Investors should not expect that they will be able to transfer, sell or otherwise dispose of all or any portion of their Interests during the term of the Funds, nor can they be certain that they will be able to transfer, sell or otherwise dispose of all or any portion of their Interests on a basis which reflects the value of the Funds' portfolio. An investment in the Fund is appropriate only for sophisticated investors that do not require immediate liquidity for their investment.

Distributions Subject to Reduction. The amount and timing of any distributions will be at the discretion of the General Partner, who may also direct that such amounts be used to satisfy, or establish reserves for, any of the Funds' current or anticipated obligations (including, without limitation, Management Fees and any other Operating Expenses). Further, under certain circumstances, proceeds otherwise distributable to the Investors that constitute a return of Capital Contributions may be retained and reinvested by the General Partner or used by the General Partner for any other proper purpose. Upon any such reinvestment, an Investor will remain subject to investment and other risks associated with such investments.

No Assurance of Profit or Distributions; Interests are not Suitable for Investors Seeking Current

Income. There can be no assurance that each Fund's investments will be profitable or realized, that each Fund will be able to avoid losses, that any distributions will be made to Investors with respect thereto, or that cash from each Fund's investments will be sufficient to enable such distributions. There may not be near-term cash or cash flow available to Investors. Each Fund will have no source of funds from which to pay distributions to Investors other than income and gain received from its investments. An investment in Interests is not suitable for prospective investors seeking current income.

Distributions will ultimately depend upon the success of the investments made by each Fund and the provisions for various reserves. Distributions will be subject to the terms and provisions of the Partnership Agreement, including, without limitation, the establishment of reserves to pay Fund expenses and other liabilities of each Fund. The expenses of the Funds may exceed its income, and Investors could lose the entire amount of their invested capital.

Reliance on the Investment Manager and its Principals. The success of each Funds is heavily dependent upon the ability and experience of TerraCap and its principals, employees and agents (including the Key Person and various other members of the Investment Manager's management team). If any of the key members of the management team of TerraCap cease to be involved, directly or indirectly, in the business of TerraCap and the management of the Funds and/or its portfolio, the business of each Fund will likely be adversely affected. Any deterioration in the TerraCap's net income or prospects, which could be expected to follow from investment losses and a reduction in assets under management, will make it more difficult to retain key personnel (including partners and employees) and could have a material adverse effect on eachFund.

Conflicts of Interest. Various actual and potential conflicts of interest exist among each Fund and TerraCap, the General Partner, the Key Person and their respective affiliates, including actual and potential conflicts of interest related to fees, expense allocation, treatment of other Investors, limitation of liability, indemnification and outside business activities. During each Fund's term, many different types of conflicts of interest may arise. Investors ultimately will be heavily dependent upon the good faith of TerraCap and each of its affiliates.

In addition, the Funds may engage in transactions with affiliates of the General Partner (including TerraCap) by acquiring investments from or through, selling, assigning or transferring real estate investments in which affiliates of the General Partner hold a material interest and otherwise enter into joint ventures or other partnerships with affiliates of the General Partner, subject to the limitations set forth in the Partnership Agreement. TerraCap Funds may also employ or retain

affiliates of the General Partner (including TerraCap) or affiliates of TerraCap to perform or provide services that would otherwise be performed by third parties at market rates for any such services and upon terms that the General Partner reasonably determines are not less favorable to the Funds than those available from unaffiliated third parties for a comparable level of quality and service. Any transactions with affiliates of the General Partner (including TerraCap) may present actual or potential conflicts of interest.

Compensation Arrangements. The General Partner will be entitled to receive the Carried Interest Distributions with respect to the Funds, which are based on cash received by the Fund in connection with its investment activities. Carried Interest Distributions made to the General Partner could motivate TerraCap, due to its affiliation with and control of the General Partner, to make investment decisions that are riskier or more speculative than would be the case if such arrangements were not in effect. In addition, the Tax Cuts and Jobs Act (the “TCJA”) introduced a holding period for long-term capital gain in respect of carried interest that differs from the regular holding period for long-term capital gain, which may also create a conflict of interest by providing incentive to the General Partner to hold investments for a longer period of time than it otherwise would if the regular holding period for long-term capital gain applied.

Side Letters. The Funds and the General Partner may from time to time enter into side letter agreements or other similar agreements (collectively, “Side Letters”) with one or more Investors, including, without limitation, affiliated Investors and select third parties, that alter, modify or change the terms of the Interests held by such Investors. Side Letters may provide such Investor(s) with additional and/or different rights (including, without limitation, with respect to a reduction in the Management Fee, Carried Interest Distributions, minimum Capital Commitment amounts, informational rights, capacity rights and other rights) than the other Investors. Except to the extent required by applicable law, the Fund generally will not be required to notify any or all of the other Investors of any such Side Letters or any of the rights and/or terms or provisions thereof, nor will each Fund be required to offer such additional and/or different rights and/or terms to any or all of the other Investors. Notwithstanding the foregoing, under no circumstances may the General Partner and a particular Investor enter into any Side Letter that would reasonably be expected to have a material adverse effect upon any other Investor, without the consent of the individual Investor affected thereby.

Limitation of Liability and Indemnification. Certain exculpation and indemnification provisions are contained in the Partnership Agreement, the Investment Management Agreement and other applicable documents. As a result of these provisions, the General Partner, TerraCap and their

affiliates and personnel will generally not be liable to the Fund for any act or omission (including employee negligence and similar human errors), absent bad faith, gross negligence, willful misconduct, fraud or except as otherwise required by law, and each Fund will generally be required to indemnify such persons against any losses they may incur by reason of any act or omission related to each Fund (to the extent permitted by applicable law and in the Partnership Agreement). The foregoing limitations of liability and indemnification provisions will not be construed to relieve any person of any liability to the extent that such liability may not be waived, modified or limited under applicable law (including liability under federal securities laws which, under certain circumstances, impose liability even on persons acting in good faith). These are important provisions that could materially affect an Investor's rights in each Fund. Investors having any questions or concerns about these provisions should seek advice from qualified counsel.

Dilution from Subsequent Closings. Additional Investors generally will participate in all existing investments of each Fund, thereby diluting the interest of existing Investors therein. Although each such Additional Investor will generally be required to contribute an amount equal to the percentage of aggregate Capital Commitments that has been funded as of such Subsequent Closing Date by each other existing Investor and an amount equal to all Management Fees that would have been paid by such Investor had it been admitted on the Initial Closing Date (together with an Additional Amount on any such amounts), there can be no assurance that this payment will reflect the fair value of each Fund's existing investments at the time such Additional Investors subscribe for Interests.

Distributions in Kind. While the General Partner generally expects to make distributions to Investors in cash or cash equivalents, it is possible that, under certain circumstances (including, but not limited to, the dissolution and liquidation of the Fund), distributions may be made in-kind with non-cash assets owned by each Fund (in whole or in part). In-kind distributions could consist of securities or other assets for which there is no readily available public market or otherwise illiquid. In such event, there can be no assurance that Investors will be able to ultimately dispose of any such assets at the value determined by the General Partner (which value will be used in determining the Carried Interest Distribution payable to the General Partner). In addition, Investors may incur additional costs and risks in disposing of any non-cash assets that are distributed by the Fund.

Recourse to the Fund's Assets. The Fund's assets, including any investments made by each Fund and any capital held by each Fund, are available to satisfy all liabilities and other obligations of

each Fund. If each Fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to each Fund's assets generally and will not be limited to any particular asset, such as an investment giving rise to the liability.

Restrictions on Transferability. Each Investor is required to represent that it is acquiring Interests for investment purposes only and not with a view to distribution or resale; that it understands that it must bear the economic risk of an investment for an indefinite period of time because Interests cannot be voluntarily withdrawn and have not been registered with the SEC or any other state or governmental agency; and that it understands Interests cannot be sold unless an exemption from such registration is available. In addition, transfers of Interests require, among other things, the prior written consent of the General Partner, which consent may be withheld in the General Partner's discretion and may include such terms and conditions as the General Partner deems appropriate. There is no independent market for Interests, and none is expected to develop. Consequently, Interests should be considered only as a long term and illiquid investment and is suitable only for sophisticated Investors.

Defaulting Investors. The General Partner, on behalf of each Fund, may exercise various remedies with respect to a Defaulting Investor and the Interest held by such Defaulting Investor including, but not limited to, any or all of the following: (a) causing that Defaulting Investor to forfeit up to fifty percent (50%) of its Interest to the non-Defaulting Investors; (b) causing the Defaulting Investor to transfer all or a portion of its Interest to the Investors in accordance with the procedure set forth in the Partnership Agreement; (c) causing such Defaulting Investor to forfeit to the other Investors, all distributions that would otherwise be made with respect to that Defaulting Investor on or after the applicable date of default; (d) causing such Defaulting Investor to forfeit its right to vote its Interest, give approval, or make any other decision required or permitted to be made pursuant to the Partnership Agreement and/or (e) require the Defaulting Partner to pay interest on any default amount at the default rate, as provided in the Partnership Agreement. If a Defaulting Investor fails to make a Capital Contribution to the Fund when due, the Fund's ability to achieve its investment objectives or otherwise continue operations may be substantially impaired. A default by a substantial number of Investors or by one or more Investors that have made substantial Capital Commitments may reduce returns and cause losses for the Fund and the Investors. Furthermore, Non-Defaulting Investors may be required to contribute additional capital to make up for any shortfall caused by Defaulting Investor(s).

The General Partner may provide to all Investors other than a Defaulting Investor a Drawdown Notice calling for a contribution to the Fund of their share of the Capital Contribution that a Defaulting Investor failed to make, which share will be proportionate to the unfunded Capital

Commitments of the Investors other than any Defaulting Investors, and any Capital Contribution by any Investor pursuant to any such Drawdown Notice will reduce that Investor's unfunded Capital Commitment.

Effect on the Fund of a Mandatory Withdrawal; Mandatorily Withdrawn Investors are Creditors of each Fund. The General Partner may, under certain circumstances, require an Investor to withdraw from each Fund. If an Investor is required to withdraw from each Fund and/or prevented from making any future Capital Contributions, each Fund will face a shortfall. If it is unable to finance the shortfall from other sources, it may default on its obligations and/or its ability to continue operations may otherwise be impaired.

Business and Regulatory Risks of Private Funds. The financial services industry generally, and the activities of private investment funds and their managers in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase the Fund's exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may also impose additional administrative burdens on TerraCap, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may divert TerraCap's time, attention and resources from portfolio management activities.

The regulatory environment for private funds is evolving, and changes in the regulation of private funds and their trading activities may adversely affect the ability of the Fund to pursue its investment strategy and the value of investments held by each Fund. There has recently been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. Specifically, the Dodd-Frank Act and other related statutes and regulations may impose additional regulatory, reporting and recordkeeping requirements on advisers to private investment funds, including TerraCap.

While the Fund may be considered similar to an investment company, the Fund does not expect to register as such under the Company Act, and, accordingly, the provisions of the Company Act (which, among other matters, require investment companies to have a majority of disinterested directors and regulate the relationship between the adviser and the investment company) generally will not be applicable to the Fund or the Investors.

THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS ASSOCIATED WITH AN INVESTMENT IN THE FUND. INVESTORS ARE ENCOURAGED TO READ THEIR RESPECTIVE FUND'S LIMITED PARTNERSHIP AGREEMENT AND MEMORANDUM IN THEIR ENTIRETY BEFORE MAKING ANY INVESTMENT DECISIONS.



All investments involve different degrees of risk. Investors should be aware of their risk tolerance level and financial situations at all times. We cannot guarantee the successful performance of an investment and we are expressly prohibited from guaranteeing accounts against losses arising from market conditions. In other words, investors should be prepared to bear the risk of loss.



Item 9: Disciplinary Information

Registered investment advisers are required to disclose any material facts regarding any legal or disciplinary actions that would be material to the evaluation of the investment adviser and each investment adviser representative providing investment advice. We have no such information on disciplinary actions to disclose at this time.

Item 10: Other Financial Industry Activities and Affiliations

Financial Industry Affiliations

As a registered investment adviser, we are required to disclose when we, or any of our principals, have any other financial industry affiliations. Walter S. Hagenbuckle, an owner of TerraCap Management, is affiliated with a real estate brokerage licensed in Florida called Heights Realty & Investments, LLC. TerraCap Funds primarily invest in real estate properties in the southern United States. When the managers select investments for the Fund, they also appoint various vendors and real estate professionals to provide services to the investment properties. These services include, but are not limited to, management of renovation projects, asset management, property manager, leasing, due diligence, accounting.

Other Affiliations

Walter S. Hagenbuckle and Robert Gray are also owners in the property management company called Harvard Pacific, LLC. Walter S. Hagenbuckle owns Heights Properties, Inc., also a property management company.

In some cases, the Funds or TerraCap Management expect to use one of these companies, or its affiliates, to provide services to the adviser or Fund property investments. Certain services provided by Harvard Pacific (e.g. property management, engineering, etc.) will be provided and allocated to the Fund or investment at an hourly rate for these services. It is important to note that decisions as to whether or not an Affiliate participates in a bid and the ultimate selection of an affiliate are conducted by individuals with an equity interest in the Affiliate. Neither the Funds nor TerraCap Management will use any company affiliated with TerraCap Management owners unless that firm is demonstrably the lowest cost or best value competent service. Whenever one of these companies is used, it is the result of a competitive bidding and evaluation process. Nevertheless, the use of these companies creates conflicts of interest. To mitigate these conflicts, TerraCap Management employs the policies and procedures written below in the "Conflict Resolution" section.

From time to time, TerraCap Management or Harvard Pacific may lease office space in properties owned by the Funds. Such leases shall be at the then prevailing market rates that would generally be payable on an arm's length bases by third parties for similar space and agreed upon terms.

Conflict Resolution

Conflicts may arise as a result of the affiliations/investments described above. To the extent possible, TerraCap Management will attempt to mitigate and resolve these conflicts.

It is our intention and goal to always put the interest of the client and underlying investors above the

interest of the Firm, or any of its related persons. When evaluating potential vendors for investments in the Funds we look at various factors including: price, quality of service, our ability to oversee and control the quality of work provided, vendor reputation, etc. In doing so, we will at times identify affiliates as appropriate service providers to the Funds.

TerraCap Management owners/principals and GPs have primary responsibility for resolving conflicts of interest involving the Funds. All owner/principal and GP decisions will be documented, including the reasoning, factors considered and supplemental data collected. If for any reason any manager or affiliated person is deemed to be “interested” with regards to a specific transaction, including the use of a real estate brokerage or property management company affiliated with an owner/principal, the owners/principals will submit the terms of the transaction to an Advisory Committee identified at that time, or to an independent, third-party adviser selected by the Committee.

No approval will be required if the transaction is subject to competitive bidding, or is of the type for which market range pricing and terms are available, and the transaction is within market ranges. The terms of the competitive bidding and market range pricing will be documented and preserved as records of TerraCap Management.

Approval of the use of an Affiliate will be reviewed by an employee without an equity interest in the Affiliate or by the Advisory board to mitigate such potential conflicts.

While the foregoing conflicts could materially and adversely affect the Funds, the Board, in its sole judgment and discretion, will attempt to mitigate such potential adversity by the exercise of business judgment in an attempt to fulfill its fiduciary obligations. TerraCap Management cannot assure that such an attempt will prevent adverse consequences resulting from the numerous potential conflicts of interest.

Side Letters

TerraCap will enter into side letter agreements with certain investors that provide additional or differential rights. Notwithstanding the foregoing, TerraCap will negotiate side letters with any investor at his or her, or his or her representative’s, request and generally does not preclude any terms or conditions from such negotiations, unless the Limited Partnership Agreement expressly or mechanically prohibits certain terms from being negotiated.

Item 11: Code of Ethics

TerraCap Management has adopted a Code of Ethics (the “Code”) that governs a number of potential conflicts of interest we have when providing advisory services to our clients. This Code of Ethics is designed to ensure we meet our fiduciary obligation to our Clients (or Prospective Clients) and to establish and maintain a culture of Compliance within our Firm.

Our Code is also intended to detect and prevent violations of securities laws.

Our Code is distributed to each supervised person at the time of hire, and annually thereafter (if there are changes). We also supplement the Code with annual training and on-going monitoring of employee activity.

Supervised persons must avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interests of clients. At all times, TerraCap Management will be mindful to:

- ***Place client interests ahead of TerraCap Management***— As a fiduciary, TerraCap Management will serve in its clients’ best interests. In other words, supervised persons may not benefit at the expense of clients;
- ***Engage in personal investing that is in full compliance with TerraCap Management’s Code of Ethics*** – Access Persons must review and abide by TerraCap Management’s Personal Securities Transaction and Insider Trading Policies;
- ***Ensure supervised persons do not take advantage of their positions***— Supervised persons must not accept investment opportunities, gifts or other gratuities from individuals seeking to conduct business with TerraCap Management, or on behalf of a client, unless in compliance our Gift Policy;
- ***Maintain full compliance with applicable rules and regulations***— Employees must abide by the standards set forth in Rule 204A-1 under the Advisers Act and other applicable rules and regulations.

Our Code also includes the following:

- Requirements related to the confidentiality of our client/investor information;
- Prohibitions on:
 - Insider trading (if we are in possession of material, non-public information);
 - The acceptance of gifts and entertainment that exceed our policy standards;
- Reporting of gifts and business entertainment;

- Pre-clearance of certain employee and firm transactions;
- Reporting (on an on-going and quarterly basis) all personal securities transactions (what we call “reportable securities” as mandated by regulation) and certain real estate transactions; and,
- On an annual basis, we require all employees to re-certify to our Code, identify members of their household and any account to which they have a beneficial ownership.

The Firm will provide a copy of the Code of Ethics to any Client or prospective client upon request and without charge.

The Firm takes any violation of the Code of Ethics, Compliance Manual and any other Policies and Procedures seriously and will take relevant action where necessary.



Item 12: Brokerage Practices

TerraCap Management has discretion to identify the Fund's investments, as well as the price and quantity of each investment. Real estate investments are individually negotiated by TerraCap Management and are not purchased through securities brokers.

The Funds will have cash to invest. That cash is held at non-broker-dealer banks in cash or cash equivalents.

Item 13: Review of Accounts

As the manager and investment adviser for the Fund, we routinely monitor each Fund's performance, seek to identify investments to acquire or sell and generally manage each Fund's investment activities.

Each Fund's financial information is reviewed on an ongoing basis. Formal reviews are conducted on a monthly basis by the Firm's accounting department, the Fund's General Partner, or both.

On a quarterly basis, each Fund has a written quarterly report that discusses the overall status of the Fund as well as a capital account statement for each investor in the Fund. On an annual basis each Fund has a written GAAP basis audited financial statement, as well as relevant, written tax reporting information, prepared and delivered within 120 days of year end.



Item 14: Client Referrals and Other Compensation

We do not compensate third parties for client referrals; however, TerraCap from time to time may enter into arrangements with third parties whereby the Firm will pay to third parties who introduce clients or investors to TerraCap a portion of the management fee and or performance fee received by TerraCap or funds from such clients. Such arrangements will be disclosed to TerraCap's clients and investors in accordance with, and otherwise comply with, Rule 206(4)-1 under the Advisers Act. Previously, we enlisted the services of three firms to serve as sales agents for the placement of the private offering of those Funds during their capital-raising periods, which has now ceased. Currently, there are no ongoing engagements for the Funds that are in the process of raising capital.

Item 15: Custody

As the manager for a pooled investment vehicle, we have custody of the Funds' assets, and consequently we have implemented the following procedures for each Fund:

- We have engaged an independent CPA to provide annual audited financial statements for each Fund in accordance with generally accepted accounting principles.
- We distribute the audited statements to all members within 120 days of each Fund's fiscal year-end.
- We deliver a quarterly statement to each member of each Fund which lists the member's capital account balance in the Fund.
- A qualified custodian maintains the cash for each Fund in a separate account(s) in the name of the Fund. As the manager of the Funds, we opened such account(s) on behalf of each Fund as necessary to perform our duties for the Funds.

Item 16: Investment Discretion

We manage the Funds on a discretionary basis and we have broad discretion to make investments within the parameters described in the offering materials for the Funds. Our investment strategy is summarized above in Item 8, and more completely described in the offering materials for the Funds. By subscribing to an offering in the Funds, each investor appoints us as the investor attorney-in-fact, with authority to make, purchase, hold, trade, sell, exchange and liquidate investments, as well as to exercise all rights, powers, privileges and other incidents of ownership or possession with respect to securities held by the Fund, including, without limitation, voting rights, and to enter into, make and perform, all contracts and other undertakings, and to engage in all activities and transactions, as we, in our discretion, may deem necessary or advisable to the carrying out of the foregoing objectives.

Limitations on investment parameters, concentration limits and limits on the ability to amend the Funds' governing documents, are detailed in the offering documents.

Item 17: Voting Client Securities

The Firm does not typically have proxies to vote, due to the nature of its business and investments. The Firm has developed written policies and procedures governing its activities in voting proxies. TerraCap's policy generally requires the General Partners of the Fund to vote Client proxies in the interest of maximizing investor/shareholder value.

TerraCap maintains a record of proxy votes cast on behalf of Clients. The Firm acknowledges its responsibility for identifying material conflicts of interest related to voting proxies. Circumstances may arise wherein the Firm has a potential conflict of interest in voting proxies on behalf of its Clients. In order to ensure that the Firm is aware of the facts necessary to identify conflicts, the Firm's policy requires that senior management of TerraCap must disclose to the Chief Compliance Officer (or designee) any personal conflicts, such as officer or director positions that they, their spouses or close relatives hold in any Client portfolio company.

Conflicts based on business relationships with TerraCap are considered only to the extent that TerraCap has actual knowledge of them. If TerraCap determines that a conflict exists, which cannot be otherwise addressed, TerraCap may choose one of several options including: (1) voting as recommended by a third party service, if employed by TerraCap; (2) "echo" or "mirror" voting the proxies in the same proportion as the votes of other proxy holders that are not TerraCap Clients; (3) if possible, erecting information barriers around the person or persons making the voting decision sufficient to insulate the decision from the conflict; or (4) if agreed upon in writing with the Client, forwarding the proxies to affected Clients and allowing them to vote their own proxies.

In addition, it is also unlikely that TerraCap will receive class action documents related to its investments. However, if class actions are received, TerraCap will either participate in, or opt out of, any class action settlements received on behalf of the Funds. TerraCap will determine if it is in the best interest of the Funds to recover monies from a class action. In the event TerraCap opts out of a class action settlement, the Firm will maintain documentation of any cost/benefit analysis to support its decision.

TerraCap's proxy voting policy and records are available to its Clients and investors upon request by contacting the Compliance Department, by email at ComplianceHR@terracapmgmt.com, or by calling 239-540-2002.



Item 18: Financial Information

We do not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance. We have no adverse financial information that would impair our ability to meet our contractual commitments to our clients.